

APPENDIX ONE: Ace Global Assessment of Phase I Research Studies - Country Background Documents

Introduction

The Ace Global Evaluation of the TDP Project commissioned by CUTS provides a good summary of the Country Background reports that formed Phase I of the research studies. These were commissioned from partners, mostly experts from respected research organisations, university faculties, etc. These reports were designed to provide an analysis of the path of economic and trade liberalisation in the countries over the past 10 – 20 years, the current state of trade performance, and key policy initiatives to develop trade and to secure the benefits of economic growth for the poor and marginalised communities.

An edited summary of the key findings by Ace Global taken directly from the text of the evaluation appears below:

1. In accordance with the project contract requirements, each Country Background document was required to address the following aspects:
 - Policy Reforms and their adoption
 - Policies to improve market access, coherence (???)
 - Results of policy actions on the ground
 - Fit between trade-related measures and overall policy of poverty reduction
 - Evidence of effectiveness of existing measures
 - Assessment of outcomes by government/ non-governmental institutions
2. No fresh research was to be undertaken and the background papers were to be based on authoritative secondary sources....
3. In 2007, as a key output of the project, CUTS published a compendium of the Country Background reports, along with an overview synthesizing the findings from the various reports, and coming up with a list of useful messages and lessons learnt from the diverse experiences of the thirteen cases....
4. Key observations are as follows:
 - The selection of countries reveals an interesting mix: large and small countries: countries with sea routes and land locked countries; countries with stable economic growth rates and those with erratic growth; countries with robust export growth and those with dismal export performance; countries which undertook major domestic reforms unilaterally, and those which undertook them substantially as externally prescriptions. Each report has been authored by researchers of high repute in their respective countries, and this alone makes the synthesis very useful as a reading material for policy makers, trade policy researchers/ academics, donors and development institutions. Several conclusions presented in the overview are very interesting and insightful, and these are summarized below:
 - **Ownership of the policy regime:** it appears that countries that have undertaken reforms through domestic initiatives, e.g. China and Vietnam, tend to have succeeded most, due to the firm ownership over the policy regimes. Where this ownership has been shaky or incomplete, liberalization has had sporadic and non-uniform effects as found in some other countries in the project, particularly those that had to resort to Structural Adjustment Programmes. Even the experiences with the PRSPs of several countries suggest that the basic nature of trade policy has not changed much, as PRSPs are much influenced by the need for donor support, and may not reflect deep rooted commitment to initiate reforms and to focus on implementation of agreed programmes and policies.
 - **Export response to liberalization:** The premise that liberalization leads to the removal of domestic protection that induces anti-export bias in domestic sectors and leads to increased

exports has not been borne out in many countries. This has been mainly due to the inability of many countries to address supply side constraints; lack of market information and trade linkages; and trade infrastructure; besides lack of entrepreneurship skills. To an extent, initiatives under Aid for Trade can address these issues, but trade policy alone does not stimulate export performance.

- **Initial distribution of endowments:** countries that initiated equitable distribution of endowments, e.g. tradable farm land rights in Vietnam; and farm land distribution under a collective farming system in China, were important ingredients in poverty reduction by enhancing the participation of these classes in trade in agricultural products. Such measures have been more difficult to implement in other countries, nevertheless the recognition of the importance of such measures is in itself an interesting lesson for pro-poor policy setting.
- **Easy versus difficult reforms:** Trade policy reforms have, by and large, been through fiscal and border-control measures (QRs, tariffs, export incentives, and so forth) but these have been the easier reforms to implement. The reform of institutions has been more difficult and challenging, and to an extent the reforms prescribed by SAPs even led to a neglect of some institutions that have a key role in development of productive sectors. China, India and Vietnam have benefited from networks of strong and well-resourced institutions to regulate, manage and monitor economic development at the macro as well as sector levels. In some countries, there has been a failure to build such institutions, due to financial and human resource constraints, and also due to weak governance mechanisms.
- **Role of Agriculture:** In some cases, pursuit of industrial self reliance and import substitution policies led to a discrimination against agriculture, which did not grow steadily, and even became more vulnerable after reforms (usually SAP led) such as removal of input subsidies, import liberalisation, etc. This had direct consequences on rural poverty in some countries. Even in countries whose exports are primary commodities, export growth stagnates in the absence of value addition and diversification. A productive and vibrant agriculture sector is important for poverty alleviation, given that agriculture is the largest employer in a large number of developing countries and LDCs.
- **Liberalisation and economic growth:** TDP countries experiences suggest that tariff protection is not the principal determinant of economic growth, as evidenced by high growth in some countries that remained relatively closed) or opened their markets selectively (India, Bangladesh). On the other hand, sub-Saharan African countries failed to post steady economic growth despite rapid and substantial liberalisation. It is important to understand the conditions and factors, including accompanying reforms, under which trade liberalisation leads to economic growth.
- **Supply-side capacity and trade barriers:** Often, inadequate supply-side capacities and poor trade infrastructure restrict developing countries from harnessing available market preferences and increased export opportunities. Also, preferences often come with difficult-to-comply non-tariff considerations such as Rule of Origin, technical standards, etc. which do not enable exports from poorer countries, or in some cases, sheer discrimination against some regions (e.g. US preferences in textiles favoured some Asian suppliers over others). Therefore, global and regional trade regimes need to be development friendly in content as much as in intent to enable weaker countries to participate in international markets.
- **Using policy space:** The experience of countries like India, Vietnam and China substantiates the benefits of judiciously using policy space to spur development of domestic sectors. Unfortunately, several other countries have not used this policy space in the best possible manner. This policy space is steadily reducing for countries, and the proper utilization of the available flexibilities is absolutely essential if domestic productive capacities are to strengthen, and industrial and financial sectors become resilient to competition.
- **Adjustment processes:** Trade liberalisation measures do not consider the distributional consequences of welfare gains, and potentially conceal the negative consequences suffered by the most vulnerable socio-economic groups. Safety net measures need to accompany trade reforms in order to insulate these vulnerable groups from the after-shocks of liberalisation.

- **Political stability:** Political and social stability is a pre condition for promoting international trade, and countries which have had long periods of unrest have faced setbacks to trade, and domestic challenges do not allow them to respond to favourable external trade environments.
5. The overview concludes that trade policy is a fundamental component of development strategies for all developing countries that try to combine high growth with employment generation to reduce poverty. Trade openness, which was seen as a solution to the growth and poverty challenges, has had only modest results in many developing countries, and the search is still on for a new development paradigm that balances concerns of economic growth and poverty alleviation together.
 6. The synthesis of the Country Background reports is a high-quality, highly insightful and practically actionable document, and deserves to be widely disseminated and resultantly deliberated upon, not only under this project but under any awareness generation campaign relating to pro-poor development policies. It is also presented in such a manner that one does not need to read all the country reports to appreciate its messages. This makes it a very powerful dissemination product for policy makers. Unfortunately, it has not received the visibility and attention it deserves, at all levels in the project. *This aspect will be expanded on in the results assessment sections in Chapter 4.* A combined document of the overview chapters of the first and second volume will be printed and distributed at the end of the project, by post as well as electronically.