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Trade Liberalisation and the Reduction of Poverty—A Revisit

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Abstract

The objective of this article is to revive the ongoing debate of whether trade liberalisation contributes to poverty reduction. This article considers case studies from East Asia and Latin America to demonstrate the varied effects of trade. Whilst structural instability and the Dutch disease phenomenon hindered trade liberalisation gains in Latin America, on the other hand, diversified economic structure and greater macro-economic stability allowed East Asia to reap the benefits of open trade, to its advantage. In effect, liberalisation does not have an overwhelming reduction in poverty. Although the long-term effects are positive and significant, there are many costs and factors that may hinder the success of liberalisation. A set of guidelines and the country's readiness are required.

Keywords

Trade Liberalisation, Poverty Reduction, WTO

1. Introduction

Trade liberalisation is the removal of trade barriers to facilitate the free movement of goods and services, and this onset of free exchanges will help to instil growth and development within a country in the long run. The increased choice, lower price, and incentive to produce, leading to an increase in the quality of goods all, pave the way for an improved standard of living for consumers and enable accessibility to larger international markets as well. Similarly, poverty sits at the forefront of social policymaking and its impacts have a considerable effect on society: more than 20% of the world population lives with less than $1 per day (McCulloch et al., 2001). Trade liberalisation is defined simply as the removal or reduction of barriers to trade (Banton, 2021). These barriers hinder the free movement of trade and can be a factor in the reduction in the competitive edge of firms within a country; therefore, would it not be argued that increased liberalisation will help to reduce poverty in a nation? Is trade liberation and poverty jointly optimised?

For establishing the criteria therein, the paper analyses to what extent liberalisation helps to promote export growth, improve job creation and opportunities, as well as an increased productivity. These improvements contribute to poverty reduction by providing employment opportunities, for example, increasing household income which is crucial in driving the reduction.

Economic growth can be clearly linked to the reduction of poverty through the expansion of businesses, thereby leading to increased employment. However, the method and path undertaken through liberalisation warrant a deeper analysis to outline whether poverty is truly reduced or not, which, if done incorrectly, may have a more significant and adverse effect on the exacerbation of poverty instead.

2. Trade Liberalisation Impacts

2.1. Positive Impacts

As stated, trade liberalisation helps to improve the movement of trade throughout countries and therefore aids the pursuit of globalisation. "When countries open up to trade, they generally benefit because they can sell more, and in turn buy more. Trade has a two-way gain". That is, liberalisation helps improve economic efficiency, the allocation of scarce resources and the pursuit of economic welfare that comes along with better growth. All these gains directly support efforts to reduce poverty.

The welfare gains accrued from trade liberalisation amounted to USD$90 bn - $200 bn, of which 67% went to developing countries, which was argued to help alleviate 140 million people out of poverty by 2015 (Fernández de Cordoba, 2015). Specifically, in manufacturing, a 33% cut in tariffs worldwide would generate an increase in the global trade volume of US$107.4 bn and nearly 95% of the welfare gains would accrue to developing countries. The distribution of benefits of increasing trade freedom to developing countries is significant in combatting the argument of disproportionate growth from trade; through liberalisation, it is evident that there is a "two-way gain". The increase in liberalisation also contributes to the increase and stability of farmers' incomes "thanks to lower price fluctuations on agricultural products" (Gnangnon, 2019), and by reducing distortions in international markets. This greater stability and predictability against the erection of trade barriers will incentivise export diversification, thereby improving poverty rates.

