



The Law & Society Trust in Colombo, Sri Lanka is the advocacy partner in Sri Lanka for the “Linkages between Trade, Development and Poverty” project, coordinated by CUTS-Centre for International Trade, Economics & Environment (CUTS-CITEE) in Jaipur, India, with support from the Ministry of Foreign Affairs, The Netherlands and Department for International Development, United Kingdom.

This campaign kit is published by the Law & Society Trust as an advocacy tool to inform and increase public awareness and encourage debate on trade issues with the aim of fostering pro-development and pro-poor policies and perspectives within mainstream multilateral trade negotiations and agreements.



**'As we enter a new millennium,  
we must make trade work for the poor'**

*- Kofi Annan, Former UNSG*

## **LINKAGES BETWEEN TRADE DEVELOPMENT AND POVERTY REDUCTION**

Linkages between trade and economic growth, and economic growth and poverty reduction are well established in the economic literature. Yet, despite the existence of theoretical literature explaining these, insufficient empirical evidence exists to prove the contribution that international trade might make to poverty reduction.

Trade affects economic growth positively as it can increase national wealth which may lead to increased spending on health, education, social welfare etc., an increase in employment opportunities and pave the way to acquire new skills and technologies. **However**, trade also has negative impacts due to the increased influence of trans-national corporations in the domestic economy and policy-making. Such influence can result in the loss of employment in previously protected industries and sectors, the exploitation of vulnerable and marginal groups such as the women workers in the ready-made garment sector, increased environmental degradation and threats to food security and sovereignty due to pricing out domestic agricultural producers.

Therefore if trade is to have pro-poor and pro-development outcomes, the international trading system should be more just.

This campaign kit will explore some issues of trade, development and poverty reduction in the Sri Lankan context.



## **TRADE**

Trade is the commercial exchange of goods, services and capital between two or more parties. Trade exists in the three main categories of

- **Goods** such as agriculture and industries
- **Services** such as labour, tourism and telecommunications
- **Capital** such as investment

Multilateral organizations such as the World Trade Organization and supporters of trade liberalization argue that without trade between individuals, industries, or countries, people are much more likely to be poor for our wealth is built upon the breadth and choice of the market. For many people economic poverty arises from an inability to trade. Thus trade can be vital to alleviate poverty

Arguably, sequenced trade liberalization can be advantageous if policies are in place to mobilize economic growth for public investment. Therefore, economic growth can be an important tool in poverty reduction by increasing employment and introducing new skills and technology. However, trade liberalization also has negative effects when employment is lost in previously protected industries. Imported goods corner the local market at the cost of scarce foreign exchange and changing tastes, exposing vulnerable groups to exploitation and undermining food security.

**In Sri Lanka**, trade liberalization was introduced in 1977 and during the 1990s, tariff protection was given to the manufacturing industry and the domestic agricultural sector to enable local industries to grow. In 2005, of the total exports, 14.9% were agricultural products while 44.5% were garments.

Trade liberalization has not always had positive effects on the poor. The poor have not had the opportunity to take advantage of trade liberalization due to both economic and social factors. Therefore **there needs to be coherence of policy to establish linkages between trade, development and poverty reduction.**

## DEVELOPMENT

Development has been defined as “a comprehensive economic, social, cultural and political process, which aims at the constant improvement of the well-being of the entire population and of all individuals on the basis of their active, free and meaningful participation in development and in the fair distribution of benefits resulting therefrom” by the *UN Declaration on the Right to Development*. This Declaration further proclaims in its first article that the right to development is an inalienable human right of every human being.



The right to development is tied to the **universal recognition in a person's right to an adequate standard of living for himself and his family, including adequate food, clothing and housing, and to the continuous improvements of living conditions** (Article 11, *International Covenant on Economic, Social and Cultural Rights*).

When development is recognized as an inalienable human right, it places **an obligation on the State** for it must take “primary responsibility for the creation of national and international conditions favourable to the realization of the right to development.” (Article 3.1, *UN DRD*)

**A human right-based approach to development** means analyzing “inequalities which lie at the heart of development problems and redress discriminatory practices and unjust distributions of power that impede development progress” (OHCHR, 2006). **Human rights reinforce the demand that poverty reduction be the primary goal of development policymaking** and therefore policies and processes of development are anchored in a system of rights and corresponding obligations (OHCHR, 2006).

