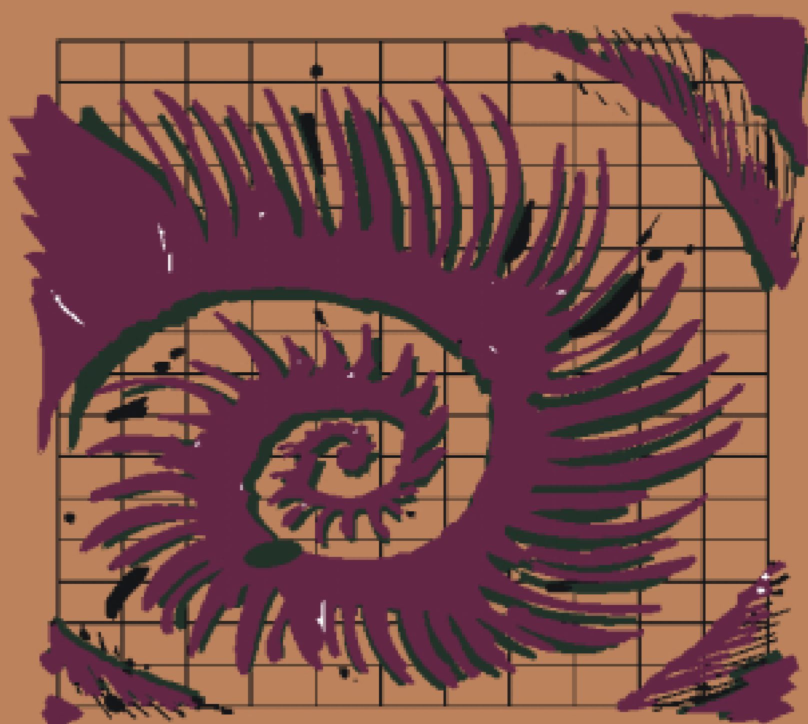
Strengthening the Linkages between Trade, Development and Poverty Reduction



CUTS Centre for International Trade, Economics & Environment
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#0713

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CUTS Centre for International Trade, Economics & Environment
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Preface

The linkages between trade, growth and poverty have begun to receive increased attention in recent years. Since trade policy affects poverty through its effects on economic growth and equitable income distribution, a pro-poor growth policy has greater impact on reducing poverty, rather than growth *per se*. And, given the present trade and investment regime, an open and simple trade policy can foster some external discipline, reduce domestic market distortions and narrow the scope for misguided or unbalanced policies.

The issue of linkages between trade, development and poverty reduction can be analysed from various dimensions, such as the impact of protectionist policies on the poor. If trade policy benefits those relatively well-off by protecting import-competing sectors controlled by capital owners, then trade liberalisation is likely to redistribute income to the poor. This notion is however based on certain assumptions, which have less relevance in today's trade and investment regime. The changing policy dimensions and concomitant role for policy coherence need to be analysed.

CUTS International is implementing a project on issues of linkages between trade, development and poverty reduction over a period of four years (January 2005 to December 2008). It manifests the policy relevance of international trade on poverty reduction and helps in articulating policy coherence (in particular between the international trading system and national development strategies).

The project is also looking into the aspects of coherence that different stakeholders and institutions need to accomplish in order to establish a positive linkage between trade and development, especially from the perspective of poverty reduction. An overarching aim of the project is to bridge the link between Southern and Northern civil society and policymakers.

Abbreviations & Acronyms

AGOA	African Growth and Opportunity Act
COMESA	Common Market for Eastern and Southern Africa
CMT	Cut, Make and Trims
CSO	Civil Society Organisation
CUTS CITEE	Consumer Unity and Trust Society Centre for International Trade, Economics and Environment
EBA	Everything But Arms
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ILO	International Labour Organisation
LDC	Least Developed Country
MDGs	Millennium Development Goals
MFA	Multi-Fibre Agreement
R&D	Research and Development
RMG	Ready-Made Garment
SADC	Southern African Development Community
SME	Small and Medium-sized Enterprise
TDP	Linkages between Trade, Development and Poverty Reduction
SAWTEE	South Asia Watch on Trade, Economics and Environment
UN	United Nations
UNIDO	United Nations Industrial Development Organisation
WTO	World Trade Organisation

Introduction

The linkages between trade, growth and poverty have begun to receive increased attention in recent years. However, the debate on linkages between trade, development and poverty reduction is not new. In fact, trade economists have long viewed international trade as a measure for enhancing economic growth. Since trade policy affects poverty through its effects on economic growth and equitable income distribution, a pro-poor growth policy has greater impact on reducing poverty than growth *per se*. Given the present trade and investment regime, an open and simple trade policy can foster some external discipline, reduce domestic market distortions and narrow the scope for misguided or unbalanced policies.

The issue of linkages between trade, development and poverty reduction can be analysed from various dimensions, such as the impact of protectionist policies on the poor. If trade policy benefits those who are relatively well-off by protecting import-competing sectors controlled by capital owners, then trade liberalisation is likely to redistribute income to the poor. This notion is however based on certain assumptions, which have less relevance in today's trade and investment regime. The changing policy dimensions and concomitant role for policy coherence need to be analysed.

International trade has a major role to play in attaining the Millennium Development Goals (MDGs), especially in halving absolute poverty by 2015 (MDG 1). Pursuant to its mandate on building consensus on issues affecting the livelihoods of the poor, CUTS Centre for International Trade, Economics & Environment (CUTS CITEE) is implementing the project 'Linkages Between Trade, Development and Poverty Reduction'. This four-year project, spanning from January 2005 to December 2008, is being implemented in 15 countries across South and South East Asia, Eastern and Southern Africa and Europe. Out of 15 countries, 13 are developing countries (Bangladesh, China, Cambodia, India, Kenya, Nepal, Pakistan, Sri Lanka, South Africa, Tanzania, Uganda, Vietnam and Zambia) and two are developed countries (UK and Netherlands).

The project aims to manifest the policy relevance of international trade on poverty reduction and thus help in articulating policy coherence between the international trading system and national development strategies to reduce poverty levels.

To comprehend the linkages between trade and poverty reduction, different sectors were studied in the developing countries. These sectors were important to the respective country's economy from the angle of export earnings and employment generation. (See Annex 1 for the list of sectors by country.) Using these findings, this document is directed towards policy-makers, CSOs and other stakeholders. It contains the following seven key messages garnered from the case studies and the research work previously prepared through the project:

1. Strengthen Labour Intensive Sectors;
2. Ensure the Benefits of Growth Work Against Inequalities;
3. Strengthen Domestic Policies;
4. Demand for Government Policies Promoting Human Development through Trade;
5. Consider the Importance of Economic Integration and Spillovers for the Poor;
6. Work with a Realistic Market Analysis; and
7. Establish Strong Partnerships between Relevant Stakeholders.

It is strongly hoped that these key messages will be utilised for further research and enhanced dialogue. Ultimately, this document aims to influence a policy shift amongst trade ministries to incorporate a more development-oriented foreign trade policy.