One example of this long-term benefit is the case of *Aid for Trade*, a World Trade Organisation (WTO)-led initiative, which encourages developing countries to develop infrastructure, technical capacity, and recognise the benefits of trade for their economies. This stimulates "trade opening" (World Bank, 2022b), leading to the development of productive capacity through investment in industries and sectors in the pursuit of export diversification and building a comparative advantage. It also provides adjustment assistance through trade opening and reduction of highly protectionist measures. Thus, the initiative helps to reduce the costs associated with the reduction of tariffs, while also reducing the effects of internal barriers to trade such as red tape, lack of knowledge, poor infrastructure, inadequate financing, etc. It further benefits through the reduction in challenges of movement across regions, for example, transport inefficiency, energy supply, etc. The benefits are substantial as seen through the reduction in poverty by 18% - 19% among the 111 aid-for-trade case stories (Hynes & Lammersen, 2017). A total of USD$9.5 billion were invested every year from 2011 to 2014 for this initiative with a focus on agriculture, which is a common factor in countries that have higher rates of poverty. This increased development enabled the countries to develop their agricultural exports and trade, thereby reducing the risk of food insecurity and rural poverty. This reduced level of poverty is due to increased job opportunities and efficiency in rural sectors and improvement in infrastructure that leads to better connectivity, which is positively impacting the agriculture sector and accounts for a large proportion of a developing country's GDP. Aiding agriculture and allied sectors enable a country to exploit its relative comparative advantages, thus boosting trade prospects (Hynes & Lammersen, 2017). Aid for trade encourages female involvement and gender equality through the reduction of trade costs for Small and Medium Enterprises (SMEs), incentivising the expansion of the workforce and increasing wages. SMEs are largely owned by women, which leads to a reduction in female poverty that is higher than males at 12.9% compared to the relative 10.6% in 2018 (Progress, 2021).

Liberalisation stimulates the reallocation of resources of a country to its most abundant factor as characterised by the Heckscher-Ohlin theory, countries in which capital is in abundance and labour relatively scarce will tend to export capital-intensive products and import labour-intensive products and vice versa, thus proving boosting exports. As developing countries are typically labour abundant due to the inability to access sufficient capital and specialised skill development, the allocation of resources for trade to these sectors will incentivise growth. This will enable greater employment thus reducing the effects of poverty (Leamer, 1995).

Trade liberalisation promotes competitiveness due to the prevalence of international competition. This motivates firms to provide a greater incentive for the development of technological capability and productivity. A rise in this trend would lead to increased competition and revenue to promote the long-term fall in "the proportion of the population living in absolute poverty [while] average incomes increase". Thus, the growth exhibited through the development of trade enables a reduction in poverty and an increased ability to afford basic necessities (Bacchetta & Jansen, 2003). The movement of labour benefits both, the developed and the developing economies, thereby inducing an increase in the skill premium in both places. Greater competition and access to technology can facilitate the improvement in education in developing countries and the diffusion of ideas that stimulates growth and development in both economies (Goldberg & Pavcnik, 2004).

Examples of gains made from trade liberalisation:

- GDP growth of Mauritius reached an "average of 6% per year after implementing an export-oriented strategy in 1996" (Fernández de Cordoba, 2015).
- The Canada-US Free Trade Agreement (FTA) suggest that "tariff cuts contributed to reduced employment during the years following the agreement but [also to] to dramatic productivity increases leading to important long-run efficiency gains" (Trefler, 2004).
- "The tariff reduction [in Chile] and the exchange rate policy reform benefited non-traditional exports, which experiences a sharp increase, growing from 11% of total exports in 1970 to 34% in 1980" (Edwards, 1983).
- Cambodia shifted to a market economy in 1993 with a greater emphasis on diversifying exports and reducing institutional inefficiencies, which resulted in annual average growth of 8% between 1997 and 2007 (Lee & Oh, 2022).
- Laos shifting to market-oriented liberalisation led to a growth of 7% from 1992 to 1997 and a corresponding fall in urban and rural areas simultaneously (Lee & Oh, 2022).
- The CARIBCAN was put in place (between CARICOM—the Caribbean community and Canada) to assist the development of the export sectors and increase market access for the two countries has "contributed to MSMEs… integration into the global economy" and amassed a total trade value of USD 1.35 billion (World Bank, 2022b).
- The opening of Vietnam following the *doi moi*—a set of economic policies that sought the restoration of the country after the collapse of the central planning market system (Tuan, 2012)—saw a reduction in the number of people below the national poverty line from 70% to 19% from the 1980 and 2007.

