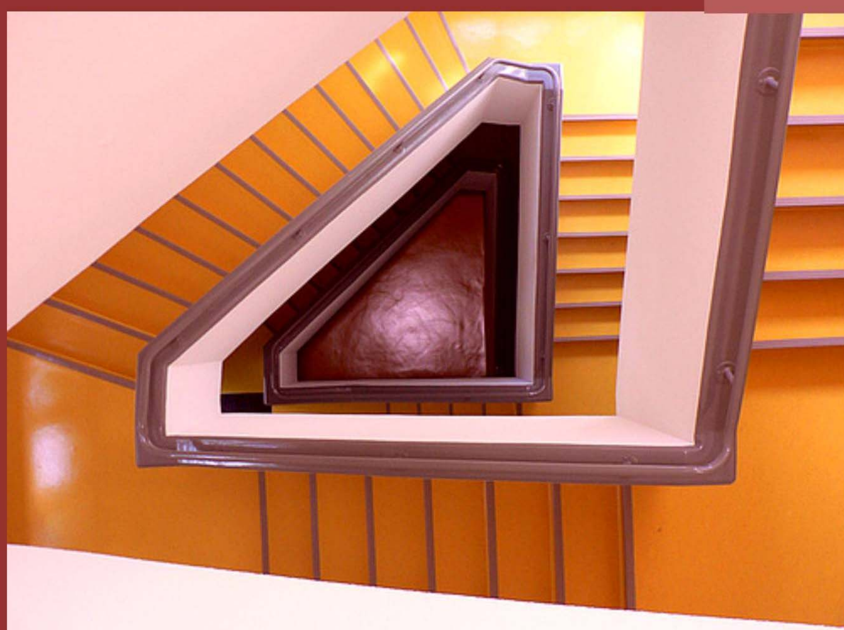
How does Trade Lead to Development and Poverty Reduction?

Evidence from the field



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Foreword

In laying the analytical basis of the fight against poverty, an alternative worth adopting is the examination of linkages among trade, development and poverty. Though trade openness and growth are strongly linked, the causal mechanics are still being debated. Therefore, systematic poverty alleviation through effective policy continues to be difficult to accomplish.

In the recent past numerous policy documents have argued that trade can play a major role in poverty reduction, without fleshing out the pre-conditions and necessary flanking policies. Such policy documents have invited criticism, both justified and unjustified, from various quarters. This advocacy document delves deeper by first recognising that countries have been successful to widely varying extents in translating liberalisation and greater openness into a rise in growth rates: greater trade openness has buoyed economic growth in many countries and yet failed to produce the same outcomes and dent poverty in a sustainable manner in others. Second, it builds on such recognition by closely evaluating success stories and failures. In doing so, it also recognises the need to disaggregate each macroeconomic outcome and look at its components in terms of the sectoral ramifications of mentioned policies.

The outcomes of the above process would be useful to practitioners and stakeholder groups alike: this advocacy document not only identifies the flanking polices/practices needed by developing countries to leverage the benefits of the trade-development linkage for poverty alleviation, it also emphasises the need for specialised policy packages, i.e. those that are tuned to the structural reality of the country being studied.

The case studies and their synthesis that underlie this advocacy document are useful in another way: these suggest that the link between trade liberalisation and poverty reduction has not been as strong and direct as that between the former and economic growth. Though trade policy affects poverty through its effects on economic growth, passively waiting for the benefits of growth to trickle down to the poor might not be the way to go. A pro-active attempt through redistributive policy is often needed to translate higher growth into lower incidence of poverty

In the context of the current Doha Round of WTO negotiations, which might induce policy changes in key areas like agriculture, manufacturing sector etc where the poor are largely concentrated, changes in the poverty levels in various developing economies would depend on both a) how the 'development dimension' of the WTO is kept intact in the negotiations and b) facilitation of coherence between the international trading system and national development strategies.

While the Doha Development Agenda (DDA) does recognise the importance of mainstreaming trade into national development strategies, there is hardly any coherent and cogent initiative to do so at the developing country level, mostly because of inadequate capacity. Second, changes in domestic policies and institutions, particularly those that are needed to empower disadvantaged group such as the poor, unskilled labour and women, have not been forthcoming in many developing countries. Without such accompanying changes the benefits of greater openness through multilateral negotiations at the WTO might not fructify.

Stated simply, 'greater openness', irrespective of whether it is achieved through multilateral or unilateral means is not a magic wand, i.e. its success is context specific and requires the presence of supporting initiatives. Thus, while the demand for development priorities to be reflected in the DDA and its outcomes is entirely justified, developing economies have to recognise that the success of poverty alleviation efforts also depends on domestic policies as well as institution and capacity building.

Through this advocacy document CUTS International intends to generate an appreciation of the need for policy packages that are holistic in nature – trade liberalisation, whether multilateral or unilateral, that is tuned to sectoral realities accompanied by suitable domestic policies, redistributive measures and safety nets for social groups prone to destabilisation. It uses the key findings and lessons learnt from 13 country experiences from Asia and sub-Saharan Africa (SSA), studied by the CUTS project entitled *Linkages between Trade, Development and Poverty Reduction* over the period January 2005 to December 2008.

The project has been supported by the Department for International Development (DFID), UK and the Ministry of Foreign Affairs (MINBUZA), The Netherlands. The project, systematically analysis the impact of trade openness on poverty reduction at the country level and emphasises that there is no unique model of trade-development-poverty linkages that could be prescribed to all countries evenly.

This advocacy document is an attempt to make the findings of this project, which is often necessarily rigorous in its methodology and presentation, accessible to a broad cross section of policymakers, trade negotiators, donors, and development practitioners, as well as different stakeholder groups. It is based on the following volumes associated with the project:

Razzaque, M. A. and Raihan, S. (2008) (eds)., *Trade-Development-Poverty Linkages: Reflections from Selected Asian and Sub-Saharan African Countries* (Vol I: Country Case Studies), CUTS International, Jaipur, India.

Raihan, S. and Razzaque, M. A. (2008) (eds)., *Trade-Development-Poverty Linkages: Reflections from Selected Asian and Sub-Saharan African Countries* (Vol II: Sectoral Case Studies), CUTS International, Jaipur, India.

All project related documents can be accessed online: http://www.cuts-citee.org/tdp-documents.htm

Jaipur
December 2008

Pradeep S Mehta
Secretary General

Abbreviations & Acronyms

ASEAN	Association of Southeast Asian Nations
ATC	Agreement on Textiles and Clothing
CUTS	Consumer Unity & Trust Society
DDA	Doha Development Agenda
DFQF	Duty-free and Quota-free
EU	European Union
FDI	Foreign Direct Investment
FTAs	Free Trade Areas
GDP	Gross Domestic Product
GSP	Generalised System of Preferences
IMF	International Monetary Fund
LDCs	Least Developed Countries
MFA	Multi-fibre Arrangement
MFN	Most favoured Nation
NTBs	Non-tariff Barriers
QRs	Quantitative Restrictions
R&D	Research and Development
RER	Real Exchange Rate
ROO	Rules of Origin
RTAs	Regional Trading Arrangements
SAPs	Structural Adjustment Policies
SMEs	Small and Medium-sized Enterprises
SOEs	State-owned enterprises
SSA	Sub-Saharan Africa
TVEs	Town Village Enterprises
UNCTAD	United Nations Conference on Trade and Development
VAT	Value Added Tax
WTO	World Trade Organisation

1 *Introduction*

Developing countries have for long strived for a development strategy that would sustain high economic growth, create employment opportunities, and eliminate poverty. The search for such a development paradigm is motivated by the need for self-sufficiency. However, severe crises have impeded the support required for the chosen strategy. Most of these countries relied on foreign financing to facilitate growth. Dependence on aid became counterproductive for two reasons: inability to generate growth coupled with the rapidly increasing burden of debt repayment.

