ETHIOPIAN INTERNATIONAL JOURNAL OF MULTIDISCIPLINARY RESEARCH

eISSN: 2349-5715 pISSN: 2349-5707

Volume: 10, Issue 09, Sep-2023 SJIF 2019: 4.702 2020: 4.737 2021: 5.071 2022: 4.919 2023: 6.980

IMPACT OF INTERNATIONAL TRADE FREEDOM ON THE LEVEL OF POVERTY IN DEVELOPING COUNTRIES

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Annotation: The purpose of the study is to analyze and conclude to what extent free trade on a global scale can change the lifestyle of the low-income population in a developing country. Research methods scientific research was based on empirical analysis, in which 20 countries with a high percentage of poverty were selected from three continents. These are the countries of Asia, South America, Central America and the Caribbean region. several confounding factors are regressed together and concluded. Results of the study according to the results of the study, the countries of the South American region are interested in the increase of the share of imports in the trade, and on the contrary, in the countries of the Asian region, the increase in the export part of the trade has a positive effect on the prosperity of the country.

Key words: Poverty, gross domestic product, export, import, inflation, empirical analysis, regression, world trade organization, economic policy.

Introduction. Still, 8% of the world's population live in extreme poverty, earning or spending less than $1.90 a day, and nearly one in five live below the poverty line on just $5.50 a day . Undoubtedly, the expansion of international trade plays a big role in the development of countries, that is, in increasing the GDP of these countries. However, the study of the impact of the expansion of the volume and scope of global trade on the living standards of the poor in developing countries is still an urgent issue. and claims that it serves a certain segment of the population. While classical economists justify in their theories that free trade is the key to economic development and welfare, the governments of developing countries continue to pursue protectionist trade policies, stressing that global free trade is an obstacle to fair competition in reality.

Scientific novelty of the research. In the study, the effect of trade freedom was studied on the example of developing countries, and based on these results, it was proved by regression analysis that the development of trade can affect the prosperity of the country. Through the research, it was studied that the influence of trade on the level of well-being of the population varies in different countries and regions, and that the difference in the influence of the components of trade is also different in different countries. Based on the research for this thesis, it was concluded that every country should determine the country's economic policy through a deep economic analysis, taking into account many variables. The direct relationship between the development of free trade and the reduction of poverty has attracted the attention of economists and scientists since the beginning of the 2000s. Studies have shown different results, covering different economic indicators, sizes and countries, and here are just a few of the results. In his 2001 research, Cashin evaluates trade openness by the impact of trade on GDP, and measures the level of poverty by the Human Development Index, and evaluates the relationship between the share of trade in GDP and the Human Development Index of 100 countries in 1975-1998. does not reveal a significant impact of free trade on poverty levels . In his 2007 study, Ravallion, taking China and Mexico as examples, evaluates trade openness as a share of trade in GDP, and calculates poverty in percentages by dividing it into rural and urban poverty, and finally, trade development does not serve to quickly improve the lifestyle of citizens, but in certain favorable conditions. states that trade openness can help eradicate poverty [1]. Goldberg and

[1]

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Pavnick (2007) also use the share of trade in GDP as a measure of trade openness, focusing on urban poverty with a sample of poor countries. The study found no changes in trade reforms and urban poverty rates.[2]

Research model and methodology. This study is based on a research methodology based on mixed, i.e. quantitative and theoretical data analysis. In its first part, 3 regions with the main developing skills and high poverty ratio were taken as a sample, and in them

1) Asia countries of the region ;
2) countries of the Central American region;
3) Latin American and Caribbean skills.

In the second part of this study, the impact of trade on the overall national poverty and regional rural and urban poverty and whether this effect is consistent or not is analyzed based on data from the World Bank database. The dataset was selected from 20 countries with different economic and geographical differences located in the 3 continents South America, Central America and Asia. (Table 2) and sample statistical analysis of variables can be seen in -table. The selected countries are considered developing countries in the International Economic Report of the International Monetary Fund , and the data for the study is based on the economic indicators of the selected countries between 1990 and 1995.

