



# Policy Brief

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## Trade and Poverty in the Republic of Congo

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### Context, justification and the problem

Trade liberalization within the framework of globalization and WTO since the end of the 20<sup>th</sup> century without any doubt is an area of predilection through which the international trade and domestic trade can contribute to poverty reduction in Africa South of the Sahara.

According to Lyakurwa (2007), Africa's share of world trade declined by half, moving from 4% to 2% between 1970 and 2000. During the same period, it can be observed that the situation of African economies worsened considerably with the introduction of the structural adjustment policies during the 1980s and 1990s. The implementation of the structural adjustment policies generated an increase in the number of unemployed and, consequently, the number of households in an unstable situation and poverty in Africa.

In the Republic of Congo, after 30 years of a centrally planned economy, the introduction of the market economy during 1990s and the ensuing trade liberalisation can be regarded as benchmarks in order to lay the foundations of the contribution of trade liberalisation in the process of growth and poverty reduction.

The diagnosis of poverty in the Republic of Congo was made on the basis of quantitative and qualitative data drawn from the Congolese Households Survey (ECOM, 2005), and from the Demography and Health Survey (DHS, 2006), from participatory consultations on poverty with grassroots populations, as well as various sectoral and thematic studies. The estimations of the incidence of monetary poverty reveal that more than half of Congolese are poor (50.7%). Children represent the fringe of the most deprived population 53.71%, followed by adult women (47.8%) (PRSP, 2008-2010).

According to the ECOM data, taken up again by the PRSP, the cities of Brazzaville and Pointe-Noire have the smallest proportions of poverty. On the other hand, the semi-urban and rural areas are characterised by high proportions of poverty.

Informal trade is a very important source of supply of the cities and countryside of the Republic of Congo, in particular for low-income households. More than 700,000 jobs are occupied by households operating in the informal trade sector (CNSEE, 2005). Legal trade

is carried on by nationals or foreigners who are provided with a trader's business card and is declared to the competent institutions.

It is important to point out that the trade sector experiences many problems: the non-observance of regulations; the sector's low capacity of supervision; the low participation of the country in sub-regional trade.

The Republic of Congo imports consumables, including meats and meat offal; fish and crustaceans; fruit and vegetables and food drinks. It also imports fuels and mineral oils (13,067 to 26,153 million CFA francs from 1999 to 2002), medicinal products (10,358 to 22,609 million CFA francs from 1999 to 2003), mechanical machines, engine and other appliances (30,095 to 58,034 million CFA francs from 1999 to 2003).

Congo exports less in the CEMAC region (0.58% to 0.81% from 1999 to 2003) than in the rest of the world (99.42% to 99.19% from 1999 to 2003). This results from the fact that the CEMAC countries export the same products and that in addition, Congo's export base is not diversified (CEMAC, 2004). Thus, most of Congo's exports are bound for countries other than those of Africa. These exports are primarily made up of two primary products, crude oil and raw wood.

In addition, within the framework of poverty reduction, since 2004, the finance law in the Republic of Congo has a pro-poor heading on budgetary expenditure with a view to reducing monetary and non-monetary poverty. Health, education and agriculture largely dominate the pro-poor heading of the budgetary expenditure over a five-year period.

During the evaluation of the 2005-2007 results, the National Assembly deplored the low level of implementation of the pro-poor budgetary expenditure.

When all is said and done, can trade, which has not realised all its potential as an engine of growth, still play a crucial role in spite of the negative effects related to the Doha negotiations?

The problem of this study is articulated around the following question: what are the effects of the increase in trade on poverty reduction in the Republic in Congo?

## **Methodology**

Trade liberalization and its impact on poverty is tackled by Winters, McCulloch and McKay (2004).

Winters et al. establish links between the two components. For them, trade liberalization stimulates economic growth, which in its turn favours macroeconomic stability. The effects generated by trade liberalisation will without any doubt have an impact on poverty reduction.

In addition, Winters et al. try to show through a diagram the possible links between trade and poverty, through the prices charged on the various markets and the situation of households, in particular women and the youth in the country. Lastly, the authors try to establish other more important links such as those connecting prices on the world markets, public revenue and public expenditure in a country (Winters et al., 2004).

Poverty reduction through trade is obviously achieved through job creation in the non-oil sector in the case of Congo because any job creation generates income, and any income contributes to the satisfaction of human needs.

On the basis of this fact, we intend to observe the export trends of the non-oil sector in relation to employment in the agriculture, breeding, fisheries, forestry, forestry development, manufacturing industry, trade, catering, hotel trade, transport, communication and commercial services sectors.

The determinants of poverty reduction through trade can be determined through job creation in the sub-sectors of the non-oil sector in the Republic of Congo since the oil sector, which accounts for 65% of the GDP, 67% of export earnings and 76% of tax revenue in the Congolese economy do not create massive jobs.

The development of trade in the non-oil sector in the Republic of Congo have a double advantage, on the one hand the diversification of the export supply base and on the other hand poverty reduction through the process of job creation and incomes.