Advocacy Messages

1
Strengthen Labour Intensive Sectors

In most developing countries where labour is abundant, labour-intensive sectors have a social function of absorbing labour into the country's economy. Therefore, labour-intensive industries play an important role in the reduction of poverty. However, negative shocks in those industries can lead to dramatic social and economic consequences. On one hand, because it is labour-intensive instead of technology-intensive, the growth of an industry such as the Chinese home appliance industry or the Indian carpet industry has significantly increased employment for labour surplus from rural areas and less experienced workers in the cities who are among the poorest (see Box 1). On the other hand, in an

Box 1: Indian Carpet Industry Provides Employment

The labour-intensive hand-made carpet industry in India is one of the few examples of a sector successful at both addressing rural unemployment problems and earning foreign exchange for a value of about US$600mn per year. From a poverty reduction perspective, this 100 percent export-oriented industry optimises India's advantage of a vast labour force, providing employment to two million artisans and their families.

economic context where scarcity of alternative economic opportunities heightens the vulnerability of the poor, employment loss resulting, for example, from further liberalisation efforts is the most common reason for the fall into poverty (see Box 2). Diversification of livelihood strategies can be very limited for communities under economic stress and under-resourced. As has been the case in the textile and garment industry in countries like Kenya and Nepal, liberalisation can incite a new arrival of imported goods competing with local production and lowering the demand for local goods, which can lead to increased unemployment in that sector. The effects of employment loss can reach much beyond the individual and create a snowball effect when whole community has to take in the impact of unemployment by supporting the impoverished families. Therefore, there is a need to investigate the changes in employment resulting from international trade and to strengthen labour-intensive sectors in developing countries where poverty and unemployment are widespread. Governments have to pay more attention to the importance for poverty reduction of those particular sectors in order to better balance liberalisation and growth with development benefits.

Box 2: Nepali Garment Workers Face Unemployment

As a result of the Agreement on Textiles and Clothing (T&C) phasing out in 2005, the loss of employment in the garment industry in Nepal has been enormous. In a survey conducted by SAWTEE, 80 percent of total employees surveyed have lost their employment because of garment factory closure in the last two years.

Economic theory predicts that the rise in exports of labour-intensive goods facilitated by liberalisation will increase the price of those goods and thus the demand for relatively low-skilled workers. The resulting increase in their real wage is accordingly expected to have a positive impact on poverty. However, in countries with a labour surplus and employment opportunities insufficient, labour markets cannot fulfil their usual functions. In most developing countries, the assumption of inelastic supply of unskilled labour does not reflect the reality, which means that any amount of labour can be obtained at the prevailing low wage, for example, by drawing workers from the informal sector and subsistence agriculture. Employment levels might therefore rise while real wage might not. Furthermore, low-skilled labour, and thus the poorest, might not be the factor most needed for the increased production of labour-intensive goods, which might require some level of education. In this case, the poorest might consequently be left behind whereas workers with more education may see their wages increase.

Besides, to respond to increased competition and confront the trade-off between labour and capital, many industries have adopted capitalisation strategies in order to enhance productivity. When the labour supply is inelastic and exports are increasing, the switch to less labour-intensive production can be a consequence of the increase in the relative price of labour to capital and so of the increased wages. Yet, technical progress might also be biased against labour. Traditional practices, which are more labour-intensive, have often been replaced by modern technology dependent approaches. In fact, improved technologies in farming and textile industries have reduced employment significantly.

Another important condition for efficient labour markets is labour mobility between sectors. When import competing sectors contract as a result of trade liberalisation, for instance, the released labour may not be automatically integrated into the expanding sectors because of the possible gaps in skills and experiences required. This structural mismatch does not allow the labour mobility needed to compensate for the adverse impact of liberalisation. Moreover, the emergence of alternative employment with higher social rewards might endanger the sectors important from a poverty reduction perspective by provoking a skilled labour scarcity (see Box 3).

Box 3: Scarcity of Skilled Labour in Sri Lanka's Garment Industry

Even though the Sri Lankan economy faces high unemployment among young school leavers, the major constraint of the garment industry is the scarcity of skilled labour. SMEs are particularly vulnerable to this since training programmes represent an additional cost in a highly competitive environment. The garment export industry in Sri Lanka has become unattractive as alternative income opportunities with relatively high social status are emerging elsewhere. This development brings the whole industry into a fragile situation where the country may already have lost the ultimate advantage of labour costs.

These sorts of rigidities in the labour market can hinder poor workers to take advantage of new opportunities. Training programmes through government assistance, for instance, can help mitigate the differing necessary skills especially in the case of laid-off workers who might easily slide into poverty. Interestingly, certain experienced laid-off workers can offer their know-how to the next generation if given a new opportunity. Thanks to the Chinese Government's favourable tax policies for companies absorbing laid-off workers, the Chinese home appliance industry has been keen to employ those laid-off workers as technical experts who provide training to others while receiving themselves further training to better integrate into their new companies. In addition, unskilled labour from rural areas can obtain training more easily.

In order to increase competitiveness, the private sector has frequently made employment in labour-intensive industries more flexible through part-time, casual and temporary contracts. This strategy is often considered by companies to be a condition for facing global exposure. The new instability of wages, worsening of working conditions and lowering of social security mostly hit the poorest segment of the population who, as already mentioned, are not equipped with the necessary dynamic skills to adjust to new opportunities.

However, sometimes flexible labour has had a positive impact on poverty, as in certain cases it can offer a complementary source of income like the carpet industry does in India (see Box 4). In Zambia, the establishment of small-scale processing businesses carried out at home and requiring only low investment has successfully contributed to the increase of income and access to food for the poor. Another encouraging example is the tea industry in Nepal. Although tea only represents 0.2 percent of Nepali exports, its expansive role provides farmers with an alternative to traditional, low-yield, subsistence farming.

Box 4: Carpet Weaving in Spare Time

Although mechanised mass production has increased, the Indian carpet industry remains traditionally a family art, practised alongside agriculture as the primary occupation. Weaving carpet has minimal requirements and can be performed in spare time and private homes, thus offering an affordable and additional source of income to rural workers. The Carpet Export Promotion Council of India (CEPC) has launched an action to double exports within five years. This will lead to a huge value addition for India and high employment generation, especially in the rural areas.

Yet in general, for the private sector to protect employment from increased precariousness of work, the state needs to offer some support to boost competitiveness while supporting labour-intensive production. Through strong policies, the public sector can help improve access to marketing and distribution networks, increase technological capacity, and invest in trade facilitation to reduce transaction costs and trade-related infrastructure to reduce transport and energy costs (see Box 5).

Another threat for the protection of labour is the expansion of trade at the informal level where labour and social rights, as well as working conditions, are not protected by any regulation and which lead to increased hardship. In many countries, liberalisation fosters an expanding informal sector mostly accompanied by a decrease in the formal sector. In some industries, like the

Box 5: Supply Side Constraints in Nepali Garment Industry

Relatively cheap labour cost is the only distinct advantage Nepal has, but low labour productivity remains an obstacle to competitiveness. Yet, compared to imported material costs (60 percent), labour costs represent a relatively small portion of total costs (29 percent). To compete in the post Multi-Fibre Agreement (MFA) world, Nepali manufacturers cannot rely on cheap labour cost, which has little significance to reduce output cost. Supply side constraints have to be addressed and that is where the state can positively intervene. One reason for higher costs of Nepalese exports is the use of outdated and non-competitive technology. Hence, improved infrastructure, lower transport costs, and capacity building are also needed to increase production efficiency.

clothing industry in South Africa, many companies have opted for more flexible production, meaning the externalisation of the labour component. Factories are replaced by networks of informal producers connected with the formal economy through subcontracting. In the milk and maize sectors in Uganda, the market share of informal traders has increased from 20 percent in 1995 to 80 percent in 2004. Informal traders have taken advantage of a transition to open markets without any regulations. A regulatory framework and enabling policy environment would have been necessary for the formal trading sector to better seize the opportunities of more open markets and for the informal businesses to formalise their activities. This tendency to informal trade has harsh consequences not only for labour sustainability but also for consumers who are often denied the product quality available prior to liberalisation (Box 6).

Box 6: Informal Milk Trade in Uganda

The informal sector controls about 80 percent of all milk produced in Uganda. This has caused distortions in pricing and quality deterioration. Informal traders can offer a higher price to milk producers while later selling the milk cheaper, since they increase their profits by adulterating the milk and increase the milk volume being sold. Consequently, milk marketing has become difficult to coordinate and regulate, investment is discouraged, the few processing plants established after liberalisation have been abandoned, and some export markets are lost because of the poor milk quality.

