



# REGIONAL INTEGRATION AND POVERTY REDUCTION

*What We Know So Far*

By

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# Presentation Outline

- Introduction
- Forms of Trade Liberalization
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- Conclusion

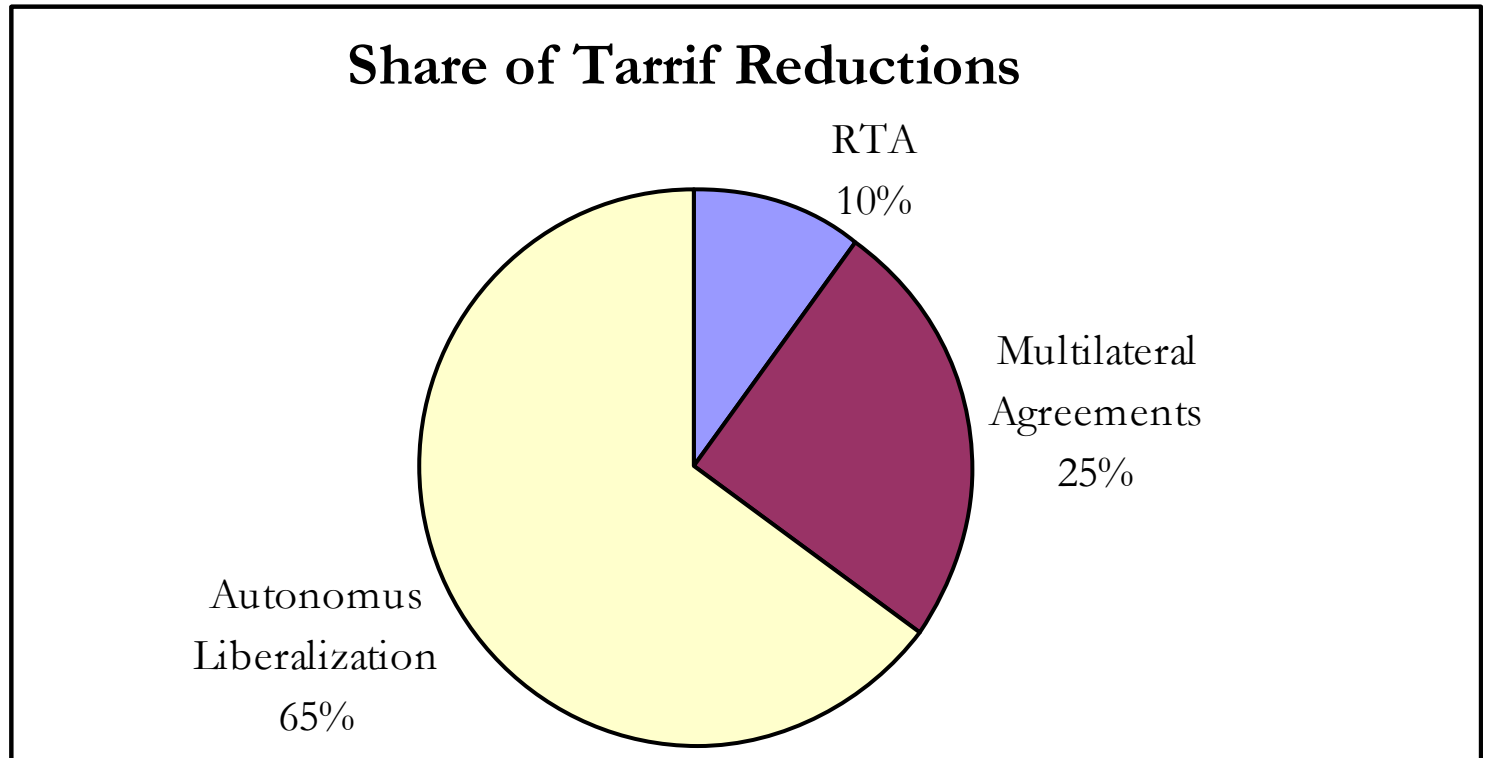
# Introduction

- **Regional integration**
  - Process and strategy in which neighboring states/ countries enter into a cooperation agreement with a common set of rules.
    - The East Africa Community (EAC) customs union, COMESA, IGAD, Tripartite (EAC-COMESA- SADC).
  - Development strategy that results in economic gains through intra- regional trade.
    - Lower tariffs and non- tariff barriers increase trade and consumer choice.
    - Increased market size facilitates innovation and greater competition in the product market.
    - Strengthen value chains and industrial development

