

The Linkages between

Trade, Development

And

Poverty Reduction:



**"Bridging People
to Eliminate Poverty and to Build an Equitable Society"**



CUTS
International

I N T R O D U C T I O N

The campaign on the linkages between Trade, Development and Poverty Reduction in Vietnam is part of the regional advocacy efforts in 13 developing countries across South and South East Asia (Bangladesh, China, Cambodia, India, Kenya, Nepal, Pakistan, Sri Lanka, South Africa, Tanzania, Uganda, Vietnam and Zambia) and two developed countries (UK and Netherlands). The project aims to manifest policy relevance of international trade on poverty reduction that international policies have linkages on national development strategies for poverty reduction. The project is undertaken with the comprehensive analytical sector assessments with impact of trade liberalization which provide findings and policy messages. The project also achieves the objective of building capacity for civil society and policy makers on debate on trade and development, from the understanding of complex socio-economic issues.

Centre for Development and Integration (Vietnam) is the advocacy partner for the "Linkages between Trade, Development and Poverty Reduction", coordinated by CUTS-Center for International Trade, Economics and Environment (CUTS-CITEE, India) with support of CUTS international under the DFID and Development Fund of the Netherlands. The project is to facilitate the cross fertilization of experiences and lessons learnt on linkages between trade, development and poverty reduction in the developing countries to develop appropriate policy responses. www.cddivietnam.org

The core policy questions in the campaign include the linkages of sustainable development and poverty reduction reflected with concerns of stakeholders. The question also addresses to the linkages and impact of trade platform like WTO on sectors export, production and other social problems like labor. The concern relates to domestic legislations and regulations like labor standards, customs and export promotion etc.

The advocacy campaign kit aims to draw key messages by sharing critical experience and discussion on linkages of trade to Vietnam development and poverty reduction as Vietnam is coping with impacts of trade liberalization, WTO and challenges of globalization. It is structured into 4 main parts as follows;

Part 1 - Vietnam - Trade, Development and Poverty Reduction progress

Part 2 - Critical challenges of globalization to Vietnam

Part 3 - Fairness

Part 4 - Aid for Trade

KEY MESSAGES

- Trade should be made for development and poverty reduction
- Globalization demands for domestic legal and institutional changes in investment, tariff, financial sector etc.
- International and domestic policy makers are now faced with proper migration policies to help in global poverty. Welfare and social securities policies need to reach vulnerable groups like jobless or employment in informal sectors.
- The task for Vietnam's industrial policy makers will now be broaden by restructuring industries but helping domestic enterprises to improve their capacity to link up to international supply chains and become competitive and sustained suppliers or exporters but to integrate in fair global business environment.
- The wealth should be redistributed by stronger support of wealthier countries to poorer countries. ODA Assistance in capacity building to Vietnam in connection with Aid for Trade, will be important to help Vietnam to participate well in trade negotiations, in particular the post-WTO accession.



Intensified integration into the world economy and pro-poor nature are the two salient features of Vietnam's success in the last two decades. It is widely believed that positive impact of trade liberalization can only be realized if trade reform is associated with relevant domestic reform. How liberalization of trade regime continue to speed up growth and at the same time benefit the poor?

"Globalisation and continuing rapid technological advances offer unprecedented opportunities for social and economic development. At the same time, they continue to present serious challenges, including widespread financial crisis, insecurity, poverty, exclusion and inequality within and among societies. Considerable obstacles to further integration and full participation in the global economy remain for developing countries... Unless the benefits of social and economic development are extended to all countries, a growing number of people in all countries and even entire regions will remain marginalised from the global economy."

UN, "Globalisation and its Impact on the Full Enjoyment of Human Rights" (August 2000)

PART I- VIETNAM: TRADE IN LINKAGES WITH DEVELOPMENT AND POVERTY REDUCTION >>>

Vietnam is making positively pro-poor growth with about double size economy from 1993 to 2002 and with average growth of 7.6% from 2001-2005 and poverty halved to about 19% in 2004. However, in 2003, still about 38% of the Vietnam's GDP and 10% labor forces were from State owned enterprises, laying challenges for the economy efficiency. The privatization, foreign investment and trade policies facilitated competition and stronger export-led economy. Pressure under globalization and economic integration might have led enterprises to follow brand building, patent, property rights more than investment in increasing working conditions and living standards for laborers. Vietnam is emerging with new poor groups. The gap between the rich and the poor is widening. Vietnam became full membership of WTO since November 2006, after AFTA and other 40 bilateral agreements.

DOES VIETNAM'S RAPID GROWTH LEAD TO POVERTY REDUCTION?

High economic growth but
poverty persists for
continuous diseases, disaster,
high inflation, unemployment
as common in Vietnam.



However, the evidence shows that Most of the poor is working in agriculture, agro processing sector and other non-formal economic sectors.

- Over 90% poor is living in rural areas since they can not have other alternative livelihood than farming.
- High labor segmentation between rural and urban is making unstable poverty reduction in rural areas.