2.2. Negative Impacts

Trade liberalisation comes with a significant cost that affects the extent to which poverty can be reduced. In classical economic theory, the free market is theorised to be the epitome of maximising benefits and minimising deadweight losses[1]. However, when applied, especially in developing countries, inefficiencies of government intervention may hinder the benefits of free movement, thereby calling for adjustment costs that exacerbate social issues like poverty.

Liberalisation may not account for *human poverty*, which is defined as "the lack of essential human capabilities such as literacy or nourishment" (York University, 2022), it is impacted not just by the "minimal adequate income" but also by the social issues. If liberalisation fails to bring about an improvement in the provision of necessities like education, the rise in literacy rate will not be significant, and the depletion of a country's natural resources due to

[1]A cost to society due to market inefficiency occurred when supply and demand are not in equilibrium.

liberalisation may further exacerbate food insecurity and social issues. Furthermore, if domestic institutional policies are not concrete, they may create issues of labour exploitation and overwork to keep up with international demands and competition in the global market, potentially contributing to child labour exploitation as well.

The **great doubling**, a case whereby the liberalisation of countries like China, India and the Soviet Union into the global economy saw an increase in the number of workers (by double). This was favourable to employers because of low wage costs; however, the resultant pressure on workers in other developing countries to compete with this would be difficult (York University, 2022). Liberalisation in this aspect significantly benefited "China [who saw], the earnings of the urban workers more than doubled between 1990 and 2002", there was a sharp fall in poverty due to the flow of capital. Significantly though, the effects of the entrance of "China and India to the world economy turned many developing countries from the low wage competitors of advanced countries to the high wage competitors of China and India". As liberalisation spread, regions like Latin America and Southern Africa could no longer ensure competitive production prices in comparison to China and India, which were equipped with the labour abundance comparative advantage. Thus, the development of generic low-wage goods and services for the global marketplace saw a downfall leading to a survival crisis for the firms dealing in those areas. Furthermore, there would be a greater reduction in employment as firms cut costs, causing a fall in household income and exacerbating poverty. The opening of China and India affected not just the labour, but also led to the movement of education percolating into lower-earning countries causing a reduction in the comparative advantage of the advanced countries in high-end technology. This has been demonstrated recently with the increasing footprints of the two countries in high tech, which can be attributed to the great population that can "produce as many or more highly educated scientists and engineers as advanced countries even though the bulk of their workforce is less skilled". Despite not having as much skill, the sheer size of the population allows these economies to be at par with those of advanced countries. This in turn threatens the stability of the firms. Between 2000 and 2014, China saw an increase in share in world imports of high-tech goods from 6.7% to 27%. The technological development raised innovation bar and cheaper costs offered by China provide competition to the advanced countries and also pose a threat to the middle-income countries. This is representative of the **Red Queen Effect**, which outlines the increased pressure to adapt to survive as driven by an increase in the evolutionary pace of rival technology (Freeman, 2006). This pressure comes with a cost to the middling countries and therefore poses threat to firms and workers, perhaps causing the prevalence of the "middle-income trap"[2]. Therefore, the argument that liberalisation will surely be beneficial in being able to instil growth and development must be considered in totality rather

[2]A middle-income country is unable to transition to a high-income country due to rising costs and declining competitiveness.

than separation. For countries in the middle-income trap, there may consequently be cases of brain drain due to insufficient infrastructure and comparative benefits obtained in other countries, leading to the loss of quality workers from developing countries, further hindering growth and stagnating poverty reduction. The idea of losing out to trade is enforced by the impact on workers as 42% of low-skilled workers were thought to be hurt in the US when it traded with China, while only 30% benefited from it (Banerjee & Duflo, 2019). There is evidence, therefore, of the risk that trade poses to low-skilled manual labourers, not only through the risk of technological replacement but also through cheaper or more skilled workers.

