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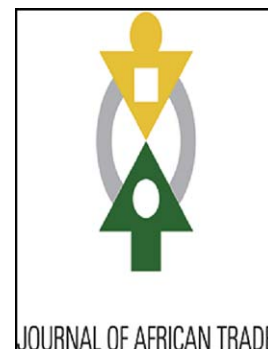
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DOES TRADE REDUCE POVERTY? A VIEW FROM AFRICA¹

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Abstract

Although trade liberalization is being actively promoted as a key component in development strategies, theoretically, the impact of trade openness on poverty reduction is ambiguous. On the one hand, a more liberalized trade regime is argued to change relative factor prices in favor of the more abundant factor. If poverty and relative low income stem from abundance of labor, greater trade openness should lead to higher labor prices and a decrease in poverty. However, should the re-allocation of factors be hampered, the expected benefits from freer trade may not materialize. The theoretical ambiguity on the effects of openness is reflected in the available empirical evidence. This paper examines how the effect of trade openness on poverty may depend on complementary reforms that help a country take advantage of international competition. Using a non-linear regression specification that interacts a proxy of trade openness with proxies of various country structural specificities and a panel of 30 African countries over the period 1981-2010, we find that trade openness tends to reduce poverty in countries where financial sectors are deep, education levels high and institutions strong.

JEL Classification Numbers: F02, F15, O11, O55

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