As poverty is global, given that Vietnam is fastest country in poverty reduction but new poor groups are emerging in Vietnam

- New emerging poor group are migrants in informal economic sectors and international migration for employment purpose but migration without proper protection and welfare policies are making them more vulnerable.
- New vulnerable poor group from industrialization and urbanization process: the landless farmers trade off their land to factories and urbanized or industrialized areas with low-cost scheme and with no alternative livelihood option.
- Drop-out school teenagers or unskilled laborers moving to urban areas from rural areas working in factories or becoming migrants suffers from very low living standards in the urban areas.

PART II- CRITICAL CHALLENGES OF GLOBALIZATION TO VIETNAM >>



Challenges to the country competitiveness: The globalization demand for higher competitiveness of business. Competitiveness should be generated from a sustainable approach in terms of human resources and social and environmental investment. Corporate Governance and Corporate Social Responsibility would also be a way to sustain Vietnam's rapid development of private sector.

Challenges of to Vietnam's Labor, Migration, Women Rights>>>: Global development leads to major economic and societal changes especially for women. Vietnamese women, in the whole Vietnam's historical process, have contributed significantly into socio-economic development. Women have participated in Doi Moi, helped to eradicating hunger and reducing poverty. However, the work and value of women are less recognized than those of men.

Moreover, women are more vulnerable as the cause of growing internal displacement, migration who are forced to leave behind their homes, livelihoods, community and are often separated, faced with insecurity and epidemics. Therefore, women's empowerment and gender equality are both matters of justice and prerequisite for development of the society. To achieve full fledge of women's rights and equality, Vietnamese women would need to move stronger to gain better position in economic, social and political arena. It is necessary to address disparities women in business and labor force including decent jobs for women in the context of Vietnam's fast growth of private sector, trade liberalization and international integration

Challenges is not excluding any sectors: Example from Textile and Garment Sector

Using millions of labor and the sectors are exported oriented, accounting for over 26% of total exports of Vietnam (2007), the main markets are EU, US, Japan and Eastern Europe. The trade liberalization opens more market and business opportunities but place the Vietnamese enterprises in highly competitive pressure by technology, equipment, knowledge investment in design and brand making and international standards. Non-trade barriers is often seen obstacles for Vietnamese enterprises. Besides the pressure to reduce costs, enterprises had to minimize salary and social welfare for workers. The impact of dumping on Vietnamese footwear sector might place about half a million workers in job-less. Millions of workers are from rural area, being migrants with low salary as of 400.000VND to 600.000VND (2007) per month and very low living standards and become poor in the cities. Strikes often happened in 2005-2007. These facts push for proper domestic policies to ensure investment goes along with social welfare like housing, health care, education services to avoid emerging urban poor phenomena.



DOES TRADE LIBERALIZATION AND ECONOMIC INTEGRATION HELP TO BRING POSITIVE IMPACT ON LABOR ISSUES AND BENEFIT THE POOR?

Trade integration can also contribute to rising income inequality between regions and sectors. Many potential losers such as farmers supplying their output to agricultural SOEs and migrant workers of protected industries may not have necessary means to cope with trade-induced negative shocks and hence need social support from the government. The emerging evidence on the links between trade reforms and poverty the need for carefully targeted social safety nets and complementary policies; as well as appropriate institutions to be set up. Evidence of labor market segmentation implies that work should also be done towards reducing the gaps between returns to human capital of workers in different segments.



Global market but poverty exists – some facts:

- 59.4% of South East Asia and the Pacific are vulnerable employment
- Globally, The ILO said an estimated 487 million workers - or 16.4 per cent of all workers - still don't earn enough to lift themselves and their families above the US\$1 per person, per day poverty line while 1.3 billion workers - 43.5 per cent - still live below the US\$2 per day threshold
- Although Asia has achieved unprecedented economic growth in the last three decades, hunger and poverty persist, with 600 million people (15% of Asian population) living on less than US\$1 a day (ADB, 2007)
- Vietnam achieved 8% growth and creation of jobs but failed to have significant impact on improving life of workers.

The policy triggers include

- Reduction in state economic sectors means create the less protected scheme to the laborers and together placed high laid-out labor forces. Many laid-out laborers, accounts for about 2/3 redundant labor after equitization said their life was becoming poor-off. The economy has yet immediate solutions to mobilize the laid-out laborers in terms of upgrading vocational skills.
- Globalization and trade liberalization in linkages with job stability is still a question. High segmentation in the market causes difficulties for laborers to benefit more from the trade liberalization process.
- Vietnamese seek employment abroad as means way out of poverty. The law on sending labor abroad has been passed in 2007 but still will face with constraints in protection policies and equivalent responsive policies in host countries.