The failure of foreign aid led to policy reversal with the campaign of 'trade not aid', and consequent export promotion. This distinct outward shift in economic policy in most instances was guided by the Bretton Woods Institutions. Simultaneously, developing countries started actively engaging in multilateral trade negotiations to gain market access and leverage implementation of a rule-based system to settle trade disputes.

Unilateral liberalisation and large scale multilateral trade negotiations by developing countries therefore ushered in a new liberalised regime for international trade, which promised growth and poverty reduction in poor countries.

More than ten years down the road, after having implemented this new regime, the entire gamut of country experiences reveal considerable diversity. More importantly, most developing countries have failed to realise the projected benefits of liberalisation. The mentioned diversity implies that the postulated and previously widely accepted general relationship among trade, growth and poverty has now again become a subject of empirical scrutiny.

This monograph summarises trade, development and poverty reduction experiences of a set of 13 countries studied under a project entitled 'Linkages between Trade, Development & Poverty Reduction (TDP)' initiated by the Consumer Unity & Trust Society (CUTS International). It attempts to study the mentioned linkages through macroeconomic impressions as well as inter-sectoral linkages within countries. Outputs have now been documented in two edited volumes – one containing country background papers capturing overall macroeconomic impressions, and the other comprising sectoral case studies. This monograph provides an overview of these two volumes and synthesises their combined wisdom.

2
Countries in the Project

The 13 developing countries studied under the CUTS TDP project included eight from Asia, viz. Bangladesh, Cambodia, China, India, Nepal, Pakistan, Sri Lanka and Vietnam; and the rest from SSA, viz. Kenya, South Africa, Tanzania, Uganda, and Zambia. Table 1 provides select basic characteristics of these countries.

Table 1: Basic Statistics of the TDP Project Countries

Series	GDP (US$bn)	Purchasing Power GDP per capita (current int'l US$)	Exports of goods and services US$bn & (percent of GDP)	Poverty headcount ratio (percent) (Year)
Bangladesh	60.0	2,053	9.9 (16.6)	44.2 (2004)
Cambodia	6.1	2,727	4.0 (65.1)	35 (2004)
China	2234.3	6,757	836.8 (37.5)	7.9 (2001)
India	805.7	3,452	165.5 (20.5)	26.1 (2000)
Nepal	7.3	1,550	1.2 (16.1)	30.8 (2004)
Pakistan	110.7	2,370	16.9 (15.3)	32.1 (2001)
Sri Lanka	23.5	4,594	7.9 (34.0)	22.7 (2002)
Vietnam	52.4	3,071	36.7 (70.1)	18.1 (2004)
Kenya	18.7	1,239	5.1 (27.4)	52.3 (1997)
South Africa	239.5	11,110	64.9 (27.1)	57 (2001)
Tanzania	12.1	744	2.1 (17.1)	35.7 (2001)
Uganda	8.7	1,433	1.1 (13.1)	37.7 (2003)
Zambia	7.3	1,022	1.2 (16.4)	68 (2004)

Note: All data except for the poverty headcount ratios are for 2005. Poverty headcount ratios are based on the respective national poverty lines and correspond to the latest year for which information is available as mentioned in the parentheses

Source: With the exception of poverty headcount ratios, all other data come from the World Development Indicators, published by the World Bank. Information on poverty headcount ratio comes from country-specific sources, and in most cases they are reported in the country background papers prepared for the CUTS TDP project

The chosen set of countries includes both large (such as China, and India) and small countries, (such as Sri Lanka, Nepal, and Zambia), landlocked (Nepal, Uganda and Zambia) and island (Sri Lanka) nations, some countries with high and sustained economic growth (e.g. China, India, Cambodia) and others with erratic growth (e.g. Nepal, Kenya, and Zambia). Similarly, countries with remarkable export growth (e.g. Vietnam and Cambodia) as well as others with dismal export growth are also represented (e.g. Nepal and Zambia). The experiences of primary commodity producers and exporters (for instance, Uganda, Tanzania and Zambia) as well as those with a strong manufacturing base (e.g. China and India) are captured.

Despite such diversity all the sample countries, however, have one feature in common: these have undertaken various trade policy reforms and consider international trade a principal means for accelerating growth and promoting economic development. The diversity in development experiences across these countries, differing widely in various characteristics but exhibiting similarities in orientation towards trade, offers fertile ground for the development of valuable insights into trade-development-poverty linkages.

3

Trade-Development-Poverty Linkages: Theoretical Insight and Empirical Evidence

Trade, development and poverty linkages have been analysed through two broad prisms – the relationship between trade and growth (as an indicator of development) which implicitly assumes 'trickle down' benefits for the poor from growth, and the direct effect of trade on income distribution. While one could also question the existence of such 'trickle down benefits', a more preliminary question needs to be asked, i.e. whether at all trade liberalisation and increased openness actually lead to superior growth performance. This question has sparked heated debate in the economic development literature.

With regard to growth outcomes, there are theoretical arguments both in favour of protectionist and free trade regimes. Perhaps, the principal argument for protection and an inward looking strategy is the 'infant industry' one that underlines the need for protecting young firms from foreign competition. Most policymakers in developing countries, who believe that protection is sometimes necessary, however concur that 'across the board import and trade liberalisation' is not appropriate; instead properly executed 'selective interventions' constitute a pragmatic approach to development.

In contrast, the idea of 'gains from trade' is rooted in the logic that countries can benefit from specialising in products that offer a comparative advantage. The demonstrated benefits have generally been static rather than dynamic, i.e. the proven benefits are not in the form of new persistent tendencies for higher economic growth or investment. Nevertheless, despite the absence of such direct proof of dynamic benefits, the failure of import substitution regimes did give an impetus to the revival of a school of thought in the late 1970s which saw trade as an 'engine of growth'.

Numerous attempts have been made to study the trade-growth relationship empirically. In general, the findings of the relatively recent studies demonstrate that openness is good for growth. Criticism of the methodology employed by these studies still exist (e.g. see Rodriguez and Rodrik, 2000). Given the serious controversy, perhaps the most dominant view is that while the role of opening up and liberalisation in promoting economic growth needs to be recognised, its benefits should not be oversold.

As regards the direct link between trade policy and poverty, there is a paucity of studies. Whatever studies exist do not arrive at conclusions that are beyond doubt because of problems associated with methodology and data. The absence of any simple relationship is highlighted by an United Nations Conference on Trade and Development (UNCTAD) study of 2004: changes in incidence of poverty for least developed countries (LDCs) are the least favourable in countries which have either adopted the most open trade regimes or continued with the most closed regimes. But countries which tried to strike a balance between these extremes did achieve significant poverty alleviation.

The results of the UNCTAD study are supported by other evidence. In the case of China during the 20 year period, 1981-2001, the trade-gross domestic product (GDP) ratio registered a three fold increase from 15 to 45 percent. During the same period, its poverty incidence also declined at an unprecedented rate: the national poverty headcount ratio, i.e. the proportion of population living below the poverty line, fell from 52 to just about 7 percent.