## POVERTY

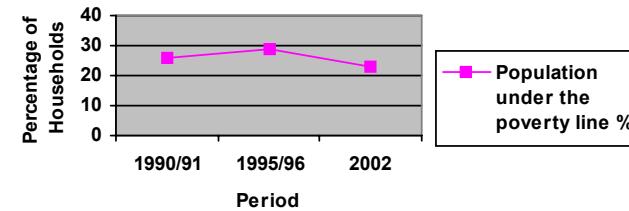
There is no single definition of poverty. A multidimensional definition of poverty as “a human condition characterized by the sustained or chronic deprivation of the resources, capabilities, choices, security and power necessary for the enjoyment of an adequate standard of living and other civil, cultural, economic, political and social rights” has been put forward by the *UN Committee on Social, Economic and Cultural Rights*, 2001

Poverty is often understood to be based on individual failure. Rather, it needs to be viewed chiefly as “**a result of disempowerment and exclusion**” (OHCHR, 2006). Therefore there is an important responsibility on the government to ensure that all its citizens are empowered and included in the economic benefits gained by the country.

**In Sri Lanka**, the poverty line is calculated by taking into account the cost of basic needs. This was considered to be households whose real per capita monthly total consumption expenditure was less than Rs 1423 in the year 2002.



Population Under the Poverty Line



Source: Dept of Census & Statistics (2002)

**As poverty cannot be measured in only monetary terms, it also includes a person's social and human development, and such measurement known as 'human poverty'.**

**Human poverty** is the impoverishment of multiple dimensions such as the access to education/ knowledge, deprivation of a long and healthy life, a decent standard of living, etc. (*Human Development Report 2000, 17*)

## In Sri Lanka

### Education

Primary net enrolment ratio (2002)	- 97.9%
Adult Literacy Rate (2003/4)	- 92.5%
(Males - 94.5% and Females - 90.6%)	

### Health

Life expectancy at birth (2004)	- 74 years
Infant mortality rate (2004)	- 12.0 per 1000 live births

### Decent Standard of Living

Households with access to safe water drinking water (2005) – 92.5%	
Safe sanitation facilities	- 90.1%
Households with access to electricity (2005)	- 74.9%
<i>(Source: Dept of Census &amp; Statistics, 2003/04)</i>	



## HOW TRADE LINKS TO DEVELOPMENT AND POVERTY REDUCTION

Ideally when trade results in an increase in economic growth, this growth should lead to the reduction of poverty. Therefore there should be an effective mechanism to ensure that gains from economic growth reach the poor.

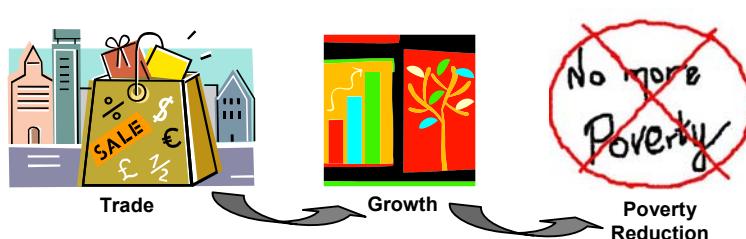


If a product is liberalized, a small country like Sri Lanka can benefit since producers cater to a **bigger** global market instead of to a **small** national market.



Therefore, access to a bigger market for goods and services should result in better prices for local produce, resulting in better incomes. **However**, while trade can increase national income and create new jobs, this does not mean that the new employment opportunities favour all workers, some of whom may lose their jobs through closure of their workplaces due to foreign competition. workers who lost their jobs due to competition from imports.

**In Sri Lanka**, after trade liberalisation, the garment industry was successful in creating jobs and incomes, but the handloom and local textiles industry suffered. Therefore some local products need to be protected through protectionist policies to ensure that they are able to trade in the market without being driven to extinction by similar imported foreign products.



Individual countries have the right under international law to choose their own economic policies including creating demand for their goods and services at home and abroad and ensuring better prices and therefore higher returns to producers. However, membership of the World Trade Organization and recent bilateral, regional and multilateral trade agreements reduce the policy space and instruments available to government.

### BUT where are the mechanisms that the government has put in place to ensure economic benefits reach the bottom tiers of society?