Trade liberalization impact on the poor shrimp farmers – Case of Ben Tre province



Trade liberalization has promoted agricultural structure transition in Ben Tre, moving from a rice monoculture economy, towards centralized and specialized commodity production. Most shrimp growers in Ben Tre were formerly rice farmers and gardeners, and rice cultivation was the main livelihood for many farmer households. In the early 1990s - in the early stage of renovation and market reform, Ben Tre farmers' and fishermen's living conditions were poor, due to rice monoculture and limited alternative income sources. Since the renovation and trade liberalization implementation, Ben Tre economy has changed dramatically. The structural transition brought about by trade liberalization had a significant positive affect on livelihoods. Agriculture, the key livelihood that generated jobs and income for poor farmers, faced obstacles because products (rice and fruits) grown in salivated and aluminized land failed to compete with highly subsidized products on the international market. Trade liberalization with stimulation of social investment has resulted in raised capital, mobilized resources, mass investment in pond cultivation for shrimp, developed shrimp-related services and export processing and increased employment.

Source: Study of Center for Development and Integration, 2006

Shrimp farmers are facing many constraints

We have to borrow capital, not from banks as we lack deposits, but from other lenders for increasing costs of machine oil, shrimp medicines and feed. It is easy to get loans but with high interest rates of 20% per month. Despite expecting to repay the principal after four months of shrimp farming, the shrimp price has fallen continuously. In 2003, one kilogram of 40-shrimps/kg types was over VND 85,000, but this fell to VND 78,000 and VND 62,000 - 70,000 in 2004 and 2005 respectively. Moreover, we also faced difficulties in selling as traders preferred big volume from the rich farmers to our small volumes. We had to accept the set price which was unfavorable to us because otherwise our stocks would die without being sold.



Stated by Truong Thi B., 50, hamlet 5, Thanh Phuoc commune, Binh Dai district, Ben Tre province, November 2005

IS TRADE AGREEMENTS MAINTAINED FAIRNESS IN ITS COMPETITIVENESS?

Vietnam is still considered the non-market economy status, and facing challenges into new rules of WTO like GATT (General Agreement on Tariffs and Trade), GATS (General Agreement on trade and services), TRIPS (Intellectual property rights) and TRIMs (trade related investment measures). Vietnam is complying well with ASEAN's open regionalism, APEC commitments, and AFTA towards WTO full membership since 2006.



Dealing with risks, enterprises' competitiveness should be enhanced in the domestic market with public policies, the Vietnamese people can achieve greater competitiveness. Competition is not a problem if everybody has access to information, especially farmers and ethnic groups. WTO is a goal and a journey of knowledge and information to better markets, even for the poor.

After Trade barriers are removed, commodity exports accelerate. More importantly, when Vietnam gets the Generalised System of preferences (GSP), most export commodities like agriculture products, textiles, footwear seafood will get GSP with a very low tariff. Export of seafood has increased 60%-70%, textile 50%, electrical appliances 50% etc but in realities, agricultural products will benefit most. But to avoid the dumping policies from some bilateral agreements (EU, US etc.), Vietnam's enterprises should not sell their commodities at low prices for competitive purposes, as it will reduce profits and increase risk of being sued for dumping. The dumping policies, favoured by US and EU by their own requirement has place dumping on "basa" fish, shrimp, shoes, bicycle etc. to Vietnam's WTO commitments on market mechanism, removal of price fixing, more foreign investment, free wage bargaining and less government ownership. The Vietnamese authorities and business communities have prudent steps to mitigate the risks and losses of the anti-dumping policies placed on selected sectors, but if the Non-market economy status continues, it would be the risks to the Vietnam exports and labor.

The message is that free trade is trade not by government interventions. Trade is incentives for development, not by stopping government of poorer countries with policies to develop their own economies. The ending of domestic policies that support local small scale producers would threaten the livelihoods of millions of farmers, instead of offering preferential credit and tax while it is to make sure the investment benefits the poor people.

AID FOR TRADE: VIETNAM RAISES COMMITMENT FROM ODA PARTNERS

Trade and globalization should benefit the poor countries. As Vietnam is the 150th member of WTO in 2006 and becoming the middle income country by 2010, but to achieve the UN Millennium Development Goals it would continue to have aid to the poorer population groups, empower women and ensuring sustainable growth. Market access for the poor is important in this connection. The governments need to commit themselves to develop fair global governance in the area of international trade: well functioning of regulations and trade procedures, productive capacity, infrastructure and marketing. Developed countries will need to prioritize with trade policies and technical assistance to promote trade with poorer countries, remove trade barriers in connection with poverty reduction efforts. Assistance in capacity building to Vietnam, as poorer country, will be important to help Vietnam to participate well in trade negotiations, in particular the post-WTO accession. The increased Aid for Trade must be based on national development strategies. Without the active participation of public-private partnership in both recipient and donor countries, it will be difficult to achieve sustainable growth and export revenues.



Some facts about Fair trade:

- For every dollar given to poor countries in aid, two dollars are lost because of unfair trade
- When poor countries try to export their products, they have to pay taxes that are four times higher than those of rich countries have to pay
- More than 40% of the world population living in low income countries, but yet they are making only 3% of trade.

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