Beyond the promotion of sectors with large shares of national exports and technology-intensive sectors, it is essential for long-term economic development to take into consideration the sectors that support the livelihoods of a great number of poor people. For example, the ready-made-garment (RMG) sector has demonstrated in diverse countries its significance for poverty reduction strategies since, while it offers a relatively low domestic value added, its large labour force is made up of a majority of vulnerable people. This is the reason why pro-poor growth strategies in labour abundant countries include labour-intensive modes of production.

Some Further Thoughts

Liberalisation has had quite a different impact on Nepal and Bangladesh, both being Southern Asian least developed countries (LDCs). While Nepal suffered a large decline in employment (see Box 2), Bangladesh did not experience the predicted dramatic decline in trade nor in employment (see Box 7). The importance of domestic policies cannot be overestimated. The fact that Bangladeshi RMG industries have been well established since 1980s as well as the frequent political turmoil in Nepal might offer some explanation. Some research has attempted to bring to light further discrepancies in order to understand the different resulting situations and to prepare for further liberalisation in 2008 when the safeguard measures imposed on China in the RMG sector will be withdrawn.

Box 7: Bangladesh Ready-Made Garment Sector Advantages

Bangladesh's RMG exports grew by taking advantage of MFA quotas that restricted the export supply from other advanced developing countries. The abolition of MFA had been predicted to bring severe consequences for the sector employment and growth. However, the country has managed to maintain its past performance. The growth rate of employment for the period 1980-2004 has been estimated at 24 percent per annum and exports have increased by 14 percent per annum since the beginning of 1990s.

2
Ensure the Benefits of Growth Work Against Inequalities

One of the most vibrant critiques of liberalisation has been to recognise the actual increase in economic inequalities accompanying economic growth in many contexts and countries. Geographic remoteness from centres of trade, unequal power relations within households and lack of access to resources for the poorest are some of the obstacles to a better distribution of benefits from liberalisation. Some industries traditionally practised by the poor in remote areas have been successful in seizing new economic opportunities brought by open markets. But even in these few positive examples, the poor still have to struggle with inequalities regarding access to credit, inputs and markets in order to maintain their newly acquired means out of poverty (see Box 8).

Box 8: Labourers Benefit from the Vietnam Shrimp Industry

Thousands of labourers in the Ben Tre region of Vietnam have seized the opportunity created by liberalisation to escape poverty by breaking from a rice monoculture economy to an export-led shrimp industry and thus reducing rural employment pressure. Trade liberalisation has stimulated increased social investment resulting in raised capital, fully mobilised resources, mass investment in pond cultivation, development of shrimp-related services and export processing, leading to further employment and income generation.

Some risks of sliding back into poverty remain, though, as relatively richer traders enjoy certain advantages by having larger-scale production, easier access to market information and improved technologies.

The gap between the average incomes in different regions within a country has often become wider through uneven liberalisation. Certainly, the nature of some industries confines them to specific places, such as coastal areas for the shrimp industry. A contrasting development concerns sectors for which better marketing and infrastructure support for neglected areas are used to moderate the strong regional and social variations, for example, in terms of tourism penetration in countries experiencing a surge in tourism like South Africa. In general, however, areas remote to markets receive little benefit from further liberalisation. Moreover, whereas prior to the 1990s labour cost flexibility had been achieved through geographical decentralisation to low-wage rural areas, many industries have now turned to casualisation of labour. Flexibility is thus attained through contractual labour, which jeopardises the livelihood security of workers without offering any employment opportunities to rural areas. Even so, labour migration towards the regions of industrial concentration still plays an important role for rural employment since the majority of the poor reside in rural areas. Some governments have launched programmes of decentralisation in order to tackle the inequity of growth distribution by creating incentives for companies to establish their activities in rural and marginalised areas (see Box 9).

Box 9: Downfalls of Sri Lankan Garment Industry Decentralisation

In the 1990s, the Government of Sri Lanka implemented new decentralisation strategies for the garment industry with the primary objectives of reducing regional poverty, countering urban migration and combating economic dualism and imbalances of unemployment levels.

However, these attempts soon encountered harsh critics as the quality of production suffered from the scarcity of trained labour and the new allocation of quotas disrupted the work of existing exporters. Most importantly, the costs associated with poor infrastructure, in particular road networks, power and water provision in rural areas, were not compensated by the government concessions.

Clearly, one of the conditions for trade growth in the rural areas is access to resources, as well as improvement in infrastructure and services. In many industries such as the dairy sector in Uganda, producers have become frustrated as their investment and improvement efforts following liberalisation have not been rewarded by market forces mainly because of the lack of government support for the most important trade-related investment. Surely, these investments do not have to be provided by the state only. Some sectors have mobilised investment from other sources (see Box 10). Yet, the state plays an essential role in improving the poor people's access to resources, for example, by expanding the areas reserved for a sector, protecting their resources and giving ownership to local communities as has been the case in the fisheries sector in Cambodia.

Box 10: Vietnam Shrimp Industry Liberalisation Benefits Villages
Trade liberalisation in the shrimp industry in Vietnam has promoted production and social infrastructure improvements in villages. Investments in transportation, irrigation and power supply were undertaken not only by enterprises but also by cooperatives and individual farmers. Furthermore, linkages between shrimp farmers and processing units, breed centres and other service suppliers have been set up and developed in rural areas.

Beyond inequalities due to geographic location, poverty has commonly had a stronger impact on women and children through unequal power relations in the household. In the past two decades, certain sectors have facilitated a transformation of women's economic and social status through employment opportunities. A large part of workers in the textile industries consists of low-waged, female migrant workers. To have a female member in the garment industry has often been considered to be one of the key factors for rural families to escape poverty. Since the majority of female workers are unskilled and belong to low income regions, employment in the textile industry has significantly improved the living standards of their family. Yet, the risks for these workers to return to poverty have increased through liberalisation. First of all, their wage elasticity is high, which means they are highly vulnerable to price increases and demand shocks. Secondly, increased foreign competition has made the textile sector of many countries more fragile. Thirdly, the negative perception of their employment in a factory can have a strongly harmful impact on their social status. Finally, while foreign direct investment (FDI) tends to be more capital-intensive, reducing the demand for unskilled cheap female labour, upward mobility also suffers from gender discrimination leaving women in more risky, low-level employment. Protecting these women must be a priority.

Frequently, liberalisation has also widened the inequalities between large and small companies especially in terms of their ability to seize new economic opportunities. Given that SMEs represent the biggest share of total employment

Box 11: Opportunities for Women in the Cambodia Garment Industry

Garment industry has widened opportunities for women to participate to the country's economic activities. Women represent as much as 85-90 percent of the labour force in that sector. These women migrate from areas where livelihoods are at risk due to frequent problems in the agricultural production.

in most developing countries, policies that encourage local people's employment and promote SMEs are essential to open up opportunities for the poor and to maximise the positive potential of trade on poverty reduction. Many SMEs tend to be uninformed and unconnected to international markets (see Box 12). Companies that directly export to international markets and have good marketing strategies tend to be more successful. The state has an important role to play to ensure that information about foreign market opportunities, quality standards, and investment in export infrastructure and services reach SMEs. However, most SMEs are unorganised and often do not have the necessary capacity to ask for, or receive, government support efficiently.

Box 12: Sri Lanka SMEs Unable to Benefit from Liberalisation

After liberalisation, SMEs in Sri Lanka were expected to contribute to export led industrialisation by being subcontractors to large exporting firms. However, SMEs were the most negatively affected and benefited little form the expansion of some leading sectors. Most SMEs were not capable of establishing linkages with large-scale firms. Even though private and public institutions existed to promote those linkages, many SMEs were not even aware of the existence of such services. Moreover, a common constraint for SMEs was the scarcity of working capital and as a result they failed to meet the required specifications and delivery schedules.