The implementation of trade reforms during the same also prompted many analysts to conclude that trade expansion had been instrumental in achieving poverty reduction in China. However, statistical analyses undertaken in a study by Ravallion (2006), find no evidence of the relationship between the two indicators, suggesting other factors as the major causes of poverty reduction.

Clearly, the jury is still out on the linkages between trade and poverty alleviation as mediated through development. It is because of this debate that a detailed study, such as the one discussed in this monograph, assumes significance.

4 *Trade, Development and Poverty Reduction – Macro Perspectives from the Countries Selected*

Evolution of Trade Policies

Governments of all countries studied in the project regulated economic activities and international trade tightly in the immediate post-independence period. The inward looking approach to development was pursued with the aim of developing a domestic industrial base and found expression in protection to infant industries. It was thought that by replacing previously imported goods with domestic production the strategy would ease the balance of payments situation and at the same time achieve the national objective of economic growth, with industrialisation and reduced unemployment as concomitant benefits.

Despite some success in the earlier post-independence period, most countries started experiencing serious economic crises stimulated by both internal and external factors. Although the choice of import substitution was dictated by macroeconomic concerns about the balance of payments and fiscal balance, the persistence with highly protected trade regimes over fairly long periods of time did not achieve expected results with both internal and external balances in most of these economies continuing to worsen.

Import substitution policies with numerous quantitative restrictions, high tariffs and overvalued exchange rates caused substantial discrimination against export production as the incentive structure shifted in favour of import competing sectors. This policy-induced 'anti-export' bias not only inhibited export growth prospects but also undermined the potential for overall economic growth.

On the external fronts the oil crisis of the 1970s accentuated the balance of payments crisis and contributed to a global economic downturn, which, in turn, resulted in reduced demand for exports from developing countries. In addition, recession in the global economy led to rising interest rates, increasing the debt burden of some of the TDP project countries, particularly those in SSA.

It was against the backdrop of serious macroeconomic imbalances of the early 1980s and stagnating export performance *vis-à-vis* a deep recession in the global economy that reforms for stabilisation and structural adjustment were undertaken (in most cases)

Table 2: A Summary of Reform Process in TDP Project Countries			
Countries	**Reforms led by**	**Reform periods**	**Key features**
Bangladesh	World Bank and International Monetary Fund (IMF)	1st phase -1982-86 2nd phase - 1987-91 3rd phase -1992 -	Removal of QRs (from 275 to 5); highest tariff lowered from 350 to 25 percent; effective rate of protection reduced from 76 to 24 percent; Devaluation and eventually freely-floating exchange rate system; Value Added Tax (VAT) introduced; export promotion measures
Cambodia	IMF and WTO	1996	Reduction of tariffs to 15 percent; WTO accession negotiations leading to a wide-ranging reform commitments
China	Domestically led	Agriculture reform from 1978; trade reform from 1985	Part-privatisation of State-owned Enterprises (SOEs); average tariffs reduced from 47.2 in 1992 to 9.9 percent in 2004; foreign exchange restrictions relaxed; support for Small and Medium-sized Enterprises (SMEs); Foreign direct investment (FDI) promotion; devaluation
India	IMF and WTO	Trade reforms from1991; Agriculture reforms from late 1990s	QRs removed; average tariffs reduced from 80 in 1990 to 37 percent in 1996; fiscal austerity; devaluation; Foreign exchange restrictions relaxed; privatisation
Nepal	IMF	Structural Adjustment Programme (SAP) implemented from 1985	Average tariffs down to 14 percent (10 percent in agriculture); devaluation; foreign exchange restrictions relaxed; removal of agricultural subsidies; VAT introduced
Pakistan	IMF	From 1987	QRs removed; average tariffs lowered to 17percent; maximum tariff reduced from 125 to 25 percent
Sri Lanka	World Bank and IMF	1st phase-1977 onwards; 2nd phase-1990s	QRs removed; price controls removed; fiscal austerity; devaluation; FDI promotion; foreign exchange restrictions relaxed; maximum tariffs reduced to 35 percent
Vietnam	Domestically led	From 1986	Part-privatisation of SOEs; average tariffs reduced to 16 percent; FDI promotion; foreign exchange restrictions relaxed
Kenya	World Bank and IMF	SAP implemented from 1980; more reforms from 1986	QRs removed; average tariffs reduced from 49 to 17 percent; removal of agricultural subsidies; privatisation; foreign exchange restrictions relaxed; FDI promotion
South Africa	IMF and WTO	Began in the early - 1980s	QRs removed and tariffs bound; fiscal austerity; tariff reduced by one-third on joining the WTO (still high ceilings in agriculture); export subsidies removed; privatisation (some marketing boards still remain in agriculture)

Contd...

Tanzania	World Bank and IMF	Reforms began in the mid 1980s; SAP implemented in the 1990s	Average tariffs reduced to 12 percent; privatisation; foreign exchange restrictions relaxed; removal of agricultural subsidies; removal of export duties; devaluation
Uganda	World Bank and IMF	1st phase from 1987; 2nd (intensive) phase – 1995 onwards	Trade liberalisation; privatisation; foreign exchange restrictions relaxed; removal of agricultural subsidies and price support; devaluation; liberalisation of state owned marketing boards
Zambia	World Bank and IMF	Reforms began in the early 1980s but controls re-imposed in 1987; serious reforms undertaken in the 1990s	Tariff slabs reduced to four; maximum tariffs reduced; QRs liberalised; privatisation

Source: Compiled from country background papers as in Razzaque and Raihan (2008)

along the guidelines specified by the World Bank and IMF (see table 2). By the mid 1990s, large scale liberalisation programmes had been implemented. These led to a remarkable decline in quantitative restrictions, significant rationalisation and diminution of import tariffs, privatisation of SOEs, and liberalisation of foreign exchange regimes.

Another important element of trade policy reform was the introduction of generous promotional measures for exports. While import and exchange rate liberalisation were intended to correct the domestic incentive structure in the form of reduced protection for import substituting sectors, export promotion schemes were undertaken to provide exporters with an environment in which the erstwhile bias against export-oriented investment could be reduced significantly.

The reform processes in two countries, namely China and Vietnam, have been quite different from others as their reforms and deregulation measures were principally domestically led. Along with traditional trade liberalisation measures, China provided increased opportunities for SOEs to develop their production strategies and retain profits for autonomous investment. Much of industrial and capital intensive production remained in the hands of the state and certain sectors continued to receive high-level government support (e.g. through the establishment of jointly owned, local government-private sector Town Village Enterprises) and protection throughout the reform period. Similarly, despite Vietnam's implementation of the *Doi Moi* (Open Door) programme, government interventions in the economy remained prominent with SOEs continuing to play a significant role.

Table 3 summarises the reform experiences in the TDP project countries in terms of their tariff profiles at the time of undertaking reforms and in the post-reform periods. Bangladesh, India, and Pakistan had the highest average tariffs immediately before liberalisation; these were slashed drastically by the end of 1990s. Nepal and Sri Lanka along with SSA countries were relatively open during the late 1980s and their tariffs declined further by early 2000. South Africa had the lowest average tariffs both in the pre and post liberalisation periods.