If economic growth directed towards investment in public goods such as education, health, communications, transport and other public infrastructure, fair distribution of economic growth would take place.

**In Sri Lanka**, of the government expenditure on public goods in 2006, approximately 2.8% of the GDP was on education while 2.1% was on health services.  
(Source: Central Bank Report 2006)

The **GDP** is the total market values of goods and services produced within a country during a given year

TRADE HUMAN RIGHTS

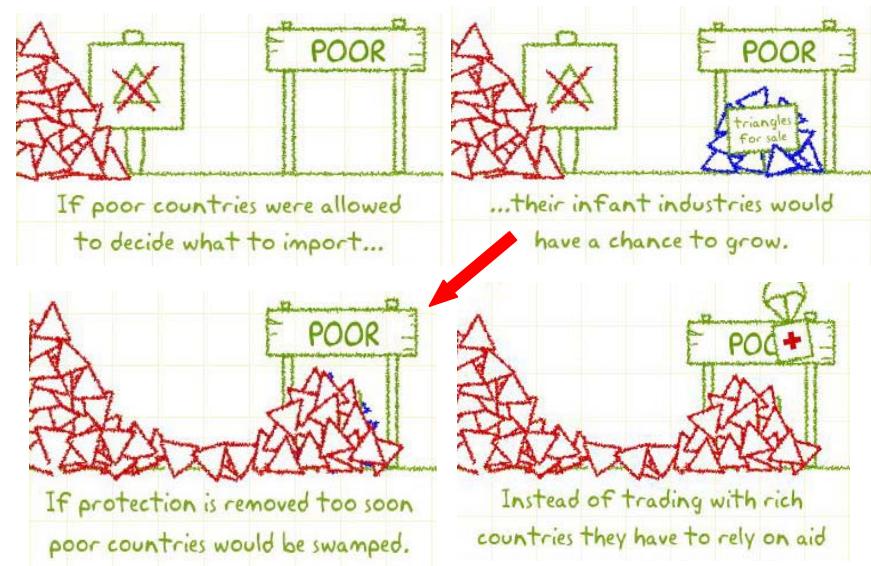
When development is recognized as an inalienable human right, it places an obligation on countries and the international world to safeguard that right when negotiating trade agreements. While countries are bound by negotiated bi-/multilateral trade agreements, they are firstly obliged by international human rights law.

### TRADE, HUMAN RIGHTS AND UNFAIR TRADE PRACTICES

Specific trade agreements affect different rights of people in developing countries due to the obligations that are imposed on developing countries under these agreements. Therefore unfair trade practices such as forced liberalization, dumping, patenting, lack of market access and exploitative labour conditions are unacceptable.

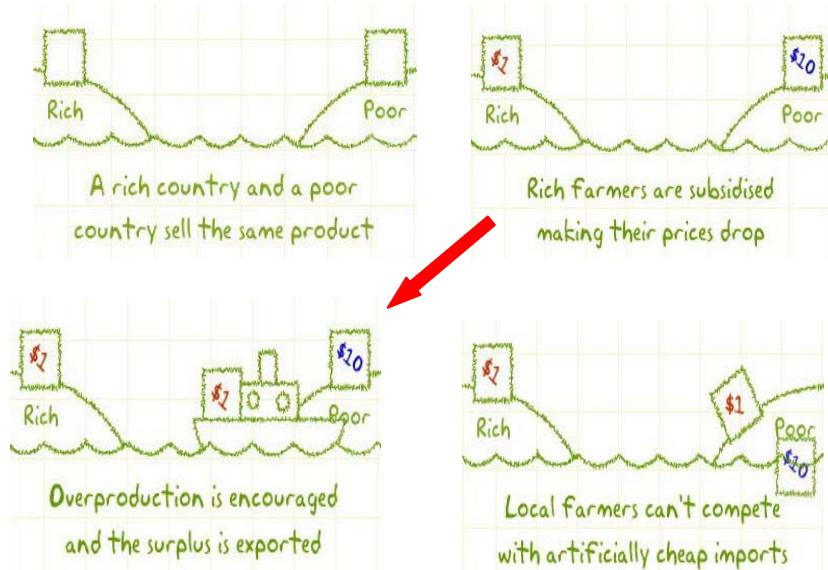
#### Forced Liberalization

Historically, developed countries chose when and by how much to liberalize their economies. In principle, even today each country can choose which sector or sectors to liberalize. However, in reality, developed country trading partners and multilateral organizations such as the World Trade Organization, International Monetary Fund and World Bank can place pressure on developing countries to open their markets in return for access to export markets or foreign direct investment or loans or technology and so on. Poor countries do not have the strength or bargaining power to make reciprocal demands on developed countries or to resist international institutions.