Moreover, SMEs are mostly ill equipped to face international competition in terms of price competitiveness due to small scale production, and the frequent lack of uniform quality. For the most part, the lack of funds and access to technological progress forces them to keep low productivity. The Cluster Programme of United Nations Industrial Development Organisation (UNIDO) offers an example of projects designed to improve the competitiveness of SMEs by identifying a critical mass of SMEs sharing similar growth constraints and creating partnerships (see Box 13).

Box 13: Improving SME Competitiveness in Pakistan

In Pakistan, SMEs represent 30 percent of Gross Domestic Product (GDP) and 80 percent of total employment. Their productivity and competitiveness can be increased through a Cluster Programme, having a positive impact on poverty reduction. Different measures are planned e.g. the strengthening of business associations, creation of SMEs networks, and joint training programmes.

To avoid the exacerbation of inequalities through liberalisation, the first step must lead to a clear identification of the people being affected and how they can be targeted by new pro-poor policies. The differences in the interests of various groups of poor people might render this task even more arduous.

Some Further Thoughts

As liberalisation has been broadly perceived to be the cause for the deepening of rural poverty and for reducing the welfare and real incomes of most rural farming households, diversification of income is often encouraged for livelihood security, as it reduces risks and adds to coping strategies. Furthermore, diversification of production for export is often recommended to reduce risks threatening the livelihoods of the poor by reducing the dependency of a country on a few commodities. However, beyond the questionable feasibility of such a strategy due to a lack of necessary access to resources, the benefits of diversification against the benefits of specialisation need to be carefully weighed.

3
Strengthen Domestic Policies

Trade liberalisation reforms cannot work as isolated measures. One of the most important steps is to strengthen domestic economic policies, which can support increased trade and pro-poor growth. Efforts towards increased trade have frequently been detached from those towards development progress, whereas both goals are tightly interconnected, and in fact depend on each other. Recently, governments and development agencies seem to give more importance to the potential of trade as a tool for development. On one hand, increased growth and employment opportunities are necessary for lifting people out of poverty. On the other hand, sustainable growth needs human capital, educated and healthy people, as well as a favourable business environment. It is with a holistic perspective of these dependencies that trade needs to be integrated into national development strategies.

Certain effects of liberalisation depend on the former existence of subsidies or other government assistance that were eliminated through economic reforms. In many developing countries, much of former government support to trade, such as centralised sectoral boards was abolished with liberalisation. While some consider government intervention as necessary to moderate poverty, other stakeholders, mostly large producers see competition as the only valid means towards increased welfare. The impact of this withdrawal has indeed proven to be mixed. It is important to identify how the poor were affected to design policies and assistance to address the problems.

Until liberalisation, many developing countries had a national board and specialised government agencies that provided stable prices, subsidised inputs, as well as services such as transport and marketing for all producers (see Box 14). However, this did not guarantee prompt payment or reach all rural areas. Some institutions, such as the Produce Marketing Board for Maize in Uganda, were also responsible for food security as its primary objective was to procure, store and sell food to deficit areas, and direct any surplus to export markets.

Box 14: Uganda Dairy Industry Unstable after Liberalisation

Until liberalisation, the Uganda Dairy Corporation had guaranteed that all milk produced would be sold and was mandated to purchase milk countrywide at fair prices to farmers. Competition after liberalisation increased the price of milk and ensured the milk produced was sold.

For about one year after liberalisation, new investors entered the market and production increased. But the situation was only temporary.

With this higher competition in milk production, regular purchase could not be guaranteed for individual farmer and the volumes purchased were reduced. At the same time, the private buyers had not established any milk marketing centres and milk purchase was sporadic. Prices declined severely and several new entrants rapidly collapsed.

In addition, if liberalisation should have brought new market options to farmers, the disinvestment of the government proved extremely costly to the dairy producers. The responsibility of collecting, bulking and transporting the milk, for example, is now lying with the farmers and had heavy impact on their real income.

Liberalisation and new competition adversely affected those sectors. Even if some new entrants tried to invest in extension provision previously secured by government institutions, free-rider competitors captured the most benefits. Most importantly from a poverty reduction perspective, the market security provided by parastatal agencies was suddenly destroyed. While new traders seized the occasion to enter the market, established farmers realised they had not been well-prepared for competition. Many SMEs collapsed leading to massive labour redundancies. In addition to this lack of preparedness, the removal of government-led marketisation often left many producers without an effective link between their produce and local or export markets, isolated and facing large income losses. The increased reliance by Ugandan dairy producers on micro-markets, for example, points to the increasing failure in the formal marketing system.

In some countries, new institutions and regulatory bodies were created after liberalisation, some of them successful in supporting trade growth. Yet, often because of funding issues and lack of capacity, many have not been effective enough to achieve their mandate and thus have left producers with problems such as poor information on markets and prices, delivery inefficiency, and complicated financing mechanisms. Legal and institutional development frequently lags behind the operation of market forces. As a consequence, many producers have been more vulnerable to exploitation and failure than before as the behaviour of the different actors is not monitored and regulated adequately. Governments also need to curb unethical practises such as dishonouring orders or misuse of power to reduce prices without any consideration for input and production costs. This sort of exploitative malpractice aggravates the situation of the poor farmers.

Trade regulations are extremely important to ensure that a favourable trading structure is in place to seize the new economic possibilities available for the private sector as well as the poor communities. For example, easy to access credit markets and simplified procedures for exports are necessary. Increase in exports has frequently been below expectation because of supply constraints and other barriers. To foster a fertile ground for trade beyond the necessary investments in trade-related infrastructure, governments have the power to facilitate trade and make all processes more transparent and efficient (see Box 15). For example, high transaction costs and bottlenecks, informal fees, and cumbersome administrative process at customs can reduce the international competitiveness of a sector and prevent FDI.

Crucially, good domestic policies are needed to enable the development and expansion of industries important for poverty reduction. These policies include not only the establishment and reinforcement of marketing institutions and favourable tax policies, but also Research and Development (R&D) support,

Box 15: Benefits of Cambodian Liberalisation

The trade facilitation reforms launched by the Government of Cambodia in 2004 have produced remarkable achievements. The time and cost of shipments of import and export goods have been substantially reduced.

Exporters spent 20.2 hours in 2005 compared with 15 days in 2003 to successfully process their goods through customs. The average cost per processing import (including border police, veterinary and phyto-sanitary fee, customs clearance) was scaled down from US$2,477 in 2003 to just US$673 in 2005.

Furthermore, only 10 percent of firms stated that they had problems with importing and exporting documentation, thanks to good dissemination by the authorities of the required documentation.

investments in infrastructure, quality monitoring and human resource development. An efficient regulatory framework would ensure that market participants get the most efficient outcome not only as producers but also as consumers. Competitive markets also need to serve consumers in areas more difficult to reach, high cost areas, as well as subscribers with low-income. The implementation of all strengthened domestic policies must be monitored to ensure efficient performance and the resolution of possible policy conflicts.

Governments can choose sectors to support according to the expected benefits in terms of poverty reduction, employment generation or rural development, for example, to increase productivity in sectors at risk of cheaper import competition. It is crucial that this support is not considered to be a long-term protection but a contribution towards increased competitiveness in those sectors. As financial resources are limited, it is important that these chosen sectors bring benefits to the national development strategies. To successfully integrate trade into these strategies, it is central to identify sectors with high significance for the protection of the poor communities' livelihoods as well as with growth potential (see Box 16). Governments can support those selected sectors with a range of initiatives and promotion policies (see Box 17), which might have positive spillover effects on other sectors. It has to be said that some warn against targeting specific sectors and advocate for the government to create the general conditions for higher productivity in every industry. In any case, international initiatives such as Aid for Trade should be taken into consideration to help an economy strengthen its domestic policies.