Table 3: Tariff Reductions in the TDP Project Countries			
	Tariff rates (in percent) over two different time periods (simple average of MFN applied rates)		Percent of tariff lines with MFN duties over 15 percent
Countries	Period 1	Period 2	
Bangladesh	94 (1989)	17.1 (2002)	39.9
Cambodia	35 (1996)	17 (2002)	19.3
China	40.3 (1990)	15.3 (2001)	16.0
India	81.8 (1990)	31 (2001)	21.6
Nepal	23 (1988)	14.7 (2001)	16.6
Pakistan	64.8 (1990)	20.6 (2001)	40.0
Sri Lanka	28.3 (1990)	9.8 (2001)	20.9
Vietnam	30 (1989)	15 (2001)	40.7
Kenya	43.7 (1990)	15.3 (2000)	40.8
South Africa	12.7 (1988)	8.5 (1999)	21.1
Tanzania	29.7 (1990)	17.9 (2001)	40.7
Uganda	19.9 (1987)	8.2 (2001)	40.8
Zambia	29.9 (1987)	6.8 (1999)	33.2

Source: Information provided in Column 2 and 3 is based on authors' compilation from different country specific studies. Figures reported in the last three columns come from the tariff profiles for individual countries as reported in WTO (2006)

Trade, Development and Poverty Reduction: Stylised Facts from the TDP Project Countries

Policy reforms geared towards more openness are expected to enhance the significance of international trade in a country as import liberalisation (e.g. tariff reductions and removal of quantitative restrictions) tends to increase imports and contribute to the reduction of anti-export biases by reallocating resources from import-competing to export sectors. This is generally manifested in a rising trade-GDP ratio of a country undertaking liberalisation.

Amongst Asian countries, Cambodia and Vietnam exhibit a spectacular rise in export orientation over the past 20 years or so and Bangladesh and India a steady increase. The share of exports in China's GDP has grown quite strongly since its accession to the World Trade Organisation (WTO). In contrast to these positive developments, Nepal's export ratio has suffered in recent years, and Pakistan and Sri Lanka have shown stagnating performances.

Turning to the five SSA countries, Zambia's export-GDP ratio has declined sharply, while despite some recent improvements, the current levels of export-orientation in Kenya, South Africa, Tanzania and Uganda, are comparable only to what these countries had achieved earlier. Therefore, for many of the countries selected, there is no evidence of steadily growing significance of the export sector during the post liberalisation period.

It is rather difficult to link trade liberalisation with export performance in the sample countries. For instance, export volumes of Bangladesh and Vietnam were almost identical in 1989 (at about US$1.5bn). Since then both countries have undertaken important reforms, and in terms of openness now also look almost similar. Nevertheless, Vietnam's exports during the past 15 years have increased to about US$37bn as against US$10bn for Bangladesh.

More strikingly, Vietnam's trade regime looks very similar to those of Kenya, Tanzania, and Uganda but there are no similarities in export performance. Again, Cambodia and Nepal had export volumes of equal size in 1995. But, Nepal's exports have hardly grown since then, while those of Cambodia have almost quadrupled, despite both countries

Table 4: Growth of Exports of Goods and Services (annual average percent)

Year	1981-85	1986-90	1991-95	1996-2000	2001-05
Bangladesh	10.2	9.4	18.0	9.9	9.0
Cambodia	n.a.	n.a.	80.1	14.3	17.4
China	8.9	17.5	20.1	11.2	24.9
India	1.5	13.3	12.1	10.4	21.7
Nepal	7.0	5.0	23.4	4.9	-0.2
Pakistan	2.4	14.0	10.7	-0.3	11.5
Sri Lanka	4.7	8.6	14.7	6.8	4.9
Vietnam	n.a.	19.2	24.5	21.1	16.8
Kenya	-5.9	7.8	6.2	-1.4	13.4
South Africa	-5.6	6.4	5.0	1.6	12.5
Tanzania	n.a.	n.a.	15.9	4.0	9.8
Uganda	24.4	-7.7	23.9	0.8	11.9
Zambia	-12.0	9.6	1.3	-10.3	13.2
Other country groups					
World	-0.2	13.6	8.4	4.4	10.6
Low income	-6.6	11.6	8.3	8.4	17.0
East Asia & Pacific	1.9	15.3	18.8	8.3	17.3
Sub-Saharan Africa	-7.7	8.4	3.6	4.8	14.8
LDCs	n.a.	8.5	6.2	5.8	15.5

Source: Authors' estimates using World Bank World Development Indicators data implementing comparable trade reforms. From the export growth rates over various sub-periods, as presented in Table 4, it is also very difficult to deduce beneficial effects of liberalisation on export response in most of the sample countries.

One of the arguments for the mentioned policy reforms is that the resultant reduction in anti-export bias promotes export growth, thereby directly contributing to overall economic growth. The positive association of exports and GDP growth is found to be stronger for the TDP project countries. This is understandable as the TDP sample includes such countries as Cambodia, China, and Vietnam that have experienced the fastest export and GDP growth rates. Bangladesh, India, and Uganda follow in terms of the strength of the export-growth nexus. These are, in turn, followed by Nepal, Pakistan, Sri Lanka and Tanzania. Kenya, Zambia and South Africa appear to be at the bottom of the export-growth nexus ladder.

Amongst the top performing TDP countries, both Cambodia and Vietnam have had considerably higher export growth than China. Nevertheless, China outperformed them in terms of overall output growth. Similarly, despite similar average export growth, Zambia's average GDP growth falls far short of that of Tanzania's and Sri Lanka. These comparisons seem to suggest that non-export sectors may have had a significant role in promoting economic growth.

Apart from promoting exports, greater openness is supposed to result in better allocation of resources and access to improved technologies and inputs, thereby influencing growth. The empirical assessment of the effects of liberalisation on growth has been controversial.

It is found that apart from Bangladesh and Tanzania, growth rates since the 1990s have not shown a sustained increase, although for almost all countries average tariffs have declined quite remarkably[1]. For China, India and Vietnam, high economic growth appears to have emerged within policy regimes characterised by high tariffs. In the cases of Nepal, Kenya and Sri Lanka, significant lowering of tariffs around 2000 did not accompany invigorated growth. Again, the figures for South Africa, Uganda, and Zambia hardly reveal any association between changes in tariffs and overall economic activity.

How do the TDP project countries stand in the cross-country landscape of trade regimes (as measured by average tariffs) and economic growth? It turns out that in 2001 with the exception of South Africa, Sri Lanka and Uganda, the other 10 TDP countries had average tariffs exceeding the developing country average. Of these 10 countries, seven (viz. Bangladesh, Cambodia, China, India, Nepal, Tanzania and Vietnam) had GDP growth rates higher than the developing country average. Bangladesh and India were amongst the most closed economies; yet their annual average growth was higher than most developing countries. With average tariffs of 5.8 percent, South Africa grew at a rate of 2.7 percent per annum as against 5.8 percent in the Indian case associated with average tariffs of about 32 percent.

Similarly, one can compare Kenya and Vietnam – two countries with almost identical tariff profiles Kenya struggled to ensure a 2 percent annual growth in stark contrast to

Vietnam's 7.3 percent. Amongst the TDP countries, only Uganda showed impressive growth performance with comparatively smaller average tariffs.

The next important aspect is the relationship between growth and poverty. There has been some concern amongst policymakers that the benefits of growth are often not equitably distributed. As trade adjustment is more likely to create groups of 'winners' and 'losers', distributional consequences need to be understood carefully for assessing the implications for poverty reduction efforts.