Table 1

№	Asia	Central and Southern America
1	Armenia	Bolivia
2	Cambodia	Chili
3	Georgia	Columbia
4	Indonesia	Costa Rica
5	Kazakhstan	Dominican Republic
6	Kyrgyzstan	Ekvador
7	Malaysia	El Salvador
8	Tailand	Honduras
9	Turkiye	Paraguay
10		Peru
11		Uruguay

To account for heterogeneity, a two-way fixed effects model was implemented to control for country- and time-specific effects. This process is generated by adding year dummies to a general fixed effects model.

[2]

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The mathematical model equation for estimating the impact of trade on poverty is expressed as

Variables	Measurement	Mean	Standart deviation	Minimum	Maximum
Poverty share	%	31.19	16.93	0.6	66.5
Poverty rate	%	40.48	21.56	1.6	87

follows.

$$Poverty^{h}_{mv} = a_{mv+} b_1 EXP_{mv} + b_2 IMP_m + b_3 kbGDP_m + b_4 inf_m + b_5 MCH_m + b_6 qu_m + b_7 tal_m + yil_m + error_m$$

Table 2

Thus, we run separate regressions on national, rural, and urban poverty using equation (1). In the equation: Poverty $^{h}_{mv}$ = m country, v time, h region, i.e. the level of regional poverty in the country over a certain period of time, a is the stability of variables, (EXP=export, IPM=import, kGDP=gross per capita product share, inf=inflation, MCH=financial deepening, qu=rule of law, tal=education) are independent variables.

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in rural areas					
Poverty rate in urban areas	%	24.85	15.63	0.3	63.6
Export rate in GDP	%	37.42	17.68	14.81	115.37
Import rate in GDP	%	41.62	19.92	17.76	95.27
GDP per capita	%	4.94	3.15	5.04	14.36
Inflation	%	6.77	8.91	-0.94	96.09
Financial depth	%	36.03	21.93	7.21	121.82
Low precedence	%	-0.55	0.56	-1.36	1.35
Education	%	98.90	8.16	66.38	124.10

Independent variables are derived from (Le Goff and Singh 2014; Thelle et al. 2015; Dollar and Kraay) research. National poverty and regional poverty levels differ across continental groups. Therefore, we divide the sample into continental groups - Asia, Central and South America – and run the regression again.

Dependent variables are national, rural, and urban poverty rates. All poverty rate data are from the World Bank's World Development Indicator (WDI) database. The measure of poverty is calculated as the percentage of the population below the country-specific poverty line calculated from the household survey. The national poverty rate is determined by the percentage of the national population living below the national poverty line, while the sum of the rural poverty and urban poverty rates is expressed by the number of rural and urban residents living below the national poverty line. Summary statistics for all observations are presented in Table 4, and Table 5 provides summaries by country group. Independent variables include two trade variables, export share and import share, and other control variables such as GDP per capita, inflation, financial depth, rule of law, primary education completion rate. Trade variables, i.e. the share of exports and imports in GDP, are taken from the World Bank's World Development Index (WDI) database. Basically, two types of measures of trade freedom are widely used in research. One of them is determined by the sum of export and import share of the gross domestic product or its log form, and the other is determined by a tariff or a notary barrier. In this study, trade openness is measured as the share of trade in GDP. According to Harrison, an increase in the volume of exports greatly helps to reduce poverty, while an increase in the volume of imports in trade, on the contrary, increases the level of poverty.

GDP per capita is the percentage of GDP (in US dollars) divided by the country's population, this measure represents the level of economic growth, i.e. the higher the GDP per capita, the better the economic growth. indicates. The inflation indicator reflects the annual percentage change in the