Box 16: South African Government Initiatives Boost Production

Since 1994, the Government of South Africa has recognised the role of the tourism sector as a key catalyst for economic growth and development and has embarked upon various initiatives to develop this industry in a sustainable and responsible manner. In 2002, the Government adopted the Responsible Tourism Guidelines, which encourage to recruit workers and make purchases locally, as well as to establish partnerships with local communities.

In the same year, the clothing and textile sectors were earmarked as part of the President's Growth Strategy plans. The Department of Trade and Industry focused on those sectors, among several others, because of their high growth potential and cost-effective job creation. For these priority sectors, barriers to trade are being identified and removed.

Box 17: Indian Policies to Promote Oilseed Production

The India oilseeds case study recommends various policy measures to promote the country production of oilseeds, including: reduction of various taxes; new funds to support the creation of testing laboratories; agro-export zones; provision of warehouse facilities; proper marketing channels; and food safety standards.

One of the most vital contributions governments can make for long-term sustainable growth and development is undoubtedly protecting and fostering human capital. Education and health services are essential to ensure the presence of healthy skilled workers and the possibility for the country to diversify production into higher-value added products, which brings both growth and development benefits. This is reflected in the myriad development projects aimed at increasing education and improving health. Higher education and on-the-job training should not be forgotten to deliver the professionals a country needs to develop. Furthermore, safety nets are essential to support the people who cannot win from further liberalisation even if it is often ambiguous, as the poorest are habitually the least articulate about their new situations (see Box 18). Safety nets are not the only solution for the potentially negative impact of liberalisation, but they often provide a more precise targeting than other economic policies. If liberalisation is expected to bring increasing benefits in the long-term, some of these benefits can be used to compensate the negative impact on the poor now.

Box 18: Safety Nets in Tanzania

In order to mitigate the possible adverse effects of transitory, short-term adjustment costs on the poor, developing countries like Tanzania need to have well-functioning social safety nets to ease the tension between implementing trade reforms and alleviating poverty. Due to the inadequacy of budgetary resources, the government has targeted only the most vulnerable groups of population for social safety nets.

Finally, higher international standards for export goods have intensified the difficulties for producers in developing countries to comply with them. Meeting the imposed requirements, regulations and standards concerning environment protection, food safety and other norms can represent major financial and capacity barriers for many countries. Governments in those countries need to upgrade and strengthen their standards-setting regimes and contribute to the establishment of efficient testing, certification and accreditation of norms. Low-income countries, in particular will need assistance to reinforce their institutions to meet the new criteria.

It must be highlighted that development and trade policies must be better coordinated at national and international levels if trade liberalisation is to lead to poverty reduction. Stronger policy coherence is needed for domestic as well as international decisions.

4

Demand Government Policies Promoting Human Development through Trade

Under a poverty reduction objective, chance and market powers must not be given the ultimate responsibility of establishing the right balance between trade benefits and human development. Growing economic inequalities in the context of increased liberalisation can be mitigated through trade regulations and pro-poor domestic policies. The state has a role to play in promoting human development through trade since trade growth alone is not a guarantee for poverty reduction. As a start, the expected increase in government revenues through more open markets can contribute to pro-poor measures and investments.

Desirable government interventions should not be limited to additional financial resources directed to the poor, but also include the regulation of certain business practices which can lead to a detrimental situation for the poor. Some governments have chosen to address the issue of an appropriate wage (see Box 19). While this decision is very controversial, it has shown some success.

Box 19: South Africa Clothing Industry Wage Determination

For the South Africa clothing industry, labour rates are determined through sectoral negotiations in the National Bargaining Council. Agreements on wage rates and conditions of employment are extended through a ministerial order to non-parties.

The industry wage structure differs according to geographic location. The "metro rate" is about 40-50 percent higher than the official rate for "non-metro" areas and contrary to the latter, may also include medical aid. Lower wages in rural areas correspond to the lower skill level of workers producing lower-value garments for the mass market.

One noticeable drawback is the fact that many producers do not register with the National Bargaining Council in order to avoid the levies for social care.

In countries and industries where there is labour surplus, wages can be low irrespective of the productivity level, partly because of the crowding out by low-skilled workers in search of employment. In this case, even increased exports and market success cannot guarantee appropriate wages, which are important for their poverty alleviating effects. If minimum wages are a very controversial topic, safety nets to ensure that the poor do not slide under a certain income level are mostly recognised as beneficial as a poverty reduction measure.

Labour rights represent an essential link between increased trade and human development, and are an important area for state recommendations and intervention. Industries searching for more flexibility in the face of increased competition have caused an increased precariousness of labour conditions in several sectors such as the textile industry (see Box 20). Working conditions, particularly in SMEs have worsened significantly. Fully employed workers have lost their job security and social benefits such as health care, and have often slipped into informal labour. The state can help moderate large-scale job losses and gross deterioration of working conditions by assisting the restructuring of a sector after liberalisation and issuing pragmatic policies, by investing in trade-related infrastructure to enhance competitiveness, and by establishing well-designed safety nets.

Box 20: Labour Casualisation in South Africa's Clothing Industry

To face global exposure, many producers have decided for casualisation of labour where employment is reduced and transformed into part-time and temporary contract, which often evolve into informal employment without job security or social care.

The competition of the subcontractors in the Cut, Make and Trims (CMTs) is a real race to the bottom as most are involved in price wars further deteriorating workers' situation.

Because of the uncontrolled structural adjustments in the industry, workers cannot find employment in the regulated, formal economy and therefore are forced to work in unprotected conditions. Their invisibility in the economy prevents them from having enough bargaining power to improve their lot.

Better working conditions are not only a means towards human development. They are also a sound economic prescription because in many cases they increase competitiveness for human rights sensitive markets such as the US and EU. Buyers can offer incentives to improve labour conditions, and standards of labour rights and product quality have increased. The significance of this evolution can be observed in countries like Cambodia, where in 2001 the establishment of the International Labour Organisation (ILO) and the emergence of better factories with an aim to ensuring better access to the US market. Yet, the benefits of such efforts need to be further evaluated.

Another crucial factor for human development is the need for developing countries' governments to play a more active role in international trade negotiations in order to ensure the inclusion of poverty reduction objectives and to promote fair trade rules. For this reason, an increased number of government officials need to be trained in trade issues and negotiation skills. With higher capacity, developing countries will hesitate less to use the tools made available through international agreements, such as anti-dumping measures to protect the domestic price against under-valued imports, the WTO dispute settlement mechanism, or the right to produce generic drugs under certain circumstances. Another crucial area of increased intervention by developing countries is the rule setting of international standards in order to avoid any discrimination, which can exclude the countries too poor to achieve high standards from international trade. Additionally, such intervention would enhance mutual understanding of, on one side, the necessity of such norms and the difficulties to comply and the consequences on exports for any specific country, on the other. Alternative ways for setting norms can be explored in such participative meetings. Generally, higher trade expertise will allow developing countries to have an effective voice in international fora and better integrate the multilateral trading system with their specific needs and aspirations.

The prevailing socio-economic conditions for a specific sector in a given country as well as the particular market situation need to be practically assessed to evaluate possible improvements in labour conditions and wages. It is the government's role to facilitate or establish the process of setting suitable codes of conduct by striking a delicate balance between the country situation and the need for protecting its workers in order to foster human development. The government needs to better negotiate its role between trade and human development.

5
Consider the Importance of Economic Integration and Spillovers for the Poor

To evaluate with more precision the exact repercussions of an economic change on the poor, backward and forward economic integration as well as multiplier effects need to be carefully considered. The impact of a change in one industry needs to be understood not only in terms of total domestic production in the supporting and related industries, but also in terms of the indirect jobs created by spillovers opportunities, even if this is difficult to estimate. An increase in a certain economic activity might influence and bring new benefits or constraints to individuals, groups or indeed whole sectors of the economy, which have not yet played any active role in that particular activity. Furthermore, any economic change can have unintended positive or negative impact on the activity instigator itself. These spillovers can be of great importance in linking trade and poverty, in particular when they benefit or damage the achievement of other development objectives, and need to be taken into account while deciding how to promote a specific industry.