An empirically estimated relationship implies that a one percentage point increase in GDP growth in the selected countries leads to a reduction of the poverty headcount index by 0.7 percent. Changes in growth explain only about 54 percent of the variance in poverty headcounts[2]. Therefore, apart from growth performance, there is substantial scope for the existence of other factors that explain differences in incidence of poverty across countries.

Poverty data reveal that Vietnam has had the highest rate of poverty reduction, followed by India and China. On the other hand, despite modest growth, the poverty situation has deteriorated in Kenya and Pakistan and remained unchanged in South Africa. With the exception of Uganda, other SSA countries seem to have been trapped into both slow growth and poverty reduction.

The above contrasts highlight the need for studying country experiences and learning from more successful countries rather than merely focussing on growth as the recipe for poverty reduction. For example, it would be of immense interest to know why similar magnitudes of economic growth in Cambodia and Vietnam resulted in widely different annual average poverty declines of 'less than two percent' and 'close to six percent' respectively.

Finally, a study of the association between the growth of exports and poverty in TDP project countries reveals that even when there is weak or no relationship between exports and GDP growth, export expansion can have direct impact on poverty incidence (for instance through employment generation). It is also possible for export growth to bypass the poor.

In general data reveal a positive relationship between export growth and poverty reduction, with Vietnam registering both high export growth and poverty reduction rates. Cambodia turns out to be a case in which a very high export growth rate has only made a modest contribution to poverty reduction. With an average export growth rate 15 percentage points higher than that of Bangladesh, Cambodia's annual poverty reduction rate has been at par with the former. On the other hand, with almost identical export growth rates, India has achieved a much higher rate of poverty reduction than that of Bangladesh. Despite some modest export growth, Nepal and Uganda, too, have impressive poverty reduction records.

While Sri Lanka, Tanzania, and Zambia exhibit both low export growth and poverty reduction rates, the deterioration in the poverty situations in Kenya and Pakistan makes them rather unusual cases among TDP project countries. On the whole, therefore, the project country experiences seem to suggest though positive synergies exist among overall output growth, export expansion and poverty reduction's the actual relationship on the ground is much more complex and probably guided by various other factors.

Lessons Learnt from Country Studies

The objective of the TDP project was not to identify a broad and general relationship involving trade, growth and poverty. Rather, attempts were made to go beyond generalities and stereotypes by studying country-specific experiences more closely, thereby identifying interesting and useful lessons to be shared with relevant stakeholders. Important lessons are listed below.

Ownership of the Policy Regime

The first important lesson is that countries undertaking reforms through domestic initiatives, such as China and Vietnam, have succeeded the most. A home grown initiative not only ensures better implementation of reform measures, but perhaps also helps institute a creative policy regime that attempts to identify loopholes and shortcomings in the reform process and redress these. Most TDP countries, however, lacked ownership with regard to their policy regimes.

For instance, the case study of Nepal refers to the problem of distorted national priorities in the face of foreign aid. The country paper on Kenya mentions that the process of liberalisation in the country has been sporadic, with periods of significant progress followed by slower movement and even reversals, which are attributable to the lack of a shared vision amongst key stakeholders.

Export Response to Liberalisation

TDP case studies provide evidence to suggest that the export response to trade liberalisation has been very weak in most developing countries. Despite undertaking significant reforms, exports of merchandise goods from Nepal, Uganda and Zambia either declined or stagnated, as no new sectors that could flourish in the global market emerged. There has been some modest expansion of new sectors in Kenya and Tanzania. Nevertheless, the overall growth of exports has not been very encouraging. Some countries such as Bangladesh and Cambodia that have appeared to do well in terms of aggregate exports have failed to diversify their export baskets even after implementing their reform programmes.

The concern over 'weak export response' has brought attention to 'supply side capacities'. The theoretical premise of reallocation of resources towards export-oriented sectors after liberalisation is not straightforward, as exporting requires a prior knowledge about efficient production and marketing activities, access to production and distribution networks, improved infrastructure facilities and entrepreneurial capacity. In recent times, therefore, a lot of emphasis has been placed on 'aid for trade' for improving supply side capacities of poor countries; inadequate capacity is unlikely to generate an adequate export stimulus.

Initial Distribution of Endowments

The TDP project cases seem to suggest that countries that undertook initial distribution of endowments have been able to reduce poverty more than countries that did not.

Property right reforms in Vietnam and land distribution in China have been crucial in generating inclusive growth processes. While the experiences of China and Vietnam are unusual and perhaps cannot be replicated elsewhere, it is important to stress that the capacity of the poor needs to be enhanced if they are to benefit from more liberal policies. Capacity enhancement includes skill development, access to better education, and any other measures specific to the countries concerned. The basic lesson is that poor people need to be endowed and empowered to benefit from liberalisation.

Easy vs. Critical Reforms

The review of TDP country experiences shows that the most common reform measures included removal of QRs, tariff cuts and rationalisation, exchange rate liberalisation and export promotional measures. These may actually be considered as relatively easy reforms. More difficult but fundamental measures such as institutional reforms have hardly been considered. There are now solid grounds to believe that it is these difficult reforms that usually have far reaching implications for growth and economic development. This has been pointed out in several TDP country background papers. Many good policies are often ineffective due to malfunctioning of institutions.

The Role of Agriculture

The inward looking policies of the import substitution era attempted to develop a domestic manufacturing base, which in the process discriminated against the agricultural sector. When liberalisation measures were undertaken, agriculture therefore did not attract additional investment. As a result, in a majority of TDP project countries agricultural growth has been weak – a reason for these countries being relatively less successful in addressing rural poverty.

There is a growing recognition that along with diversification and a shift of production structures away from primary to manufacturing activities, a vibrant agricultural sector is required to exert an effective impact on poverty, especially when agriculture continues to be the principal source of employment in most TDP project countries. Generation of agricultural vibrancy involves looking for alternative primary products for export, processing of traditional items, and improvement of productivity.

Liberalisation and Economic Growth

TDP country experiences suggest that there is hardly any systematic relationship between the level of tariff protection and economic growth. Bangladesh, India, and Vietnam have achieved high growth, maintaining relatively closed economies. On the other hand, despite rapid liberalisation and much greater openness, SSA countries have failed to achieve high growth rates in a consistent manner. This points to the need for favourable pre-conditions and approaches to reforms that facilitate benefits from trade liberalisation.

Supply-side Capacity and Trade Barriers

Inadequate supply-side capacity has been recognised as one of the most serious obstacles facing most TDP project countries. Although many low income countries have been granted preferential market access in major industrialised countries, the coverage of preferences often excludes products of export interest to beneficiaries. Accessing preferences is also subject to the fulfillment of stringent rules of origin

(RoO), and health and safety requirements, which many less developed countries find difficult to comply with.

Furthermore, temporary movement of relatively low skilled workers – a major area of comparative advantage for many low income developing countries – remains highly restricted. Several TDP background papers highlight these issues as major factors obstructing the development of supply-side capacity.

Policy Space and Making Use of It

TDP case studies have demonstrated the use of effective policy support in a number of cases. However, implementation of reform measures implies the reduction of policy space over time. Multilateral trade negotiations along with pressures from donors for further opening up and streamlining of public sectors imply a reduction in policy manoeuvrability. While this can be some cause for concern, it needs to be kept in mind that without judicious decisions the use of policy space can be wasted with unfavourable consequences. Thus, while reduced policy space is a challenge that many poor developing countries are faced with, its proper utilisation is even more challenging.