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consumer price index. The argument between inflation and the poor is still controversial, with many studies finding that the poor suffer more from high inflation than the rich, and that high inflation increases poverty. GDP per capita and inflation rate are also the World Bank's WDI database. Financial depth (Indicators for assessing the financial environment, measured by domestic credit to the private sector as a share of GDP and represents the growth potential of the private sector. Financial depth is also taken from the World Bank's Global Financial Development Database. Financial Development and Income Distribution ((e.g. inequality and poverty, etc.) are still understudied in economics, but there are studies that identify the role of financial depth in reducing poverty. For example, Rajan and Luigi (2003) argue that improving financial depth can help reduce poverty by stimulating income growth for the poor . .Rule of Law (one of the Global Governance Indicators in the World Bank database. It captures the judicial dimension of governance (such as the protection of property rights) and is typically rated between -2.5 and 2.5. Effective governance is emphasized as a prerequisite for poverty reduction. Khan (2009) found a negative correlation between the level of rule of law and poverty in a study of 11 developing countries. Kwon and Kim (2014) also examine the correlation between countries in East Asia, Latin America, and the Middle East across continental groups and find a negative correlation between the rule of law and poverty levels. In this study, primary education completion rate as a factor of education is considered as a determinant of poverty. This indicator is also taken from the World Bank's Education Statistics database.

Research result. Regression results based on the full sample are presented in Table 3.

Table 3

Independent variables	Dependent variables _ _ _		
	General poverty Share	Village in the regions poverty level	urban areas poverty level
Export share	-0.445*** (0.104)	-0.414*** (0.126)	-0.434*** (0.094)
Import share	0.090 (0.121)	0.203 (0.147)	-0.033 (0.110)
Population soul GDP per capita	-0.006*** (0.000)	-0.007*** (0.001)	-0.006*** (0.000)
Inflation	0.270*** (0.052)	0.197*** (0.064)	0.303*** (0.048)
Financial depth	-0.267*** (0.068)	-0.308*** (0.082)	-0.225*** (0.062)
Law precedence	-2.769 (3.450)	-2.570 (4.177)	-2.211 (3.143)

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Education	0.126 (0.086)	0.093 (0.104)	0.114 (0.078)
Constanta	76.505*** (13.739)	89.466*** (16,637)	71.999*** (12.516)

First, looking at column 1 of total poverty, we can see that an increase in the share of exports helps reduce poverty. If the GDP per capita and the level of financial depth increase, the level of poverty will decrease. Thus, we can say that economic growth and the activation of the private sector can effectively alleviate poverty in developing countries. And the higher the inflation rate, the more people fall below the poverty line. In the context of regional poverty, increasing exports will help reduce both rural and urban poverty. The effect of imports is not significant in these regressions. In conclusion, the results of the full sample regressions conclude that there is no difference between national and regional poverty in terms of the effect of trade. The results of a separate analysis for Asian countries and Central and South American countries are presented in Table 5. The important aspect of such an analysis is that, unlike the general analysis, in this analysis it is concluded that the factors affecting poverty have different effects on poverty in the regional section. Columns 1, 3, 5 of Table 5 show the regression results for Asian countries. It shows that an increase in the share of exports does not affect national poverty, but at the regional level, an increase in exports helps reduce urban poverty. Conversely, we can see that an increase in the share of imports worsens national poverty and urban poverty. However, none of the trade variables have a significant effect on rural poverty. The study found that other factors, namely growth in GDP per capita, improvement in financial depth and the rule of law index, were beneficial both nationally and regionally for poverty reduction. A higher rule of law means that personal and civil liberties are better protected, gender equality is more achieved, public safety is ensured, and access to justice is ensured, and the results are consistent with these considerations. As a result of the research, it was concluded that the level of inflation and education do not affect the poverty of Asian countries.

Table 4

Independent variables	General poverty level	Village in the regions poverty level		Cities in the area poverty level	
Asia	Latin America	Asia	Latin America	Asia	Latin America
Export share - 0.216	-0.465***	-0.161	-0.098	-0.242**	0.607***
(0.152)	(0.165)	(0.180)	(0.212)	(0.108)	(0.155)
Import share 0.435**	-0.527***	0.348	-0.751***	0.334**	-0.434**
(0.186)	(0.194)	(0.221)	(0.248)	(0.133)	(0.182)
Population jb YIM	-0.007***	-0.007***	-0.005***	-0.003***	-0.006***