Economic backward linkages are particularly important for poverty reduction strategies as they frequently involve the production of raw material, which employs a majority of poor people. However, imported inputs for certain manufacturing industries, such as the garments industry in Nepal (see Box 21), can overshadow opportunities to support local production and local employment, which could become competitive through well-managed, targeted investment. It is important to find ways to create these backward linkages whenever a viable possibility arises affecting many poor people. A good example of economic integration amplified by liberalisation is offered by the Zambian agro-processing sector, which uses a significantly high quantity of local raw material and thus encourages local production. In this particular industry, it is a reciprocal production incentive which takes place between agriculture and agro-processing production. Thanks to the deliberate efforts by the Zambian Government to support the agricultural sector, growth in agriculture has greatly contributed to the growth and expansion of the agro-processing sector in recent years.

Box 21: Supporting Local Industry in Nepal
The use of locally made fabrics by the export-oriented garment industry is hardly two percent, mostly because they do not meet international buyers' requirement concerning standardised size and consistency in quality and colour. To support local industries, which are up in the supply chain, it needs to be a priority to add more value to garment industry output and to maximise the gains from preferential market access, which seeks the preferential rules of origin. To make these industries viable, in terms of economies of scale with regard to domestic demand and international requirements, strategic planning and investments is necessary.

The private sector often states that the reasons for not buying the needed raw material or other inputs from local production are the unreliability of such sources, the lack of uniform quality and relative higher prices. Certainly, governments can contribute to a better supply chain through improved infrastructure, fiscal inventiveness, training and awareness programmes. Government intervention to support linkages is justified when the social benefits such as poverty reduction are not realised, for example because of poor financial institutions and high risk perception hindering the private sector to take over. The overall competitiveness and benefits of an industry can be enhanced through national backward linkages (see Box 22).

Box 22: Lack of Backward Linkages in Sri Lanka
The lack of a fabric base is a potential weakening factor of Sri Lanka's competitiveness *vis-à-vis* its Asian counterparts. It is estimated that 80-90 percent of fabrics and 70-90 percent of other accessories required for the garment export industry are imported, while fabrics amount to 65-70 percent of the finished product value. The development of backward linkages has however been poor due to the high cost of investments required to set up a domestic raw material base in a relatively small domestic market. Moreover, attempts to create backward integration between the garment and the textile industries in Sri Lanka have remained largely unsuccessful, with the dependence on imported inputs stays prevalent.

On the other side of the economic integration chain, economic forward linkages are important agents of employment creation and economic growth. One positive effect of liberalisation in Uganda, for instance, is the explosion of milling as a value added activity in the rural maize economy. This has created an investment avenue to the maize farmers, and has reduced their dependence on farming. Besides, these mills have introduced a new dimension of paid employment for people living in the maize belt of Uganda. This development has also positively affected productivity and efficiency as the proliferation of private millers using intermediate technology has reduced the cost of milling, making it easier for farmers to add value to their produce at a minimal cost. However, some major hindrances still remain in the flow of the supply chain, which prevent the maize industry from enjoying the full benefits of this further economic integration (see Box 23).

Box 23: Supply Hindrances in the Uganda Maize Industry

Maize has recently become a major export crop in African regional markets. At the processing level, grain milling is the most widespread, power-driven, small-scale industry in Uganda – in both rural and urban areas. Maize mills account for more than 70 percent of all grain milling activities.

However, while high production and distribution costs still reduce benefits for producers and traders, grain mills within Uganda and more generally within the region operate below full capacity because they cannot purchase adequate supplies of maize. More efficiency in the supply chain planning is greatly needed to maximise benefits for all.

As already mentioned, economic spillovers are very important for poverty reduction. These can lead to increased total volume of economic activities amongst local people, especially the poor who are engaged in various activities linked to core activities, often in the informal sector (see Box 24).

Box 24: Informal Sector Off-shoots of the Zambia Textile Industry

From by-products such as cotton and lint waste as well as off-cuts, small business people are able to make various items in the range of furniture, mattresses, mops etc. In addition, the influx of a wide variety of goods on the local markets has created new distribution businesses through repacking.

A direct increase in income due to increased agricultural exports, for example, will be mostly spent on locally produced goods and services, which creates a set of positive second-round effects. Of course, it is difficult to assess the impact of such multiplier effects as well as to estimate the amount of indirect employment created around a particular industry (see Box 25). In the case of the Cambodia RMG industry, the necessary support services created approximately 150,000 informal and independent jobs around the factories location, including beauty parlours, street vendors, taxi drivers, and pieceworkers, who all benefit from the existence of the RMG industry.

Box 25: Pro-Poor Tourism and Employment Creation in South Africa

At the Summit to review the MDGs in September 2005, tourism was highlighted as one of the most effective tools for sustainable growth in the poorest countries, and as a key instrument to achieve the MDGs. Pro-poor tourism is defined as tourism that results in increased net economic, social, and environmental benefits for the poor through: 1) increasing economic benefits; 2) enhancing non-financial livelihood impacts; 3) and enhancing participation and partnership.

The economic contribution of tourism is difficult to measure as beyond the accommodation and transport receipts, tourism-related trade is flourishing from food and drinks, local transport, guiding services, handicrafts and souvenirs. Community tourism is also becoming increasingly popular and expanding the participation of the poor. Besides, tourism provides labour-intensive and small-scale opportunities for the poor to directly supply goods and services produced locally. In addition, this industry employs a high proportion of women and youth, among the most vulnerable groups, and values natural resources and culture.

Development objectives are closely interlinked with sustainable trade objectives. Many export sectors are of primary significance for a large number of poor people, not only to ensure their basic livelihood security through economic opportunities, but most importantly to guarantee them food security (see Box 26). For example, in Uganda both the dairy and the maize industries traditionally provide a source of income for many households as well as a source of food and thus contribute to national food security as major components of the rural and urban communities' diet. Income and food security are deeply interconnected for poor people. A reduction in income translates very quickly into a reduction of food intake as a coping mechanism since the thin household budget, which is devoted to food to a high percentage, does not allow for reallocation of other expenses.

Box 26: Food Insecurity among Cambodian Fisherfolk

In Cambodia, fish is the staple food of a normal Cambodian household's diet and even more so for the fishing communities. Fisheries are, therefore, essential for domestic trade and consumption. Fish imports have increased partly due to the lower prices of imported fish, in some cases 50 percent lower than the domestic prices. The balance is fragile between long-term fisheries livelihoods and available food budget.

Moreover, with a growing population and the related greater pressure on fish resources, it is important to secure fisheries production without threatening either the environment or natural resources and to protect the livelihoods of the fisheries communities who already belong to the poorest and whose human development index is very low.

It is important for governments to mainstream those sectors contributing to diverse development objectives into their poverty reduction strategies. In Vietnam, the state has recognised the national importance of aquaculture as the main source for export processing and for the country's food security. Therefore, it has offered its support for management promotion and sustainable development of aquaculture, including investment in breed research and conservation. Government support aiming at sustainability is indeed crucial to protect the environment and the natural resources. Besides, different sectors like tourism rely on the sustainable management of resources for which environment and cultural preservation can constitute the attractiveness of a tourist destination.