The effect of liberalisation impacts the prices of goods, specifically food, contributing to greater rates of poverty. With increasing market openness, an economy makes itself more prone to rising prices in foreign countries; interdependence threatens the security and stability of food prices. This affects poverty levels as people cannot access food, leading to greater unemployment in agricultural industries. For example, the short-run poverty headcount among agriculture-specialised households increases because of trade liberalisation. Greater market openness also poses the risk of a shock with disruptions in the global trade of food, potentially causing adverse food shortages and an increase in inflationary pressures such as through the Ukraine-Russia crisis in 2022. In the case of Egypt, which relies on the region to import 85% of wheat and 73% of sunflower oil, a rise in price by a respective 44% and 32% (Hertel, Cranfield, Ivanic, & Preckel, 2004) demonstrates the negative impacts of opening up markets because of the threat it poses in case of excessive relying on imports. Indeed, a similar story has been observed in the 2022 Ukraine-Russia crisis. This idea is already accounted for in international forums like the WTO through the availability of exemptions from the Technical Barriers to Trade (TBT) agreement under the fulfilment of legitimate objectives in Article 20 including "national security requirements" as well as "to meet other consumer interests" (World Trade Organisation, 2022b). Therefore, the importance of maintaining national price stability against shocks outlines the possibility of negative effects from open trade. In some cases, protectionist methods must be undertaken to prioritise national stability; India's wheat and rice export ban being implemented in 2022 is a clear example.

Increasing free trade could also lead to greater inequality in a country. Driving the development and growth of specific industries will promote higher prices and workers crowding from other sectors due to wage differentials, causing income disparities and inequality. This is also evident from the informal sector expansion. It is argued that growth and globalisation may reduce firms' compliance with labour standards for cost-cutting to combat excessive foreign competition. Conversely, they may cut costs by making workers redundant in the formal sector, choosing to hire from the informal pool of workers that guarantees a lower wage rate (World Trade Organisation, 2022a). This stimulates rapid urbanisation and increases in population density as people move to cities to take up low-wage work, this further worsens living conditions and accentuates the prevalence of poverty in the area. In the case of offshoring, the relocation of business activities may see the movement from developed to developing countries to exploit cheaper labour costs and avail ample natural resources. However, it can be argued that this will stimulate growth and reduce poverty in the local area through means of Foreign Direct Investment (FDI), such as local training of workers, and construction of infrastructure to facilitate or stimulate entrepreneurship, which may have a negative impact through the one-way raw material consumption and potential sweatshop labour cases. As a result, this may worsen conditions for living in the areas of exploitation, thereby increasing poverty. Greater inequality is related to poverty, "the rate of poverty reduction to be systematically lower in high-inequality countries because the growth elasticity of poverty reduces as the distribution worsens" (Goldberg & Pavcnik, 2004). For example, in the US, the Gini index of 1991 was 38, while the poverty headcount was 0.5 of the population, however, with the increase in inequality from 2011 to 40.9, poverty also increased to 1% of the population (World Bank, 2022a).

Competition, previously stated to be a positive result of liberalisation, plays a double-edged role with respect to poverty. Though it helps to instil competitive pressure on domestic firms, if locals are not able to rebound and prepare themselves for this foreign intervention, issues of unemployment may rise. With the reduction in incomes and quality of living, poverty rises; policymakers, therefore, are urged to consider the method of bridging or minimising the gap between the positive and negative outcomes caused by competitive pressure. This can be reduced by improving education in the country to equip the labour force with the ability to innovate and respond positively to pressure. Another way is by providing preferential treatment to domestic firms in the form of lower tax rates.

Cases of losses made from trade liberalisation:

- The Canada-US FTA contributed to 30% of observed employment losses in manufacturing (World Bank, 2022c).
- In Kenya, greater openness in trade policy saw a stagnant growth of GDP and conversely, an increase in 6 million people below the national poverty line or a rise of more than 6% from 55% of the total population (Trefler, 2004).

The negativity comes from the imperfection of liberalisation as it worsens the labour and manufacturing status of a country, owing to price increase and loss of employment, thereby intensifying poverty problems.