Need for Pro-active Policy Initiatives

TDP project studies vividly portray the widely varying growth and poverty reduction experiences across countries. Indeed, country cases are so heterogeneous that experiences are difficult to generalise. One lesson that arises out of these remarkable differences is that while growth helps alleviate poverty, pro-active policy initiatives are also essential. This would include support for certain sectors and/or population groups that are either vulnerable to shocks or hold growth potential, as trade reforms and poverty reduction strategies often undermine the importance of distribution of benefits from liberalisation and growth.

Taking Advantage of Liberalised Trade Regime

Liberalisation has certainly generated a lot of benefits. In most TDP project countries, benefits arising from deregulation and opening up of the telecommunication sector have been enormous. Whether to liberalise or not is not the crucial question. Rather, how the policy of liberalisation can be used in combination with other options is the fundamental challenge.

Development of Infrastructure to Promote International Trade

Lack of good infrastructure and particularly trade infrastructure is important. Trade liberalisation alone may not provide much incentive for trade/economic growth if trade infrastructure remains weak. This includes both physical infrastructure (such as improved roads and port facilities) as well as institutional settings (such as ports and customs procedures, quality of duty draw back systems, etc). For landlocked countries like Uganda, Zambia and Nepal, this is an even more serious problem, as these countries have to use ports and road transportation facilities in the neighbouring countries.

The cost disadvantages suffered due to poor infrastructure can very well erode the existing comparative advantage of suppliers. On the other hand, poor institutions can also hamper international trading activities through cumbersome bureaucratic procedures. Poor infrastructure is also often a major reason for weak supply response to liberalisation.

Monitoring and Facilitating Adjustment Processes

Well conceived identification and implementation of policies to complement liberalisation and ease the process of adjustment for the poor should be considered an important component of anti-poverty trade policy regimes. Trade liberalisation indices do not reflect the distributional consequences of welfare gains, potentially concealing negative ones for the most vulnerable socio-economic groups within a country. Effective safety net measures that offset the heaviest adjustment costs of liberalisation for poorer groups and provide some protection against increased post-reform vulnerabilities should comprise an important component of poverty reduction strategies.

Therefore, while the Kenyan sugar sector may be relatively inefficient, the withdrawal of support for the sector without due consideration for the adjustment process can have disastrous poverty consequences. This is also true of the Zambian experience where the privatisation process led to better operational efficiency at the cost of soaring unemployment in the formal sector.

Governance

Another significant factor is the weak state of governance in developing countries which is reflected in the poor business climate, especially the impediments posed by widespread corruption. Weak governance raises the cost of production and trading, makes business less profitable, and discourages investment. Nearly all TDP country background papers highlight the problems arising from poor management, functional inefficiencies, weak implementation of reforms and development projects. This problem is particularly severe in SSA.

5
Sectoral Case Studies on Trade-Development-Poverty Linkages

The foregoing discussion considered TDP linkages from a macro perspective. Under the TDP project, attempts were also made to explore the same linkages at the sectoral level. For each country, two sectors were chosen where linkages are thought to be prominent. These were expected to provide new insights. It is important to note that trade policy can primarily be considered as interventions geared towards various sectors, and thus its impacts are essentially realised on a sectoral basis.

Policy reforms and/or trade liberalisation aim to improve inter-sectoral resource allocation, and thereby overall economic efficiency, competitiveness and growth. This, in the process, however, affects different sectors differently, depending on their structure, characteristics, mode of operation, level of efficiency and market orientation. Therefore, the issue of distribution of gains is important in assessing overall economic consequences of policy reforms.

Note that free trade regimes enable specialisation and consequent export of commodities intensive in factors that are relatively abundant in a country. That is, in a labour abundant developing country free trade will tend to contribute to the expansion of relatively labour intensive export production. On the other hand, moving from a protectionist regime to a regime based on liberal policies is likely to affect the domestic import substituting sectors.

Given the characteristics of sectors, some might be able to accommodate reform measures, while others might find it difficult to continue operation. When the latter sectors are directly linked to more vulnerable segments of the population, the poverty implications of a change in the trade regime can be far reaching.

There are, however, other indirect effects of policy reforms. For example, liberalisation may result in cheaper products, which can have positive effects on people's well-being. In fact, it is quite an involved task to assess the overall net impact of trade policy reforms, particularly when one wants to incorporate the resultant dynamic effects, such as the development of new sectors and exports, investment opportunities, effects on productivity, etc.

Nevertheless, sectoral analyses of TDP linkages are important to understand micro adjustment processes and their immediate effects on poverty and welfare. Irrespective of the net benefits accruing in the medium to longer run, there is a consensus that most vulnerable groups need to be supported to help them tide over transitional phases. Sectoral analysis is, therefore, also useful for assessing the usefulness of safety net measures that buttress the poverty reduction efforts of governments and ensure that trade policy reforms do not suddenly disrupt the attainment of various developmental goals.

While the sectoral case studies undertaken by the CUTS TDP project do not aim to cover all aspects of adjustment processes and related trade-development linkages, they provide a description of overall sectoral performance during the post-liberalisation period. The following section introduces the sectors studied in different countries.

Broad Characteristics of the Sectors Selected

As mentioned above, the impacts of trade at the sectoral level depend on the characteristics of the sectors and their linkages with the rest of the economy. The relevant classification of sectors here is twofold: export-oriented and import sub-stituting. Impacts arising from trade policy reforms for an import-substituting industry can be very different from those for an export oriented industry. Consequences may also vary across broad categories – manufacturing, agriculture and services.

Table 5: Broad Characteristics of the Sectors Selected

Sectors	Manufacturing	Primary Commodity	Agro-processing	Services	Labour Intensive	Capital Intensive	Export-oriented	Import-substituting
Apparel (Bangladesh, Cambodia, Nepal, Sri Lanka, Vietnam)	✓				✓		✓	
Textile (Sri Lanka, Tanzania, Zambia, Kenya, South Africa)	✓					✓		✓
Carpet (India)	✓				✓		✓	
Home Appliances (China)	✓				✓		✓	
Cutlery (Pakistan)	✓				✓		✓	
Footwear (Vietnam)	✓				✓		✓	
Fisheries (Cambodia, Vietnam, Tanzania)		✓			✓		✓	
Oil Seeds (India)		✓			✓			✓
Dairy (Uganda)		✓			✓			✓
Maize (Uganda)		✓			✓		✓	
Tea (Nepal)			✓		✓		✓	
Tourism (South Africa)				✓	✓			✓
Telecomm (Bangladesh, Pakistan, Kenya)				✓		✓		✓

In the CUTS TDP project, each sector out of a list comprising apparels, textile, fisheries and telecom is a subject for case studies in more than one country. For instance, case studies of the apparel sector have been conducted in five countries viz. Bangladesh, Cambodia, Nepal, Sri Lanka and Vietnam. In an identical number of countries (Sri Lanka, Tanzania, Kenya, South Africa and Zambia) case studies of the textile sector have been conducted. Case studies of fisheries and telecom have also been conducted in three countries (viz. Cambodia, Vietnam and Tanzania).

On the whole, therefore, 26 country-specific case studies have been carried out for 13 sectors of which eight are export-oriented and the rest can be considered as import substituting. Out of the 13 sectors, six relate to manufacturing, four to primary commodities, two to services and one to agro-processing. Apart from two, all other sectors can be regarded as labour intensive. Sector specific details are provided in Table 5.