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- 0.004 ***					
(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Inflation is 0.080	0.282***	-0.002	0.171**	0.107	0.334***
(0.204)	(0.051)	(0.242)	(0.066)	(0.146)	(0.048)
Financial Ch. - 0.380***	-0.247**	-0.442***	-0.038	-0.280***	-0.355***
(0.084)	(0.114)	(0.100)	(0.146)	(0.060)	(.107)
The law is - 16.002**	0.521	-18.766**	1.429	-10.889**	-0.909
(7.596)	(4.100)	(9.016)	(5.251)	(5.432)	(3.849)
Education narrow – -0.129	0.106	-0.085	0.000	-0.215	0.152*
(0.185)	(0.092)	(0.219)	(0.119)	(0.132)	(0.087)
Constant 59.681**	103.488***	80.914***	115.694***	60.069***	93.598***
(24.179)	(14,543)	(28,698)	(18.625)	(17.290)	(13.654)
Research the number is 65	93	65	93	65	93
States the number is 9	11	9	11	9	11

Columns 2, 4, 6 of Table 5 are regression results for Central and South American countries. According to the results, the share of exports affects the reduction of national poverty. In contrast to the Asian continent, the increase in the share of exports on a regional scale contributes significantly to the reduction of urban poverty. An increase in the share of imports helps to reduce both national and regional (rural and urban) poverty in Central and South American countries, and this result is a point of difference compared to Asian countries. Looking at other factors affecting poverty, we can see that an increase in GDP per capita reduces poverty both nationally and regionally, and that an increase in inflation increases poverty. The effect of primary education completion rate on poverty is statistically negatively correlated with urban poverty, meaning that the more people in urban areas have completed primary education, the less likely they are to be poor. Regression results using country-level data from 20 developing countries show that an increase in the share of exports in the economy contributes to poverty reduction at both national and regional levels. According to the results of the study, we show that trade factors affect the poverty level differently across the region through the regression of continental groups. At the national level, the increase in the share of exports helps to get out of poverty in Asian countries, but in the countries of Central and South America, the increase in the share of exports is less important in ensuring the well-being of the country's population. On the contrary, the increase in the share of imports in Central and South American

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countries reduces the level of poverty in their countries. The reasons for this may be differences in the labor market between countries, especially the import-competitive sector and industrial structure, etc. Looking at regional poverty, we can observe that, in contrast to urban poverty, an increase in the share of exports in both country groups favors rural poverty. There are two points to note from the cross-continental regressions: one is that inflation rates have a significant impact on poverty rates in Central and South American countries. This result is explained by the fact that the poor in Central and South American countries are more vulnerable to consumer price volatility than in Asian countries. Another point to focus on is the effect of the rule of law, which we can see from the research results that this factor is only effective in reducing poverty in Asian countries.

Conclusion. We can conclude from the research that the importance of trade in a certain economy depends on how the benefits of trade are distributed throughout the country, determining whether trade is distributed proportionally to the benefit of the poor population or not, each country should create a trade policy that reduces poverty . Taking the results of the above research as an example, Asian countries should support exports in trade and, on the contrary, restrict imports, but Central and South American countries should conduct policies that support imports. The World Bank and World Trade Organization (WTO) report, The Role of Trade in Ending Poverty, highlights the role of free trade in ending poverty through economic, technological development, employment and various other channels. Also, since 2005, the WTO has led an international development initiative called Aid for Trade, based on channeling the gains from trade into poverty alleviation. There are various studies that attempt to establish the relationship between trade and poverty. On the one hand, trade leads to poverty reduction through growth, but the structural relationship between trade and growth is still controversial in much of the literature. Despite the uncertain causal relationship between trade and poverty prevalence and insufficient data, this study attempts to identify how the effects of trade in the context of poverty reduction may vary across regions and continents. As a result, an increase in the share of exports helps reduce overall and urban poverty in Asia and Central and South America, but high export levels do not benefit the rural poor. The increase in the share of imports is related to the reduction of poverty in Central and South America. Based on our empirical results in these countries, it can be suggested that an export-oriented strategy or policy can help the poor in developing countries in Asia and Central and South America. In addition, adequate policies should be implemented in the country to prevent the exclusion of the rural poor from the benefit of exports.

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