

Trade Liberalization and Rural Poverty in Developing Countries: Evidence from Cambodia

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Abstract

Trade liberalization has been a key driver of economic growth in many developing countries in the Asia-Pacific region. However, persistent income inequality—particularly between urban and rural areas—remains a major challenge. While extensive research has examined the broader effects of trade liberalization on economic development, limited empirical study has focused on its impact on rural economic welfare due to a lack of disaggregated data on regional economic activity. We address this gap by analyzing the impact of trade liberalization on rural economic welfare in Cambodia, using household survey data from the Demographic and Health Surveys and satellite imagery data. Specifically, we examine: (1) how trade liberalization affects economic welfare in rural Cambodia, and (2) whether its effects vary across different groups of rural households. Based on an indirect utility function, the impact of changes in agricultural exports and international prices on the economic welfare of rural households is estimated. The data used to measure the economic welfare of rural household was the wealth index, a key indicator of living standards, taken from the 2014 and 2021 Demographic and Health Surveys. The explanatory variables were: agricultural production, estimated using vegetation activity and water resource abundance using satellite multispectral imagery; geographical conditions, such as elevation and slope; transport costs, estimated using road extensions and distance to the nearest city or seaport; and exposure indices for agricultural exports and international agricultural commodity prices. Our results indicate that increased agricultural exports contribute to improved economic welfare in rural areas. However, rising international agricultural prices do not have a significant impact. Moreover, the benefits of trade liberalization are disproportionately concentrated among richer groups, while the poorest groups experience minimal gains. These findings highlight the potential for trade liberalization to exacerbate intra-rural inequality and underscore the need for policies that ensure a more equitable distribution of trade benefits.

Key words: Cambodia; Rural poverty; Trade liberalization; Household survey; Satellite imagery

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