

Linkages between Trade, Development & Poverty Reduction

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Background Note:

Linkages between Trade, Development & Poverty Reduction is a project that National Economic Research Institute (NERI) is undertaking in China, in partnership with CUTS Centre for International Trade, Economics & Environment (CUTS-CITEE, Jaipur, India). It is a project organized and implemented by CUTS in selected countries in Africa, Asia and Europe in a partnership mode.

The reason for undertaking the project is that trade policy potentially affects poverty through its effects on economic growth and income distribution. Though it is true that the effects of trade on income distribution have been more firmly established than its impact on growth. Given that poverty reduction is sensitive to income distribution, this is very significant.

In addition, a pro-poor growth policy has greater impact on reducing poverty, than growth *per se*. And given the present trade and investment regime, an open and simple trade policy can foster some external discipline, reduce distortions on domestic markets, and narrow the scope for wrong or unbalanced policies in other areas.

Project Objectives:

The project will be implemented to achieve the following objectives:

- To facilitate cross-fertilisation of experiences and lessons learnt on linkages between trade, development and poverty reduction in the developing countries to develop appropriate policy responses.
- To help strengthen the ability of developing countries through the provision of policy support and other know-how and do-how on trade and development issues, and to defend their viewpoints and negotiating and advocacy positions on issues of concern, prevailing and emerging in the international trading system and their relationship with development and poverty reduction.
- To facilitate synergy between governments and civil society organisations (between and among the Northern and Southern stakeholders) to learn from each other and strengthen their collective perspectives and positions in the emerging debate on the linkages between trade, development and poverty reduction.
- To advocate development-oriented trade policies, based on learning from research and other activities, by taking into account the interests and priorities (needs and aspirations) of the poor and marginalized sections of the society and look into the aspects of policy coherence.

Project Activities in China:

Case studies: In relation to the project, two case studies have been conducted in the southern part of China in 2006, on two sectors: one on electronic manufacturing, and the other on agriculture. The reasons to choose these two sectors is because electronic manufacturing serves as a typical industry directly benefiting from trade, whereas agriculture gives an opposite illustration..

Note on electronical manufacturing: China's export-oriented policies on the industry is the most important factor driving it to boom over the past 10 years. The thrive of the sector not only contributes to the GDP growth in China but also helps the local

construction and development. Most important, the development of this sector partly solves the problem of livelihood of laid-off workers and rural surplus labor, and alleviates the pressure of employment of low educated technical school graduates.

Note on agricultural sector: There has been dramatic improvement in farmer's living standard, but the gap of income level between rural and urban residence widened in the past 20 years. The agriculture production in China is still largely handmade with low level of modern technology. And being segmented from world market, rural areas and farmers did not directly benefit from continued increase of international trade. Although farmers have no problem making a living with grains and agricultural byproducts, the monetary income for rural residence stay at a low level.

National Dialogues: Aside from case studies, national dialogues have been organized each year since 2005. Roundtable-mode dialogues in China have drawn officials, economists from government agencies, corporate sectors, and academic research institutions. The main purpose of these meetings is to share research findings of NERI among experts, engage in a brain-storming on trade-related issues and come up with policy recommendations.

Note on national dialogues: Discussions around trade and development issues are more from Chinese perspective, more focused on particular situation in the country, as well as on issues currently facing China, which have caused world-wide concerns, such as China's high trade surplus, excessive foreign exchange reserves, revaluation of the Chinese currency, gender and skill wage gap, and disparity in regional development and income, etc.