We intend to regress the exports of the non-oil sector relation to jobs over a period of more than twenty years in the following sub-sectors:

- Agriculture, breeding and fisheries;
- Forestry, forestry development;
- Manufacturing industry;
- Trade, catering and hotel industry;
- Transport, communication;
- Commercial services.

The positive signs are expected in this model because any improvement of the employment situation in the seven sub-sectors selected results in a stimulation of production and exports in the non-oil sector. On the other hand, the appearance of negative signs announces downward trend of jobs in the above-mentioned sub-sector observed.

The data are second hand. They were collected at the National Centre of Statistics and Economic Studies (CNSEE), the Department of Economics, the Bank of Central African States and the Ministry of Trade and Supplies.

## **Results and discussion**

According to ECOM, more than three quarters of the interviewed households (77.1%), in rural areas (68%) and in urban areas (84.1%) do not regard Congo as a poor country, but 62.2% of them consider themselves poor. This observation is also shared by the richest stratum of the population.

With regard to the linked between trade and poverty in the Republic of Congo, the PRSP through the CDMT tries to bring a solution to this problem. Indeed, the Medium-Term Expenditure Framework 2010-2012 specifies the role and the place of trade in the process of poverty reduction. According to the CDMT 2010-2012, with regard to domestic trade, it is a matter of, among other things, modernising local markets, in particular at the level of

departments, building trade structures (storage warehouses) in the ports and stations. Then it is a matter of improving the business environment by developing and popularising the legislative and regulatory texts.

The poverty line was given in the PRSP (final version 2008), on the basis of the method of the cost of essential needs which consists in estimating the percentage of the population or households able to buy or not a basket of food or non-food goods assumed to cover the essential subsistence needs. Thus, in 2005, the overall poverty line (food and non-food) is estimated at 54,440 CFA francs per day per person.

Over a period of more than twenty years, exports in the non-oil sector had a positive impact on the agriculture, breeding, fisheries, forestry, forestry development, manufacturing industry, transport, communication and commercial services sub-sectors.

The fundamental reason lies in the fact that these sub-sectors remain attached to exportation and benefit from the positive external effects of trade liberalization.

In addition, agriculture, breeding, fisheries, forestry development and the manufacturing industry are presented in PRSP 2008-2010 as the base of the supply to the diversification of exports and transport and communication as the sub-sectors of support for growth and economic diversification.

The improvement of production and trade in the basic sectors of supply to the diversification of exports and in the sectors of support for the growth and economic diversification constitutes the only benchmark in the search for poverty reduction through trade.

On the other hand, internal trade, catering and the hotel industry have negative domino effects. SMEs and other very small enterprises of this sector, far from beginning their growth, remain stationary, which explains the lack of improvement observed at the level of employment.

According to the PRSP, with regard to trade, the objective is to develop trade in goods and services at the national level and abroad. To support this dynamics, the envisaged strategies are as follows:

- The stabilisation of the business environment by putting in place the instruments of protection of trade by regulating the distribution function according to the nature of the products and by designing a new price policy;
- Building of human and institutional capacity by carrying out staff training in the areas of control and trade negotiations;
- Capacity building in the area of the definition of trade policies and strategies and in trade negotiations (WTO, EPAs, CEMAC, CEEAC, etc.).

## **Policy implications**

Three research axes make it possible to define policies likely to reduce poverty through the improvement of trade. To achieve this, the decision makers must contribute to:

- The strengthening of the pro-poor budgetary expenditure by increasing the disbursement rate in the selected sectors;
- The increase in the local processing of wood to a total value of 90% in the forest sector in order to strengthen the value added and in parallel to increase the volume of employment;
- The increase in foreign direct investments in the non-oil sector in order to make it competitive in the sub-region and at the international level;
- Making business environment attractive because Congo occupies the 178<sup>th</sup> world rank according to *Doing Business*.

The strengthening of the pro-poor budgetary expenditure in a strategic sector such as agriculture is achieved through the granting of fertilisers and seeds, training, the small livestock breeding and agricultural tracks. This strengthening proves to be essential for stabilising and boosting employment in this sector in order to contribute to the realisation of the first millennium goal, the fight against hunger in the world.

The increase in the processing of wood to a total value of 90% will increase value added and employment in the forest sector, Congo's second economic activity after oil.

Lastly, the improvement of the level of foreign direct investments in the non-oil sector can be regarded as the keystone in the stimulation of production and trade, only way capable of reducing poverty because of job creation.

Formerly dominated by State structures and some foreign private counters, Congolese trade is today characterised by the era of the market economy (1991), privatisation and globalisation, the coexistence of two categories of activities: informal trade and legal formal trade.

Informal trade occupies an important place in the economic activity, but its contribution to the gross domestic product (GDP) is not controlled. In spite of the fact that it incontestably remains a source of employment and an alternative to the crucial problems of youth unemployment, it remains an important lever for the fight against poverty.

Legal trade is carried on by nationals and foreigners, provided with a trader's business card and declared to official institutions.