One of the most important positive spillovers for development has been stimulated by the telecommunication sector. Telecommunications has a dual role as a traded service and an intermediate input as a vehicle for trade in other sectors. When transfer of information is conveyed at the lowest possible cost, it can boost trade and income, and lead to rapid diffusion of technology in the poor communities. The poor can switch over to the most recent technologies at relatively low costs and use the reduction of the information gap to increase their income (see Box 27). Internet and mobile communications have a crucial role to play in bridging the information gap. SMEs in particular can draw important benefits from this development. Increased information flow, thanks to the expansion of this sector, also has a particular role to play for poverty reduction in terms of huge employment generation, increase of FDI, access to services, and boosting the economic opportunities for the poor. Furthermore, increased FDI represents a stable source of external finance and can offer technological transfer, management skills and higher wages. The tremendous growth of the telecommunications sector in diverse countries has brought along many direct and indirect jobs, in distribution, retail outlets, support services, repair and maintenance for instance, as well as new opportunities for micro-entrepreneurs.

Box 27: Pro-poor Information Flow in the Bangladesh Telecommunications Sector

When access is sufficient, information flow is certainly pro-poor as the cost of information is usually large enough to affect their living standards. Phones and Internet can play an essential role for increased income and food security in rural areas, as it can for example eliminate the lack of information concerning agro-meteorology, commodities pricing, land and labour markets, credit, and laws and regulations. Uncertainty as an obstacle to trade can be reduced or cancelled when regular check of prices and market access is possible.

Another crucial spillover effect for rural development is through domestic and international remittances. The money sent back by migrants is mainly used for productive investments, improvement of daily calorie intake, repayment of debts, health needs and education, directly leading to positive effects on rural livelihoods development. Remittances often support several other family members as the main source of income, which means that the employment vulnerability of the worker involves far more than his/her individual welfare. The loss of earning of one worker is likely to have a severe impact on the rural poor.

However, it is important to keep in mind that the successful growth of a sector can have negative externalities on the poor. For instance, increased production and the use of new technologies can lead to unpredictable consequences for the environment. Ecological damage can lead to livelihood disorders, reducing sector effectiveness. The increased use of chemical input for intensive cultivation, for example, can provoke soil impoverishment. Also, the agriculture, forestry and fisheries structures can be severely modified by increased trade liberalisation, which influences the livelihood choices available to the poor as they are the most disadvantaged in adapting to new situations.

Certainly, it is difficult to measure the beneficial or detrimental spillovers of an economic sector on poverty reduction strategies. Indirect effects are not always easily retraceable. In some cases, promoting exports can have positive externalities on domestic trade in poor communities since those communities can benefit from investment in infrastructure such as better power networking, as well as from trade facilitation efforts. In some other cases, the participation of poor communities in activities around tourism can bring them the benefit of exposure to entrepreneurial skills. In such cases and many others, it would be problematic to isolate the source and effect of a given evolution. Yet, certain spillovers are quite straightforward to identify and it is important for government policies to recognise their importance by promoting positive and mitigating negative involuntary effects.

Economic integration has to be considered under its many forms from a poverty reduction perspective in order to ensure that important linkages are taken into account. To reduce the vulnerability of the poor and increase trade gains, the value chain of production needs to be strong and well-coordinated with the participation of stakeholders from each level of production in order to ensure adequate distribution of benefits.

Some Further Thoughts

The growth of certain industries mainly employing women, such as the garment industry, has offered new economic opportunities to these women but this has not led to positive consequences only. On one hand, the transformation of the economic and social status of the female workers has often been empowering. On the other hand, research studies have also shown that their reputation back home can be damaged through their new status and reduce their marriage prospects. Many women see their welfare reduced as well when the lower incomes of male family members force them to work outside the home with little additional help for their reproductive activities. Further, social consequences for these women can also concern their diminished welfare because of their continued relative poverty, poor working conditions, and their efforts to save money to send to their families.

6
Work With a Realistic Market Analysis

For countries to be able to reap the benefits of more open markets, the people involved in trade need to have the capacity of understanding markets, as well as of recognising opportunities and threats by analysing the potential effects of liberalisation on all trade stakeholders. This understanding must serve as a basis to solidly establish ownership over their own economic development so as to ensure sustainability.

Much effort by the international and national communities has been dedicated to human capacity building for trade-related issues in developing countries. Certainly, this is a good step forward, and these efforts have to be continuously reinforced and extended to more stakeholders. In many developing countries, for instance, government officials need increased human capacity for development-oriented policy-making; the private sector, especially SMEs, for seizing market opportunities; and CSOs for comprehensively understanding trade issues and advocating for better policies. Ideally, national trade and economic experts, working for diverse public and private organisations, need to closely follow and analyse markets and market actors' behaviours. Too often, it is only after an agreement has been signed that some stakeholders realise the possible negative consequences, as the capacity of negotiators and analysts is frequently very different. Moreover, the extremely complicated tariff policies of many countries, such as the 12,000 tariff lines of the EU, demand a solid understanding to ensure the clear defence of developing countries' interests.

While the identification of market opportunities is the first step to increase trade, the identification of obstacles local producers have to face is equally important (see Box 28). Several preferential market access initiatives, such as the US' initiative African Growth and Opportunity Act (AGOA) and the EU's Everything But Arms (EBA) initiative, and regional export possibilities have been offering trade growth potential to LDCs and other developing countries.

However, many supply side constraints and the highly limiting rules of origin have often been obstacles. Fundamentally, the lack of adequate production capacity, modern technology, and export diversification are major hindrances in many countries. Most trade preferences have led to disappointing results as few poor countries have succeeded in substantially increasing exports through those schemes. On the whole, the relevance of most preferential schemes is declining following the rounds of multilateral trade negotiations. The temporary nature of preferences advantages has to be kept in mind in order for developing countries' economies not to rely on them while making long-term planning and finding alternative strategies for increased competition and the erosion of preferences. To overcome trade obstacles, strategic prioritisation for an optimal use of scarce resources is necessary. This requires clarity among stakeholders on a country's economic development objectives and again needs increased human capacity.

Box 28: Obstacles in the Vietnam Footwear Industry

Liberalisation can bring new economic opportunities. However, it is important to identify the challenges towards their realisation and prepare to meet those with appropriate means. In the case of the Vietnam footwear industry, some of the identified challenges are listed below:

- Lower competitiveness than neighbouring countries, China being the biggest competitor;
- Lack of capacity for value chain participation (for example marketing, design and sales);
- Lack of direct communication with customers;
- Increased prices of power, water, wages and obligations for improving working conditions;
- Lack of training among workers;
- Low labour retention rates; and
- Inability to comply with international standards and regulations.

In general firms feel that the challenges outweigh the opportunities associated with further liberalisation and accession to WTO.

In a business environment of increased competition, the competitiveness of those industries with the most potential to affect positively or negatively the lives of the poor has to be carefully evaluated. Reasons for possible decline have to be identified, especially concerning the likely import surges and domestic consumption changes brought in by liberalisation. Tactical investments are crucial to increase competitiveness and enhance the production capacity through the training of workers' skills, updating of production techniques, and strengthening of the necessary infrastructure. Certainly, many developing countries lack the production capacity to diversify their exports and need financial and technical aid to achieve the production of a selection of commodities, reducing their vulnerability when facing market uncertainties. Furthermore, within a development and poverty reduction perspective, it is essential to evaluate the vulnerability of those more exposed to changes in trade patterns and investigate the different strategies available according to livelihoods, geographic locations, and socio-economic background, among other factors. The exact impact on diverse stakeholders has to be taken into account to encourage positive and mitigate negative effects (see Box 29).

Box 29: Pros and Cons of Tourism in South Africa

Potentially negative impacts of increased tourism:

1) Displacement of the poor, increased local costs, loss of access to resources, unwanted behaviour (including prostitution), and social and cultural disruption.
2) Large international companies that generally characterise this sector may have little or no interest in social development and poverty reduction.
3) It is possible that tourism earnings remain outside the destination country due to large leakages (e.g. imported skilled labour and luxury products, repatriation of profits by international companies, the considerable role of marketing, transport, and other services based in the originating country).