3. Case Studies and Recent Analysis

Trade creates opportunities for developing countries to accelerate their economic growth, improve welfare and reduce poverty, especially with respect to major export areas that are labour-intensive such as agricultural and basic manufactured goods. Domestic markets are exposed to better products, choices and prices as the trade barriers diminish. Firms in the export sector are likely to employ low-skilled workers which in turn will reduce poverty. The components that shape the static effects of a trade policy on poverty include households, distribution channels, factor markets and governments. **Figure 1** illustrates multi-channels of the effect of trade liberalisation on poverty (Kebede, Fekadu, & Aredo, 2011). It demonstrates effects of trade liberalisation through factor demands and prices that lead to either increase or decrease in poverty.

The Case of Latin America vs East Asia

In Latin America, the movement from socialist, planned economies to open market-orientated ones represents the downfall in the pursuit of liberalisation. In contrast, in East Asia, the reduction in tariffs and trade barriers propelled the region onto the competitive global stage. Despite both regions sharing common features, like export structures which were concentrated in natural resources, trade policies were oriented towards import substitution with high and escalated tariffs and high incidence of non-tariff barriers, thereby raising the question of the glaring disparity in the success of liberalisation (Duran et al., 2008). With both countries imposing barriers on labour-concentrated sectors like agriculture and oil, the difference in outcome is largely attributed to the speed of change, monetary policies, political stability, and the Dutch Disease[3].

Most prominently, the difference between the outcome of Latin American and East Asian liberalisation is owed to the Dutch disease. This difference is defined as the long-term overvaluation of the exchange rate in countries, which may export commodities at an exchange rate substantially more appreciated than those that the manufacturing companies utilise the best technology available to be competitive (Duran et al., 2008). In short, there is the problem of having an overvalued exchange rate due to excessive demand for a singular export hindering competitive prices for other exports in the country. Latin America had significant oil sources that caused great appreciation of its currency. Import taxes in East Asian countries were necessary for a short period, since their manufacturing industry was in an infant state, while Latin America used it additionally to neutralise the Dutch disease (Bresser-Pereira, 2019). This meant that taxes were used more strictly and securely so that when they were removed, firms in Latin America were unable to survive without protection while East Asian countries, which were dominated by manufacturing, were able to attract economic gains through FDI and greater market access. As a result, there was greater unemployment and economic consequences because of the lack of competitive edge and the oncoming threat of economic problems like inflation. In contrast, East Asian economies were largely diversified making them resilient to shocks and changes enabling them to gain from more trade in contrast to Latin America. **Figure 2** represents the impact of trade liberalisation on the growth of per capita income in Latin America and East Asia (Bresser-Pereira, 2019). The point of growth per capita divergence started in 1978.

[3]A rapid development of one sector of the economy which pre-empts a decline in other sectors.