## Dumping

Historically, the subsidization of exports by developed countries has led to extra produce being dumped on developing countries. Dumping cheaper products on markets **force down the prices of local produce** as they need to compete with the imported produce although the production costs in the local country remain unchanged.



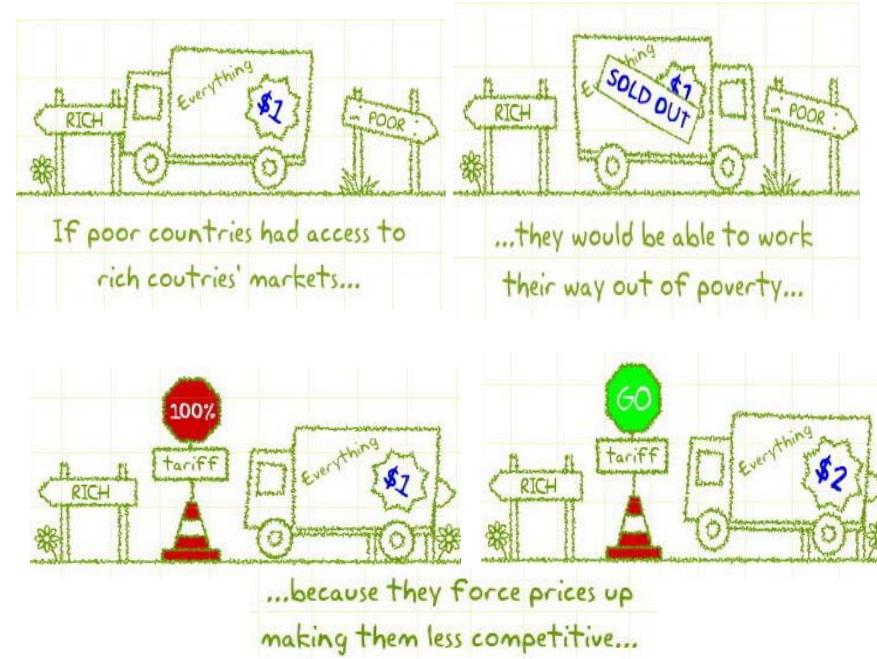
<http://www.maketradefair.com>

M. Danapala, father of three from Anuradhapura, won a presidential award in 1995 for the best paddy farmer. Yet, he now takes other jobs to make ends meet. "I'm reduced to poverty," he says. "Paddy is Rs 18 a kilo now only because it's after the harvest. During the harvest though, it's Rs 10 a kilo. Imported rice is one of the things that affect the price as merchants import cheaper rice in large quantities. This forces down the price in the local market while the cost of production remains high.



## Market Access

When developed countries place high tariffs on products imported by developing countries, these developing countries are unable to access foreign markets.