Linkages in Export-oriented Sectors

In the absence of static comparative advantage, expansion of any export oriented sector depends on two major factors: export promoting domestic support measures such as subsidies, access to duty free (or reduced duty) imported inputs; and favourable external environment for exports including duty free and quota free (DFQF) market access and other favourable tariff and non-tariff preferences.

The managed trade regime for apparels – known as the Multi-fibre Arrangement (MFA), which expired at the end of 2004 – provided many low income countries with opportunities for increased apparel exports by constraining traditional developing country exporters with large supply capacity. Consequently, production and supply chains shifted to such low income countries endowed with cheap labour force, given the highly labour intensive production process in the apparel industry.

Expansion of labour intensive export-oriented sectors in developing countries leads to increased demand for unskilled labour resulting in an increase in their wages in real terms as well as relative to skilled labour. Since poorer households are the major source of unskilled labour in economies, such increase in demand boost their incomes. Therefore, expansion of labour intensive export oriented sectors have direct employment generating and poverty reducing effects. These direct effects are also supplemented by similar indirect ones stimulated by various backward and forward linkages associated with newly developed export oriented sectors.

The apparel industry is an important sector in Bangladesh, Cambodia, Nepal, Sri Lanka and Vietnam. In 2006, apparel exports were nearly US$8bn for Bangladesh and US$6bn for Vietnam. In Bangladesh and Cambodia, the share of apparels in total export receipts is in excess of 75 percent, suggesting very concentrated export baskets. On the other hand, this share is rather low in Nepal and Vietnam with the latter having a well diversified export basket.

Apart from MFA quotas, Bangladesh, Cambodia and Nepal have also benefited from duty free market access offered by the European Union (EU) under its Generalised System of Preferences (GSP) regime for LDCs.

The apparel sectors in the case studies are highly labour intensive with important implications for poverty alleviation efforts. Large employment of relatively unskilled women workers has characterised export-oriented apparel making activities. In Bangladesh, for instance, the sector currently employs about 2.5 million workers or close to one-fourth of the country's total industrial work force of which approximately 80 percent are women.

However, there is emerging evidence that the end of MFA quotas has led to a decline in apparel exports from Nepal, increasing unemployment among women and pushing their households back into poverty. Therefore, the previously supportive international trading environment is now contributing to workers employed in this sector undergoing painful adjustment. However, countries such as Bangladesh, Sri Lanka, and Cambodia have managed to maintain their export performance thus far.

The country case studies reveal that the apparel sectors in Bangladesh, Cambodia and Nepal are faced with both demand and supply side problems. The demand-side problems include market access problems in developed countries, stringent RoO in markets where preferences are provided (i.e. the EU), and various labour, environment and standards related compliance issues linked to entry into export markets. Weak physical infrastructure, low skill and labour productivity, long delivery time for orders, lack of sufficient backward linkages etc. are major supply-side problems. Trade-poverty linkages involving the apparel sector in studied countries will greatly depend on their addressing supply side problems and receiving favourable treatment on demand-side issues.

The carpet industry in India directly employs 2.5 million artisans, with rural women constituting an important component of this workforce. The sector also provides indirect employment opportunities to several thousands of people who work in raw material and other sectors connected with carpet industry. Carpet making is a sector where India has a long tradition.

Until the early1970s, India was one of the major players in the world export market for carpets. Since then it has faced stiff competition from China, Iran and Pakistan. The sector is almost 100 percent export-oriented and highly labour intensive. The expansion of the carpet industry in India in recent years has been facilitated by several governmental support programmes, such as the establishment of the Carpet Export Promotion Council. The industry, however, faces several challenges such as involvement of child labour, change in consumer preferences abroad favouring cheap synthetic carpets, and lack of effective functioning of the Carpet Export Promotion Council.

China's home appliance industry depicts a situation in which the expansion of the industry has generated significant employment opportunities for rural surplus labour. In recent years, the industry has expanded rapidly to become the leading exporter of home appliances in the world. The reasons behind its rapid growth are large potential market demand, abundance of cheap and experienced labour and a comprehensive supply system for spare parts. China's exports of home appliances have risen substantially over the last decade. In addition to employment generation, the rapid growth of the home appliance industry has also contributed to increased tax revenues for local governments, thus expanding their capacity to provide public goods for poorer households.

The cutlery industry in Pakistan demonstrates a case where lack of trade liberalisation in the sectors supplying raw materials to this industry has been instrumental in generating unsatisfactory outcomes. The sector is purely comprised of SMEs. Around 8,000-10,000 people are directly employed in this sector and a large number through backward and forward linkages. It is among the top 25 cutlery exporting countries in the world with major export markets in US and the EU.

The case study conducted through the CUTS TDP project indicates that exports of cutlery witnessed an annual average growth rate of 11 percent in the period, 1998-2002. The value of cutlery exports increased from US$18.3mn in 1998 to US$30.8mn in 2004.

However, the case study also suggests that the sector did not benefit much from trade liberalisation. The reduction in custom duties on raw materials and machineries used in this industry was not enough to mitigate secular price increase. Thus, cost of investment in this sector increased. Also, there has not been any significant technological advancement in this sector. Therefore, high cost and poor quality of raw material as well as lack of technological progress are among the main reasons behind this sector's inability to realise full potential. This is very much in contrast to the experiences of 'apparels' and other export-oriented sectors in other developing countries.

Since 2005, footwear has been one of the top seven exporting sectors in Vietnam. In 2006, the country exported US$3.59bn worth of footwear. The growth of this industry has also been associated with large employment opportunities for unskilled labour, especially women. In 2003, total employment in this sector was 0.45 million, which increased to 0.58 million in 2005.

It has been claimed that the recent high growth rate of this sector has contributed significantly to poverty reduction. This growth, however, has been facilitated by GSP facilities in EU. Phasing out of the GSP facility as well as the threat of imposition of anti-dumping duty on footwear exports from Vietnam to EU have serious negative implications for the welfare of people employed in this sector.

The case studies on the fisheries sectors in Vietnam, Tanzania and Cambodia suggest that in general sectoral expansion has been associated with reduction of rural poverty and increase in employment opportunities. Vietnam has been very successful, in recent years, in increasing exports of fisheries. This sector contributes to four percent of the country's GDP. The case study included in this volume indicates that fishery export in 2005 was over US$2.65bn and is expected to reach US$4.5-5bn by 2010. In 2005, around 4 million people were directly employed in this industry.

The case study on fishers in Tanzania suggests that the fisheries sector contributes to about 10 percent of the country's GDP. In 2004, the export earnings from this sector were close to US$100mn and constituted around 14 percent of total export earnings. Around 1.5 million rural people are engaged in this sector. However, in the case of Cambodia, though fisheries exports have increased significantly, there is a serious concern with respect to the distribution of resulting gains. It has been pointed out in country case studies of fisheries that unequal distribution of gains from liberalisation has prevent significant improvements in the livelihoods of people working in this industry.

In Nepal, the expansion of the export oriented tea sector has been facilitated by trade liberalisation policies adopted in the early 1990s, bringing an end to the state monopoly in tea production. This has resulted in the establishment of numerous tea estates by industrialists and businessmen. A large number of small farmers have been engaging in tea cultivation, the returns being much higher than those from traditional crops. The Nepalese tea sector directly employs more than 1 million people and also generates significant indirect employment in supporting industries. In 2002-03, tea exports from Nepal were US$ 761,000, which increased to US$1,670,000 by 2006-07[3].