# Forms of Trade Liberalization

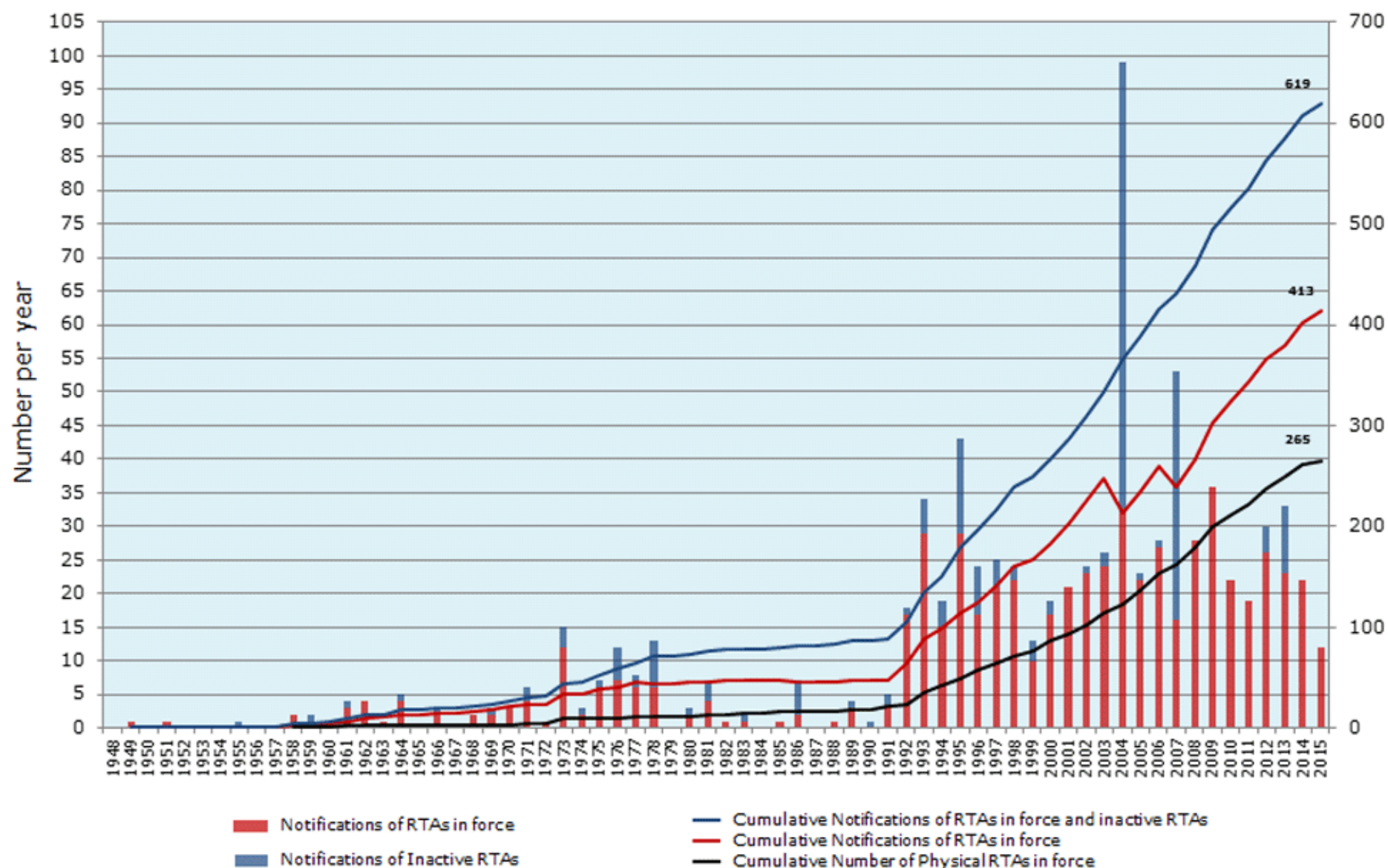
	Reciprocal	Unilateral
<b>Preferential</b>	Regional and Bilateral agreements ( <i>COMESA, EAC, EPAs</i> )	
<b>MFN ( Non discriminatory)</b>	Multilateral agreements ( <i>WTO- Uruguay , Doha Rounds</i> )	Autonomous Liberalization ( <i>SAPs</i> )