<http://www.maketradefair.com>

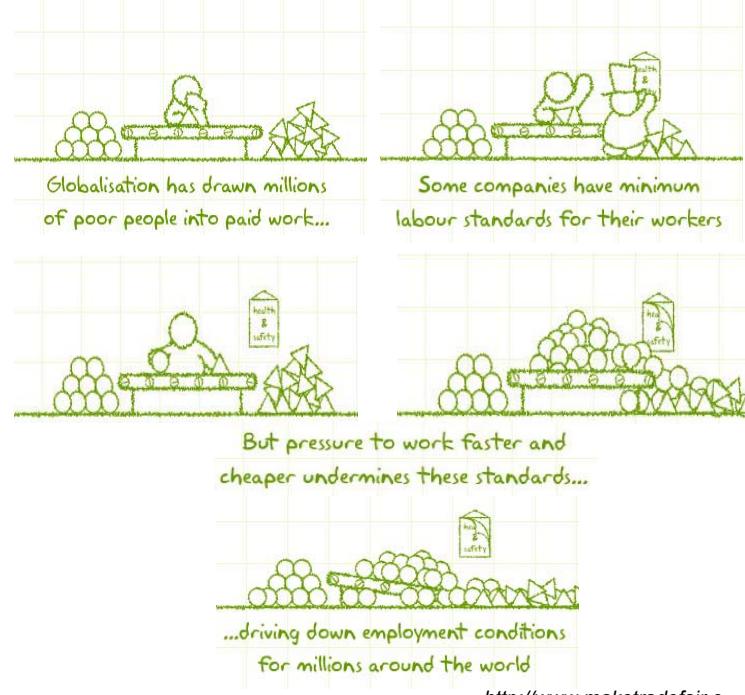
## Patents

Patents on key products such as medicines have had adverse effects on developing countries that are unable to access life-saving medicines. This is a barrier to the right to health of the citizens of developing countries. The agreement on Trade-Related Intellectual Property Rights (TRIPS) provision of a 20 year (minimum) patent on drugs meant that developing countries are unable to effectively address diseases such as human immunodeficiency virus (HIV) and Tuberculosis in a timely manner.



## Exploitative Labour Conditions

In developing countries, industries that are introduced to the open market through the reduction of tariffs are called upon to compete with products from developed countries. Developing countries have the advantage of cheap labour to partake in labour-intensive industries such as ready-made garments. However, this growing competition, and therefore the call for better products, can increase the risks to workers' rights.



Therefore if particular sectors are liberalized, workers' rights, as protected in national law and International Labour Organization Conventions, must not be jeopardized and put at risk.

## GENDER AND TRADE, DEVELOPMENT AND POVERTY REDUCTION

"Gender equality is at the core of human development. A development process that bypasses half of humanity – or discriminates against it – limits women's choices"

- *UNDP Linkages between Trade and Poverty I*



### Opportunities for Females

The female labour force has increased due to trade liberalization. The garments industry provides employment opportunities for young, unskilled females who were previously not considered to be a part of the labour force due to actively not seeking or being available for employment. The expansion of the female labour force from 1981-85/86 went up to 10.6% from 0.9% during 1971-81.

In 2006, approximately 56% of migrant labour was provided by females. Such opportunities of foreign employment results in increasing household incomes through remittances, etc.

However, there are also negative impacts on workers and society. Manufacturing plants are often located in special Export Processing Zones, where standards of health and safety are low and working hours extremely long. Women workers are subjected to unsafe and unhealthy working conditions such as exposure to toxic chemicals, other hazards, and lack of proper equipment for the work process. While workers have a right to unionize under local law, they are not permitted to unionize through threat of dismissal and intimidation.



The negative impact of female labour migration include abuse at the hands of employers, problems like divorce/ separation, social and health problems, husbands being addicted to alcohol, children dropping out from school and depression among family members.

## Trade Justice

Trade justice is the call for changes in the practices of the trade regime, which exist under the current international trade system, so that the poorer segments of society is benefited.

Trade justice campaigners advocate for pro development trade policies based on learning from research and other activities by taking into account the interests and priorities of the poor sections of the society. Such a break from this system would ensure that

- developing countries, such as Sri Lanka, would have more market access for their products without having to face high tariffs
- developed countries cease to heavily subsidize their agricultural products which make it difficult for farmers from developing countries to compete in prices

The majority of the poor in Sri Lanka are involved in primary agriculture or fisheries, which cater to the local market. Therefore producers need better prices for their goods in the local market. **It is the responsibility of the government to create a policy framework which ensures better prices for local produce and prevent subsidized, and therefore cheaper, goods being dumped on the local market to disadvantage local producers.**

A large sector of the poor in Sri Lanka is a part of the unskilled labour force. While this sector need better employment opportunities by gaining access to bigger labour markets in developed countries which are heavily protected, the government must ensure that unskilled labour receives better and fair wages, respect for their labour and human rights, and human dignity.

The TDP campaign seeks to promote the need for trade justice in Sri Lanka, to ensure that the poorer sectors of society are benefited by trade and development to work towards poverty reduction.

***Therefore while trade is an important factor in the fight against world poverty,  
the global trading system needs to be fair and just  
to enable developing countries to utilize trade  
as a means of poverty reduction***