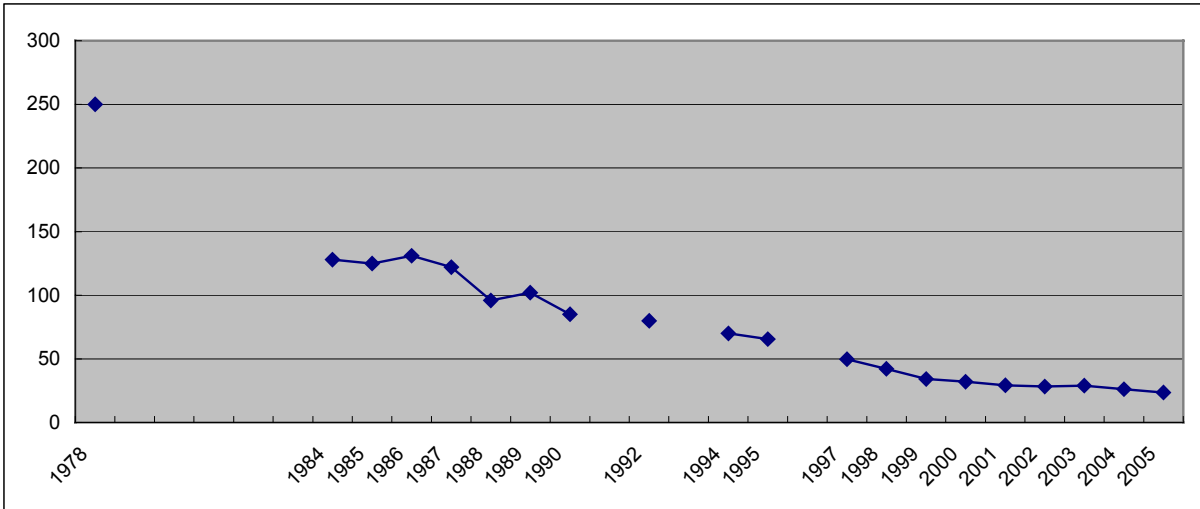
Poverty Reduction in China:

Three stages of poverty reduction:

- ✧ Stage One: 1978 – 1991: this is a stage of great success in poverty reduction, since China was undertaking domestic economic reforms and trade liberalization;

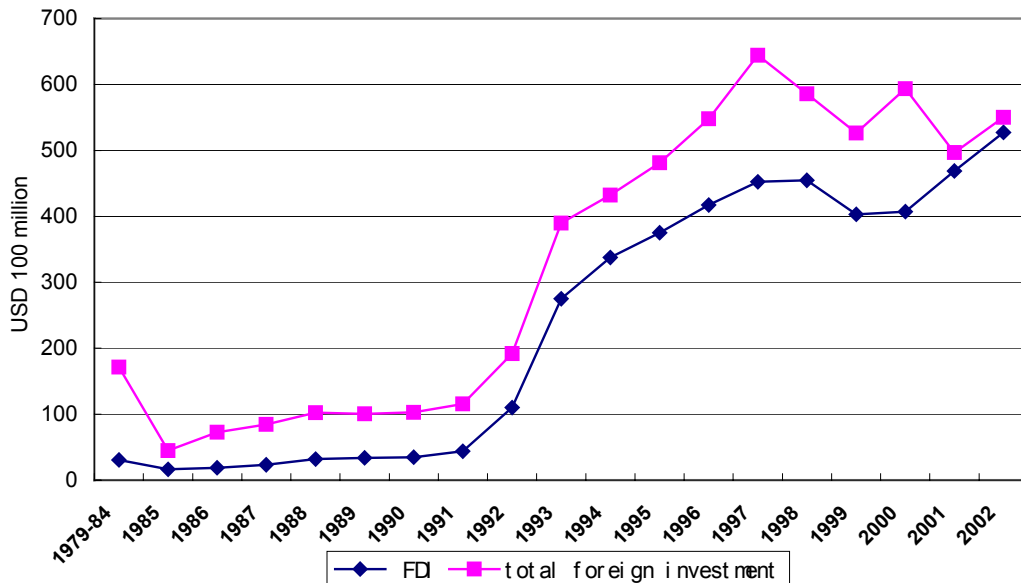
- ✧ Stage Two: 1991 – 2000: this is a consolidating stage, with further liberalization in trade and foreign direct investment;
- ✧ Stage Three: 2001 to present: this is a rather stagnant (even reverse) stage (Note: trade and FDI have been increasing dramatically since 2001)

Figure 1: Population in Absolute Poverty
(Million, standard of Chinese government, USD 0.7/day in 2004)



Source: *China Statistics Yearbook* (2006)