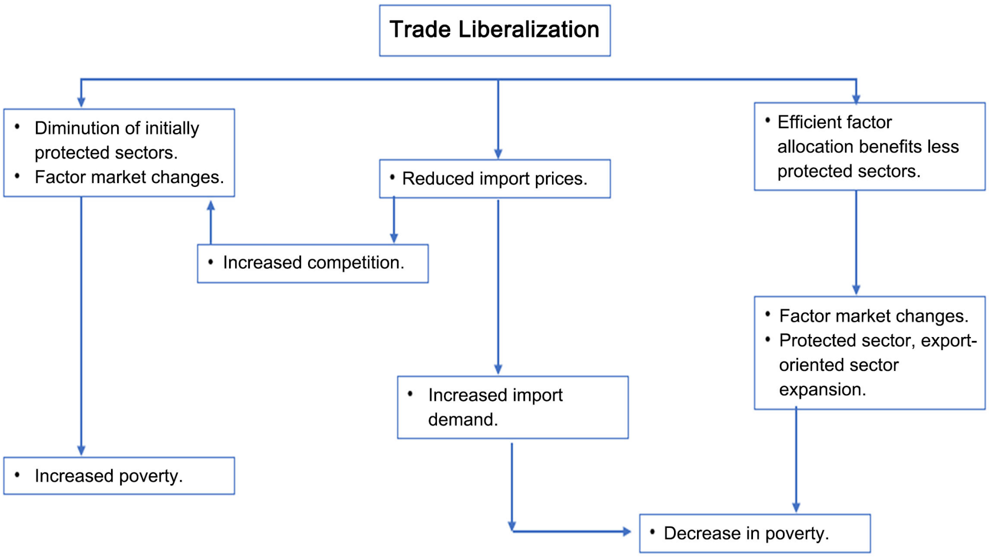

Figure 1. Effect of trade liberalisation on poverty (adapted from Kebede et al., 2011).

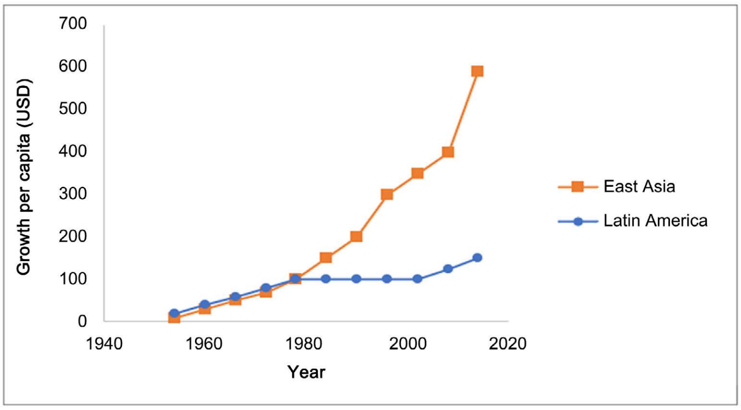

Figure 2. Impact of trade liberalisation on the growth per capita income in Latin America and East Asia (Bresser-Pereira, 2019).

The speed at which the Latin American region liberalised was a contributing factor to the demise of their liberalisation strategy. While East Asia reduced non-tariff barriers (NTBs) in the 1980s, many Latin American countries' coverage ratios of NTBs continued to be as high as 60% in the early 1990s. For Latin American countries, growth took place from structural changes like industrialisation; the enticing prospect of growth through trade liberalisation caused the rapid removal of barriers to trade, which ultimately resulted in the demise of the economy. For Latin America, the industrial structure changed towards natural resource-based sectors in 6 out of 8 countries in the region; therefore, there was a lack of expansion and an almost continuously falling employment rate since the mid-1980s (Bresser-Pereira, 2019). This sharply contrasts with East Asia which "increased manufacturing employment" despite the Asian financial crisis. This is outlined as well through the problem of preference erosion, which states the "decline in the competitive advantage that exporters enjoy in foreign markets as a result of preferential trade treatment" (Bresser-Pereira, 2019). Caused by the most favoured nation (MFN) principle as mandated by the WTO, countries that see increased liberalisation will face growth, which may lead to a decline in preferential treatment. As a result, the special conditions which are removed may prevent the ability of the country's industry to survive on an international scale. The problem of increased liberalisation bears a heavier burden on least developed countries (LDCs) and developing countries due to the inability to access economies of scale and remain competitive upon entrance into the global market by removing this preferential treatment and support initially granted. As a result, the stability of firms in these countries may face negative and adverse impacts.

Lastly, the lack of political and economic stability contributed to the failure of the Latin American liberalisation plan. From the establishment of government, Latin American systems were motivated for inward growth strategies, while Asia had a more secure government and a cohesive and heavily enforced growth plan. The East Asian environment also witnessed great macro-economic stability through the low inflation and interest rates, and competitive exchange rate in contrast to the volatile and overvalued exchange rate, hyperinflation, and high-interest rates of Latin America. The monetary policies of near-zero per cent interest rates established the continued problem of inflation and rapid borrowing from Latin American banks led to the debt crisis of the 1980s, which was stimulated by the change in the economic landscape as Europe and North America began to hike interest rates (Duran et al., 2008). Furthermore, the movement from tightly controlled planned economies to liberalisation stimulated political instability. This further reduced the chance of a smooth and careful transition into the open market, leading to this rise in poverty (**Figure 3**).