# Forms of Trade Liberalization



Source: Martin & Ng' 2004

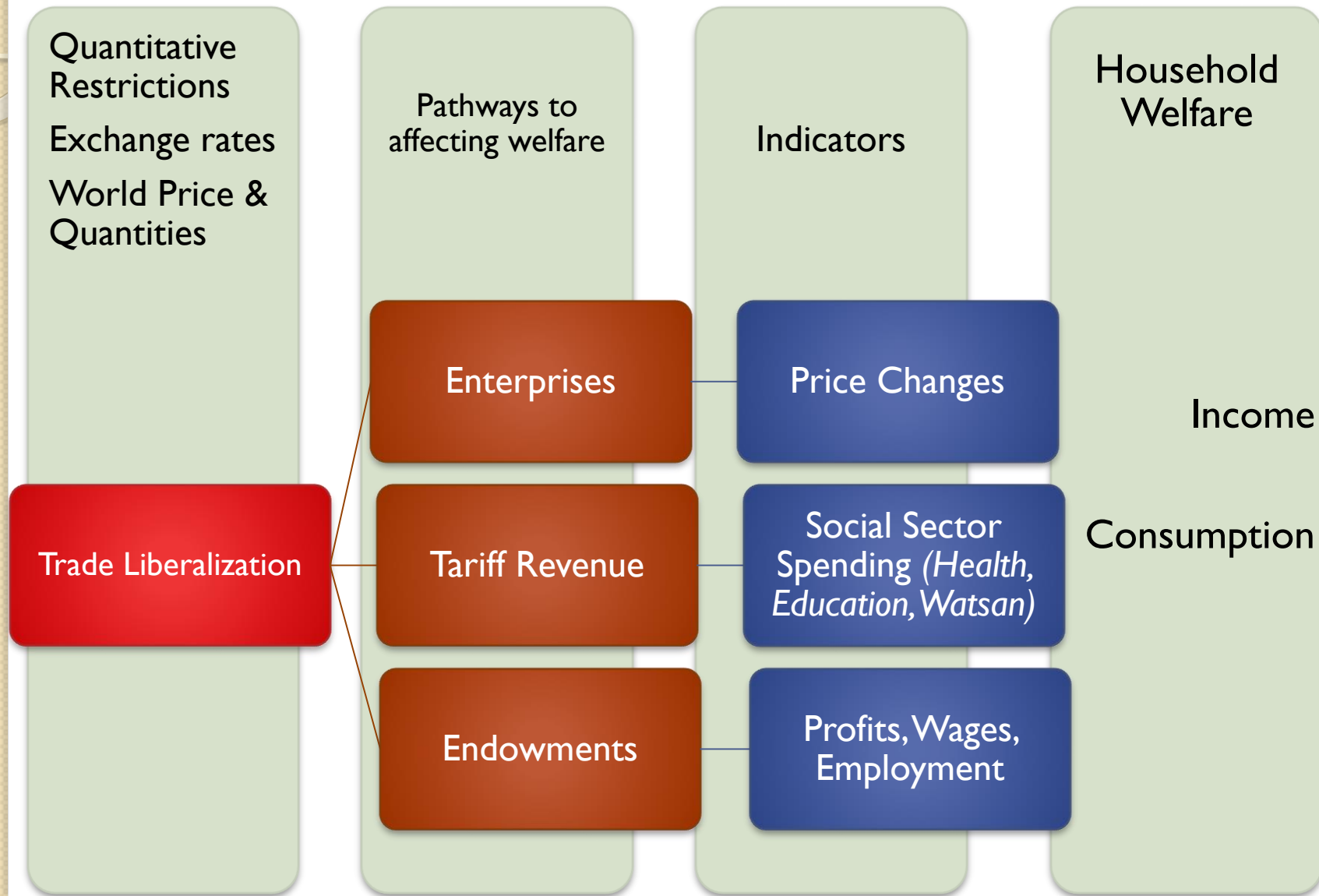
## Evolution of Regional Trade Agreements in the world, 1948-2015



Note: Notifications of RTAs: goods, services & accessions to an RTA are counted separately. Physical RTAs: goods, services & accessions to an RTA are counted together.

Source: WTO Secretariat.

# Linking Trade Liberalization and Poverty





# Implications of Regional Integration on Poverty- Stylized facts

- Gains from regional integration are not uniform, different cohorts are affected differently.
- Trade Liberalization has greater impacts when accompanied by other macroeconomic policies.
- The initial development level matters when looking at trade- poverty nexus.



# Implications of Regional Integration on Poverty

- **Incomes**

## ***Trade liberalization accompanied by FDI injection in Kenya.***

- In Kenya, when trade liberalization is accompanied by FDI- Rural households gained (1.29- 1.33 percent increase in incomes) more than urban households (0.55- 1.29 percent increase in incomes)
- Poorest urban household (lowest decile) had 0.55 percent increase in incomes.
- Poorest rural household (lowest decile) had 1.33 percent increase in incomes.

# Implications of Regional Integration on Poverty

- **Consumption**

***Trade liberalization accompanied by FDI injection in Kenya.***

- When trade liberalization is accompanied by FDI- Consumption for Rural households increased by 1.4% . Urban households increased by 2.0% .
- Poorest urban household (lowest decile) had 4.3 % increase in consumption.
- Poorest rural household (lowest decile) had 1.6 % increase in consumption.

# Implications of Regional Integration on Poverty

- **Consumption**

## ***Changes in Cotton Prices in Benin***

- Reducing farm gate prices by 40 percent would result in cotton growers income reducing by 21 % and average income by 7%
- 30% of households in the third quintile would become poor.
- 8% of households in the fourth quintile would become poor.

# Implications of Regional Integration on Poverty

- **Labour Market (Employment)**

## ***Trade and Employment in Uganda***

- Increase in investment by 1% resulted in demand for labour increasing by 0.21%
- 1% increase in demand for exports resulted in 0.006% increase in labour.
- Increase in inflation (1%) decreased labour demand by 0.07%.

# Conclusion

- Regional integration (intra-regional trade) presents opportunities for positive economic gains.
  - Gains can be harnessed when integration has accompanying policies that act as enablers.
  - The level of development affects the ability to harness gains from regional integration.
- Regionalism poverty nexus remains an under researched area.