Tourism in South Africa is a fast growing industry and currently accounts for more than seven percent of GDP. The sector absorbs around three percent of the country's labour force. The case study highlights that by 2010 the sector is projected to employ about 1.2 million people either directly or indirectly.

Linkages in Import-substituting Sectors

Traditionally, expansion of import-substituting industries in economies under consideration has been facilitated by the imposition of import tariffs and different forms of non-tariff protective measures. One of the principal arguments advanced for such protection is the need to support the growth and development of domestic infant industries through protection from foreign competition in the home market. In most countries, however, import-substituting industrialisation in general has been associated with inefficiencies due largely to limited or no competitive pressures.

Support given to import-substituting sectors resulted in huge fiscal burdens for governments, and therefore could not be sustained over a long period of time. Given this backdrop, many TDP project countries were compelled to undertake structural adjustment policies that translated into reduced protection and/or support for many traditional sectors. The liberalisation measures undertaken contributed to falling domestic production in many sectors along with rising imports. The consequent employment losses therefore have had adverse poverty and welfare implications. On the other hand, liberalisation was potentially beneficial to consumers as they could access goods at lower prices.

Case studies of import-substituting textile and clothing (T&C) industries in Sri Lanka, Tanzania, Zambia, South Africa and Kenya depict almost identical stories. In all these countries, T&C sectors had previously enjoyed significant protection which helped the sector grow and generate large employment opportunities for the relatively skilled labour force without attaining the efficiency level of their global competitors. Consequently, trade liberalisation together with reduced government support and subsidies caused a sudden fall in textile output and employment. This led to a significant and sustained decline in household incomes, severely constraining ability of households to maintain expenditure on healthcare, education and food.

Like the textile sector, the import substitution strategy with respect to the edible oil sector in India, until 1994-95, delivered significant benefits in terms of achieving almost self-sufficiency in the production of oilseeds. This strategy also encouraged the production of new crops such as soybean, sunflower etc. even in rain fed areas where poor farmers typically faced limited growth opportunities. India also started exporting edible oils and became a major exporter by the early 1990s. However, the liberalised regime, together with faster economic growth, resulted in acceleration of demand for edible oils and its satisfaction to a large extent through cheap imports. Continued inefficiencies in marketing and processing of oilseeds and other supply-side problems deprived both the farmers and manufacturers of gains offered by trade liberalisation.

The case studies of the dairy and maize sectors in Uganda suggest that liberalisation has contributed to the deepening of rural poverty. The welfare and real incomes of most rural farming households fell after liberalisation. Although liberalisation led to new opportunities, the incompetence of the private sector resulted in the expansion of trade at the informal level only, and limited the expansion of formal marketing of agricultural output. Market efficiency fell and increasing portions of agricultural output remained unsold.

The liberalised market regime has failed to effectively link producers to both local and export markets. Liberalisation has also not been accompanied by requisite regulatory and promotional capabilities of related institutions. The cases of dairy and maize sectors in Uganda further drive home the fact that liberalisation alone is not sufficient to bring about efficiency and promote supply response. Important and critical institutional reforms are needed to reap the benefits of liberalisation.

The liberalisation and deregulation of the telecommunication sectors of Bangladesh, Pakistan and Kenya has resulted in the development of the cellular phone industry, triggering the growth of mobile phone users at an exponential rate. Expanded telecommunication facilities have provided direct and indirect employment opportunities. Improved access to information has in all likelihood increased overall market efficiency by reducing uncertainty. The sector has also attracted large inflows of foreign direct investment (FDI).

The emergence of new players in the telecom sector has had a positive impact on business transactions as well as the daily lives of common people. Increased competition among service providers has benefited consumers as they now have a wide array of telecom service choices. However, in all these three countries there are concerns regarding the effective functioning of the regulatory authority in ensuring a competitive environment and maintaining quality services at affordable prices. Despite strong perceptions of positive effects on poverty alleviation, the actual impact of the improved telecommunication system has not yet been estimated.

6
Conclusion

Trade policy has been a fundamental component of development strategies for all developing countries trying to combine higher economic growth with employment generation to alleviate poverty. Earlier attempts by most countries focused on an inward looking development paradigm that sought protected development of domestic industries. Failure of these attempts resulted in a policy reversal that saw the implementation of massive deregulation and liberalisation measures. The success record of this liberal policy regime is very modest with an overwhelming majority of poor developing countries still looking for a development paradigm that can address their concerns.

The difficulty in postulating a general relationship between trade liberalisation and economic prosperity implies that studying individual country cases is essential for gaining better understanding as well as informing policy discourse. Given this need, the CUTS TDP project has aimed to make some modest but significant contributions to the state of knowledge by bringing together experiences from 13 countries drawn from Asia and SSA.

Perhaps, the most significant feature of these country experiences is that the same set of policies produces dramatically different results in different countries. The differing outcomes could be due to variations in physical and geographical characteristics, the nature of implementation of policy measures, the capacity and quality of institutions under which reforms are implemented, and political and social environments.

The complex interactions of policy reforms and existing structural country attributes determine overall outcomes. Therefore, prediction of these outcomes is beyond the scope of simplified theoretical constructs. The devil in this case lies in the detail which has to be explored – sectors differ in their nature and exhibit vastly different linkages involving trade, development and poverty. The aggregate effect of liberalisation at the level of the economy is a net outcome of these differing linkages.

It then follows that the same set of policies cannot deal with problems bred under diverse situations unless there are well-designed complementary sets of policies that adequately address heterogeneities across countries. Indeed, the country cases clearly exhibit that 'the same size fits all' philosophy has failed to deliver envisaged results. There is now a general recognition that liberalisation alone cannot render benefits unless other critical issues are attended to. In other words, while liberalisation might be needed for economic development, it is not a sufficient condition.

The CUTS TDP country studies strongly make a case for learning from the experiences of others: the manner in which reforms were carried out, complementary policies undertaken and above all the initial characteristics that provided the background for implementation. As significant dissimilarities emerge with regard to each of these, the case studies also caution against policy prescriptions that recommend blind attempts for replicating success stories.

However some general lessons emerge: first, development of domestic productive capacity should be a priority so that economic activity can be expanded and exports promoted; second, policy making should be an inclusive process that is the product of a solid and committed home grown initiative.

Effective functioning by the state as a facilitator so that relatively backward segments of the population benefit from trade and growth or the implementation of a suitable safety net mechanism for vulnerable groups often requires considerable policy space. This might not be provided for in reform measures largely concerned with long run gains and in denial of destabilising short run shocks.

Finally, a development friendly international trade regime is also equally important for promoting trade-development-poverty linkages in poor countries. Undiversified production and export structures of these countries imply that tariff or non-tariff barriers, either on trade related or other grounds, on a few crucial exportables can have a crippling effect.

With the exception of a few countries, the export response from most low-income developing countries has been very weak. Trade barriers against them will only aggravate their already limited capacities for export. National development strategies with a focus on poverty reduction will work best if the international trade regime is enabling and increased and effective international financial and technical assistance is provided to poor countries to help develop their production and trade capacities.

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Endnotes

1 The Bangladesh country paper however argues that the superior growth performance of the country in the 1990s cannot be statistically correlated with any of the available liberalisation indicators

2 This is what is reflected in the R2 value of the estimated regression equation

3 http://www.tepc.gov.np/tradestatistics

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