The increase in poverty from 1982 to 1983 marks the initial impact that followed the debt crisis, and the fluctuating poverty count for the subsequent decade demonstrates the relationship that poor monetary policy and political stability had on influencing the success of reducing poverty once liberalisation occurred.

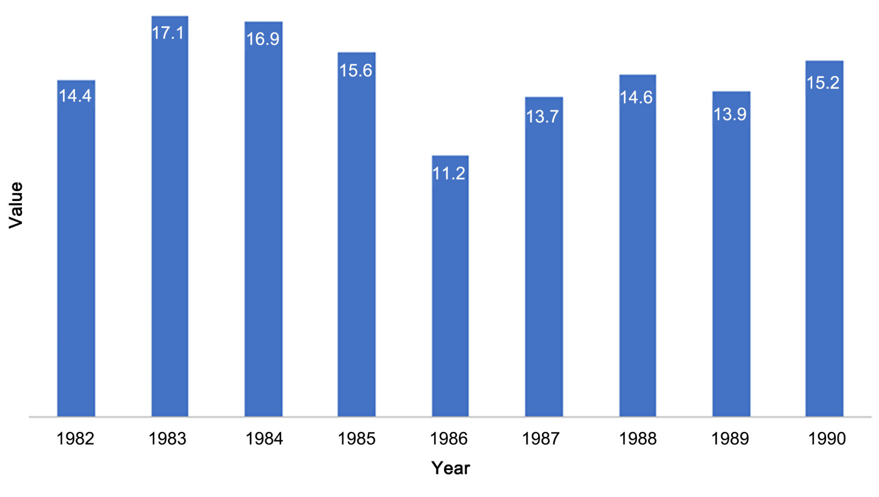

Figure 3. Poverty headcount ratio at $1.90 a day (% of the population) (UN Data, 2011).

In studying the comparison between Latin America and East Asia and their routes to establish an open market, the potential side-effects of trade liberalisation can be noted. There is certainly a significant benefit as seen in the case of East Asia. However, the key points to be considered are the state of the economy, the nature of rule and the market needing to minimise the costs. Latin America could have minimised the negative impact of liberalisation on their economy by imposing a variable tax and similar more gradual measures to ease its economy into liberalisation, for example, to reduce the excessive dependence that firms had on protectionist policies. In Latin America, the increase in trade openness was seen through the greater percentage of GDP that trade made up, from 30% to 39% in 1980-2000; however, in the same period, the change in the poverty headcount ratio was seen to be $1.90 a day from 13.8 to 12.8 in 1981-2000 (UN Data, 2011), which is a relatively small proportion in contrast to East Asia which saw a reduction from 80.2 to 34.8 in the same period of time, while openness to trade increased from 35% to 52%. Therefore, the benefits of trade liberalisation may not have as prominent an effect on the reduction of poverty in different areas and emphasise the importance of liberalising appropriately keeping in mind the specified region. In return to the initial study, the lesson learnt from Latin America outlines the negatives of trade liberalisation in demonstrating the specific and exacting demands of the state of a country in order to find success. The variables in East Asia provided an optimum for success in liberalization which was unable to be exacted by Latin America.

4. The Nexus of Trade Liberalisation and Poverty

It can be inferred that trade liberalisation has great benefits. Especially, in the long run, trade is critical for the availability of a wider variety of goods and stimulates diversification of exports and domestic production, which ensures growth and promotes employment towards poverty reduction. For policymakers, it is not a question of whether liberalisation will benefit the reduction of poverty, but rather how to minimise the sure-fire negative gaps caused by liberalisation.

If the sector of a country is heavily concentrated in import sectors and employs a majority, liberalisation may cause an exacerbation of poverty through excessive competition from foreign firms while the opposite occurs if there is concentration in the export sectors. Consequently, there is great importance on the mobility of the factors of production and must be considered in policymaking (World Bank, 2022b).