Potentially positive impacts of increased tourism:

1) Increased foreign exchange reserves; domestic and foreign investment; employment creation (in one estimate, for every eight tourists that visit South Africa, one new permanent job is created).
2) Skills, human resource and entrepreneurship/SME development.
3) Responsible and sustainable use of local natural resources.
4) Capital expenditure on basic service-enhancing infrastructure (urban and rural).
5) Socio-economic transformation and broad-based black economic empowerment; improvement of local economies.
6) Development in urban and rural nodes; equitable geographical spread of tourism benefits across the nine provinces.

Questions about the extent to which the poor and vulnerable will be affected by changes in trade patterns have to be clearly understood, such as who will most likely to suffer from those changes. For example, in industries where women represent the majority of employees and are often the only income earners of several family members, unemployment consequences have to be exposed in order to possibly put the right safety nets into place. As importantly, questions about the possible destruction of markets that the important for some of the poorest, and the precise impact of liberalisation on prices, real wages, input costs, and household income and expenditure need to be researched. Answers need to be found as soon as possible in order for informed policy-makers, private sector representatives and CSOs to take adequate development-oriented decisions.

Certainly, a proper sequencing of liberalisation reforms has to be advocated to allow for the necessary capacity building to be undertaken and for the right timing of complementary measures to be in place. This would promote the consequences of new trade patterns to be adequately anticipated, enhance competitiveness, mitigate negative effects and avoid potentially high social costs such as increased unemployment.

Some Further Thoughts

In many developing countries, liberalisation has led to the dismantling of structures important to support agricultural production, such as marketing and distribution systems, which the private sector has never effectively replaced. It is often difficult to anticipate market actors' behaviours and the new roles they will adopt after liberalisation (see Box 30). Yet incentives to motivate relevant stakeholders to create the necessary structures for more equal benefits from liberalisation need to be further investigated.

Box 30: Investment Changes in the Uganda Maize Industry

Before liberalisation, the farmers' groups which had exclusive rights to purchase maize at the farm gates invested in post-harvest equipment and storage. These facilities were sold off after liberalisation, and the new speculative entrants into the sector have shown little interest in long-term commitments and have only invested in trucks, for example.

Despite their low income, most maize farmers have been compelled to invest in storage facilities to make up for the storage shortage in order to be able to hold their harvest in anticipation of better prices and stabilise the market prices in scarcity times.

7
Establish Strong Partnerships between Relevant Stakeholders

As firmly acknowledged nowadays, stakeholders in trade and development are greatly interdependent. Two of the major linkages can be summarised as: economic growth depends to a large extent on trade; and poverty reduction on economic growth. This leads to a situation in which strong partnerships are essential. These can lead to increased efficiency in the achievement of the stakeholders' specific objectives through a better flow of information and use of resources, and most importantly through increased coherence. Synergies can be generated between different stakeholders' efforts and can accelerate economic growth and facilitate poverty reduction.

Good trade and development policy-making requires broad consultation and participation of all relevant stakeholders. The government capacity to establish reliable and sustainable relationships with the private sector and the civil society, including trade unions, peasant associations, and other concerned groups will be reflected in the partnerships it will be able to engage with and maintain. As in all good and stable partnerships, governments need to be very clear about their objectives and ensure all decision-making processes are transparent in order to allow for all other stakeholders to react and prepare accordingly while minimising uncertainties. In the majority of developing countries, detailed and recent statistics are mostly lacking. Joint efforts have to be oriented to strengthen reliable sources as well as collection of information. Only then can the real needs for sustained, development-oriented growth be identified and investment linked to poverty reduction.

At the company level, workers need to be able to organise in cooperatives and unions in order to obtain the most benefits from trade (see Box 31). A partnership among different producers, in a particular industry, can allow for a stronger voice in dealing with other industry stakeholders, enhance bargaining power, and increase market stability. Furthermore, cooperatives offer facilities and services at affordable prices, which single farmers could not manage to pay for otherwise. Finally, in order to seize trade opportunities in the international market, small producers often need to work together to fulfil international standards and preferences (see Box 32). Experience has shown that it is in the interest of both the government and private sector to support such initiatives.

Box 31: Cooperatives in Uganda Promote Trade Benefits

Before liberalisation, the government of Uganda encouraged the development of organised farmers' cooperatives. Dairy farmers would sell their milk through the cooperatives to the government-led dairy corporation. Cooperatives used to own milk collecting and cooling centres, undertake the bulking from numerous farmers, negotiate better prices and guarantee credit and access to subsidised inputs and extension services.

In the rise of liberalisation, the government abandoned this policy of encouraging cooperatives, which soon collapsed leading to major disruptions in the milk industry and the exclusion of many small dairy farmers.

Many different types of partnerships are important for poverty reduction objectives. As already mentioned, public-private partnerships (PPP) are essential, as well as partnerships among workers. In addition, the private sector can search for partnerships with local communities for the provision of basic services and raw material, for example. By involving those communities, the private sector can contribute to their empowerment and economic development, such as in the case of pro-poor tourism in South Africa. Another successful example of partnership can be found within an industry where several key stakeholders associate. For example, the South African clothing industry has recently witnessed closer cooperation between textile mills, manufacturers and the five biggest clothing retailers, with the aim of increasing competitiveness and facilitating cooperation along the value chain. In Cambodia's clothing sector, several stakeholders – from trade unions to factory owners and the government – have succeeded in developing labour rights as a key marketing strategy for the industry.

Box 32: Organising Small Tea Producers in Nepal

From a poverty reduction perspective, it is important to note that the growth in area used for tea production in Nepal has been spurred by the participation of small holders. Their share of total land used is of 41 percent. This strongly indicates that the benefits of tea trade are not limited to tea estates owned by rich industrialists.

However, one of the major problems concerning tea exports is that there is a lack of coordinated and planned market strategy. Most buyers are not interested in buying in small quantities. Some tea growers' associations have been created and need to be strengthened in an attempt to collect tea from small producers and fulfil bulk demands, while installing the quality standards required by international markets.

Such partnerships can be powerful by involving certain stakeholders, while remaining weak by not involving others under a poverty reduction perspective. The South African clothing industry is still facing the major challenge of a relationship between production owners and workers, as the degree of non-compliance with minimum wage rules and working conditions is still high. However, under strong pressure from increased international competition, most industries lack the will to make concerted efforts to address growing concerns. The divisions and high levels of suspicion among key stakeholders drastically undermine the potential benefits of cooperation.

Strong partnerships are the fabric of good governance as they are based on transparency, consultation, and accountability. Enhanced participation of relevant stakeholders is essential to increase efficiency through synergy and to find the optimal approach to reach different stakeholders' objectives, such as trade growth and poverty reduction.

Conclusions

For sustainable and equitable growth, trade reforms and poverty reduction strategies need to go hand in hand. The interests of all stakeholders need to be represented and taken into account in decision-making processes. For this objective, the transmission channels of trade changes and their impact on the poor need to be better understood.

The effects of trade on the conditions of the poor have to be studied according to the many roles the poor play as consumers, producers and recipients of government social policies in very different contexts. Dynamic processes of trade shocks and the coping strategies adopted by the poor in response also need to be taken into consideration. Further research, such as the TDP Project has fostered, is crucial to investigate the specificities of every country situation. Questions about the possible destruction of markets that are important for some of the poorest, including the precise impact of liberalisation on prices, real wages, input costs, and household income and expenditure etc., need to be researched. Furthermore, the differential impact of trade on men and women, who make up the majority of the poor, must be examined.

The results of such research are essential to feed into national development strategies in which trade has been recognised as an important instrument for poverty reduction. For these national strategies to be effective, a constant monitoring of the impact of trade reforms and complementary measures is necessary to follow the complex and evolving linkages between trade, development and poverty reduction.

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