Figure 2: Total Foreign Investment and FDI in China

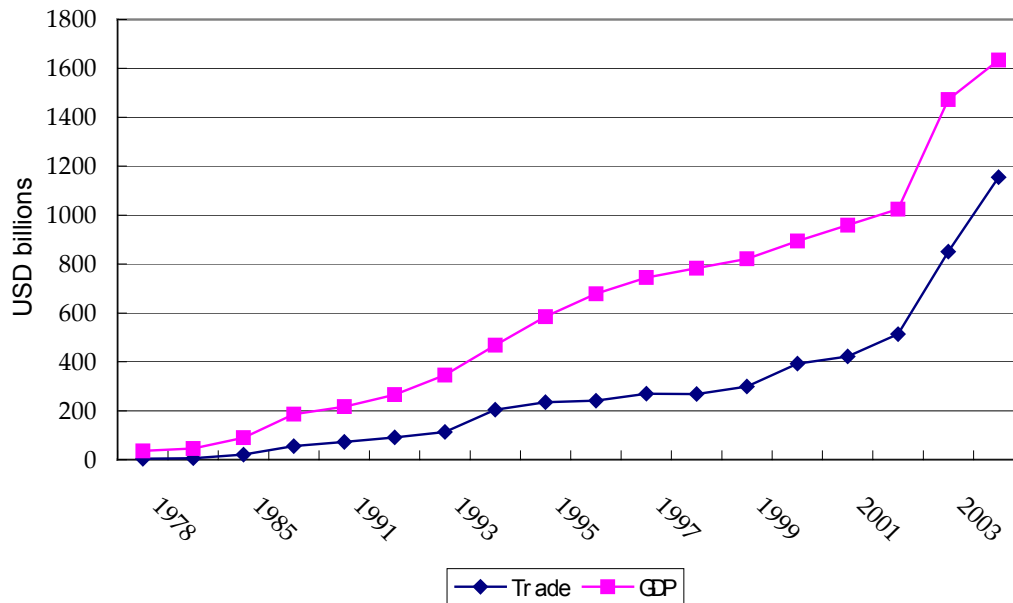


Source: *China Statistics Yearbook*, various years.

Experience of Trade Development in China:

- Trade policies in China has been pro-growth throughout the liberalization process in general
- You must do your homework in order to benefit from globalization
- Reforms and trade policies need to fit the country's initial situation and its development
- Social and economic stability are very important
- Policy coherence is also important

Figure 3: GDP and Trade in China



Source: *China Statistics Yearbook*, various years

Policy Implications:

Given the fact that less-developed areas as well as poverty regions are mostly in rural China, it is suggested that future trade policies should consider more about regions and groups in disadvantage.

Meanwhile, for these regions and areas to further develop, subsidies should be given to the following:

- seeds and fertilizers
- sales credit on agricultural products;
- education of farmers; and
- technological transfer to agricultural departments.

The government should continue its efforts in providing compulsory education in rural areas, so that human capital would be accumulated and modern production in agricultural can be achieved. Only by doing so, more investment, domestic as well as overseas, would come into the region.

Similarly, the government should provide full support to the construction of infrastructure in these regions, and implement institutional reforms in the western and rural China, so as to attract capital and investment into the region.

Extended Research by NERI:

1. NERI Marketization Index of China's Provinces (published)

This long-term research aims to rank marketization level of China's provinces by various factors, such as regional FDI inflow, labor mobility, and market development, etc.

Findings show that trade liberalization has played an important role in China's growth and has significantly improved the income level of the Chinese people. More open areas benefit directly from trade liberalization, and in the mean time, less open areas in inland China also shared the benefit of liberalization through labor migration and enjoyed cheaper products.

However, trade liberalization in China is uneven by geographical terms and sectors, so the income gaps between the east-west areas and between agricultural and non-agricultural workers have widened.

2. FTA Outlook between Asian Countries:

Another research effort is the study of detailed political and economic analyses of feasibility of Free Trade Agreement among Asian nations. The study compares the mutually-complementary as well as mutually-competitive relationship of these countries. It also provides detailed analysis of mutual relationship between trade and economic development; and prospect for FTA among Asian countries.

3. Gender Wage Gap in Urban China During the First Upsurge of Trade Liberalization (published)

This is a recent study by NERI researcher. By using two household surveys of China, this study examines the effects of change in openness on the change in residual log gender wage gaps for workers with different education levels, and eyes on years between 1988 to 1995, i.e. the first upsurge of trade liberalization in China. Results show that the correlation between trade openness and gender wage gap mainly came from the increase in import openness. When openness of import increases, the gender wage gap significantly widens for people with lower education (i.e. no more than 12 years of education). However, it exhibits the opposite trend for people with higher education (i.e. technical school graduates and college graduates, etc.). As a comparison, though, the increase in export openness has no significant impact on gender wage gap for people with low education, although it narrows the gender wage gap for people receiving better education, just similar to the trend when import openness increases.