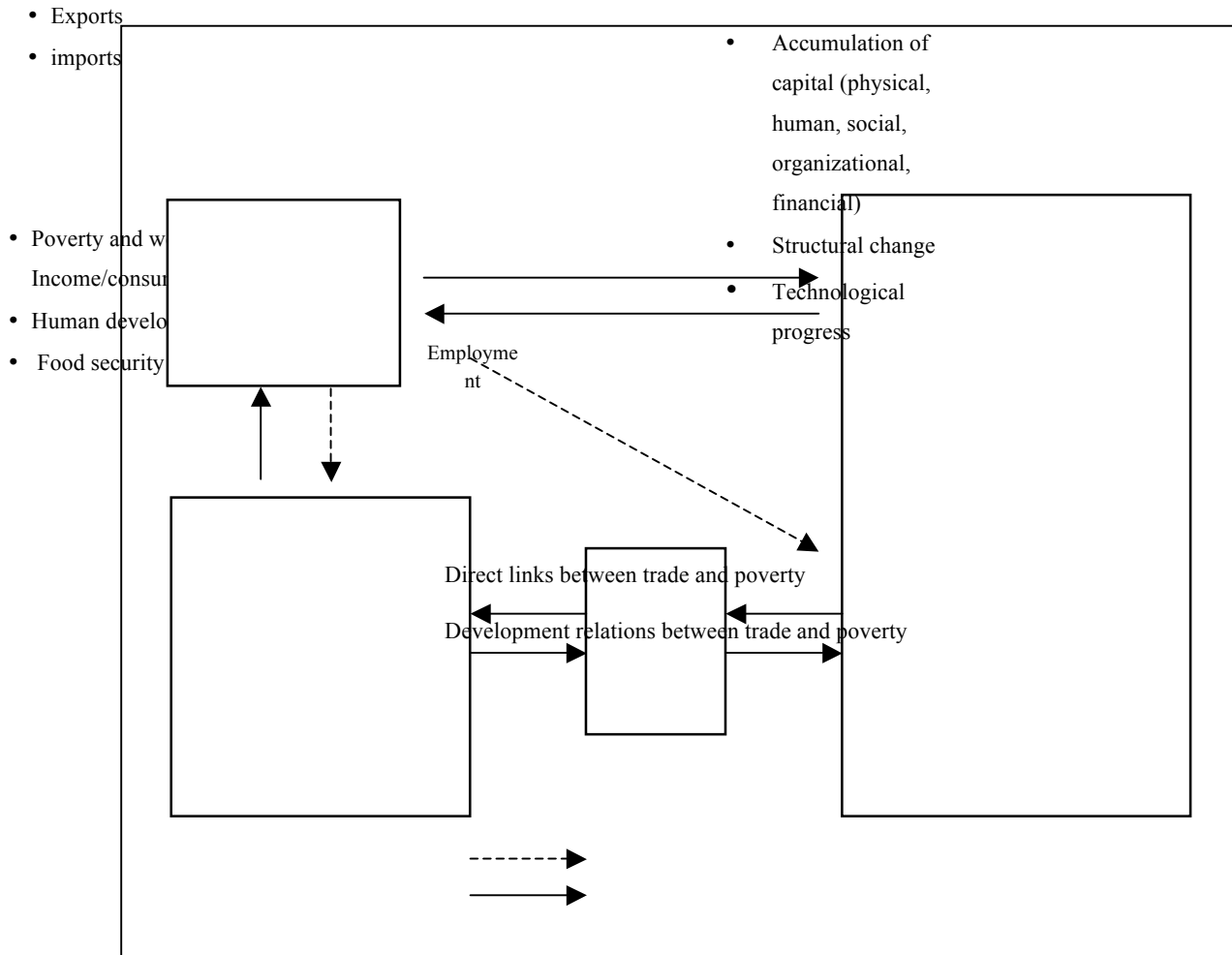
To support its economic growth, Congo Brazzaville must adopt an overall development approach of trade putting the non-oil sector at the centre. In spite of the improvement of the economic performance observed in Congo since 2000, thanks to the price of the barrel, the international trade of the non-oil sector is lagging behind.

What Congo can thus do after the adoption of the date of completion on 16 January 2010 to increase the standard of living of its populations?

The improvement of the foreign trade of the non-oil sector proves to be essential in the poverty reduction process by creating remunerative jobs in the primary, secondary and tertiary sectors.

The jobs created and the incomes generated will in their turn make it possible to reduce poverty in accordance with the Millennium Development Goals (MDGs).

When all is aid and done, trade remains a strategic sector able to create the growth likely to eradicate monetary and non-monetary poverty.



Ultimately, the increase in the internal and external trade of the non-oil sector in the Republic of Congo must promote the development of the productive capacity, in particular capital accumulation in five points at the following levels: Physical, human, social, organizational and financial.

This quintuplet of capital accumulation associated with structural change should generate employment in the primary, secondary and tertiary sectors, which in their turn would act effectively on the welfare of the populations and would contribute to poverty reduction.