Post-liberalisation, there may be a short period which may see a rise in poverty for self-employed and agriculture-specialised households, especially in developing countries. However, this scenario would change as the demand for unskilled workers increases which in turn will lift incomes and alleviate poverty.

At the national level, the short-run poverty impacts of full liberalisation of grains trade are distinguishable in less than a quarter of sample countries (World

Bank, 2022b). Additionally, as carried out by the WTO, the provision of monitoring and allotting time for transition periods is also effective at easing the economy into liberalisation, such as the given 10 years for developing countries to reduce tariffs on agricultural goods. This flexibility allows governments to ease restrictions and decreases adjustment costs and allows workers and firms to manoeuvre the change more effectively.

Thus, in response to the initial questions of whether liberalisation would reduce poverty and whether the two are jointly optimised, overwhelmingly, the finding shows that **liberalisation does not significantly reduce poverty**. Evaluating the criteria, liberalisation has little impact on boosting export growth. The effects of trade liberalisation boost imports, which may only accentuate export production if imported materials are used for production. In terms of job creation and opportunity, liberalisation initially will cause significant unemployment as trade barriers are removed, which will threaten the stability of domestic firms, and therefore impel redundancies. However, there may be greater job opportunities in the long run as firms expand under competitive pressure and may stimulate innovation in the local area, creating new jobs. However, the likeliness of developing countries being able to ensure sufficient capital to compete against cheaper foreign prices is contestable and represents the long path that would need to be undertaken to reap the benefits of liberalisation. Lastly, in terms of productivity, greater liberalisation will likely lead to improvements. As imports are made easier, this opens greater capital flow and propels development from developed to developing economies. Through education and technology, liberalisation will enable better training of workers and introduce machinery into production, increasing capital and labour productivity.

Undoubtedly long-term benefits owing to trade liberalisation will instil growth and fulfil many macro-objectives, however, in doing so the costs which arise are severe and may worsen the problems causing poverty. There is much to be considered when applying liberalisation tactics, and to reap the benefits, the hard times must be subdued. In short, to benefit from liberalisation, the adjustment costs and errors posed can be avoided by taking into consideration:

- structure of the economy—on labour and good mobility;
- support from the government in imposing appropriate domestic policies to ensure gain from open trade;
- the method and speed to which liberalisation is undertaken;
- readiness to benefit from productivity and technological improvements for domestic development and;
- factor groups that are likely to gain and lose from trade (Lindert & Pugel, 1996).

Without a cohesive understanding of these aspects, the benefits provided by trade liberalisation will not be maximised, especially because of the threat it contributes to other social issues like urbanisation, inequality, labour exploitation, etc. From this research, it is clear that the impacts of liberalisation on poverty levels are varied, especially because it is difficult to quantify the right level of liberalisation and poverty. However, it is also clear that the negative impacts of liberalisation can be mitigated, and one must learn from historical mistakes to truly take advantage of the benefits of trade.

5. Conclusion

Liberalisation has very heterogeneous effects on poor households and would depend on trade policies. Also, reviewing the various studies, it can be concluded that the export sector predicts gains and working in the import-competing sector predicts losses. The precise effects of liberalisation will depend majorly on the nature of the trade reforms that are adopted and how it affects the livelihood of the poor. Trade liberalisation and poverty are interconnected in a very complex and case-specific manner. The ultimate outcome of trade liberalisation depends on many key factors. These include its starting point, the precise policies that are undertaken, who comprise the poor section and how they sustain themselves. As developing countries liberalise, workers who are in sectors without any competitive advantage will eventually face unemployment. Thus, there must be provision to reallocate workers to the newly growing sectors, which would include education, training policies and unemployment benefit programmes. Trade is an important aspect that is needed to accelerate economic growth which in turn will alleviate poverty. However, trade openness must be accompanied by country-specific comprehensive reforms and a degree of development.

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The author declares no conflicts of interest regarding the publication of this paper.

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