

**Linkages between Trade, Development and  
Poverty Reduction:  
*Stakeholders' View from South and South-East Asia  
on Pro-Poor Trade Policies***



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## ***Stakeholders' View from South and South-East Asia on Pro-Poor Trade Policies***

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# 1

## Introduction

Of the many current discourses in the fields of development or international economics, very few capture the degree of passion or sense of urgency as the debate on linkages between trade, development and poverty.

A review of the literature on international trade can fill libraries with books and studies arguing either that: “freer trade would free more of the world’s poor from the misery their poverty represents”<sup>3</sup> or free trade is part of the problem of poverty because, “the benefits of international trade remain unequally distributed: With 14 percent of the world’s population, high-income countries account for 75 percent of world exports; Low-income countries with 40 percent of the world’s population account for three percent of world trade.”<sup>4</sup>

The above quotes reflect the “left” and “right” range of views about trade, the rules based trading system, and the 2001 launch of the current WTO Round of trade negotiations, known as the “Development Round”. Perhaps locating the views of stakeholders in developing societies at the centre of the debate can sharpen the “rhetoric” of both sides and elevate the quality of the discussion.

Before outlining the focus of this paper, I would like to offer a few points of departure and contextual settings for the findings and conclusions:

- By most accounts, there is no empirical evidence to support an inherent or direct causal or correlative relationship between trade liberalisation and economic growth. Past and present examples can be found which either support or call into question such relationships.
- By most accounts, there is a better case for a direct correlative relationship between growth and poverty reduction in developing societies. However, this author offers the caveat that such relationships often depend on the “pro-poor quality” and the “sustainable socio-economic development nature” of the growth processes.
- In developing societies, there are both domestic (internal) and international (external) structural constraints on trade to be used as a sustainable catalyst for poverty reducing efforts. While much of this work focuses on the latter, it should not insinuate that the removal of external constraints on developing societies would automatically enable trade to play such a role.
- While some focus on new characteristics or trends in the global economy associated with the emergence of Asia (led by China and India) as the world’s new growth pole.<sup>5</sup> It is the evolution of the

*“The majority of WTO members are developing countries. We seek to place their needs and interests at the heart of the Work Programme adopted in this Declaration.”<sup>1</sup>*

*“This is a massive defeat for poor people around the world. The much hyped development round is empty.”<sup>2</sup>*

regulative and institutional frameworks governing the rules based system of international trade, the forms of governance influencing the consuming and producing agents within those frameworks, and national economic and trade policies which shed a great deal of light on the linkages between trade, development and poverty reduction in the 21<sup>st</sup> century.

- With the 2005 WTO Ministerial meeting set for December, the world will obtain another snapshot of the current and future “development orientation” tendencies in the rules based trading system. The talks on the Agriculture Agreement will have the most impact on trade and poverty.

The overall objective of this paper is to interrogate the following questions: “If we seek better results in terms of how trade can help reduce poverty do the current trends call for doing different things in terms of trade policy and the rules based system, as opposed to doing the same things differently”? Put another way, what would produce superior poverty reducing results, a continuation of the current trade liberalisation policy based agenda within the current global trade architecture or an alternative rules based system more conducive to alternative poverty reduction based approaches to international trade policy?

The paper explores this question by examining linkages between trade policy and poverty reduction in relation to the WTO, the Integrated Framework initiative, regional trade policies in Association of Southeast Asian Nations (ASEAN) and the Poverty Reduction Strategy Paper (PRSP) processes in Bangladesh and Cambodia. The following sections will attempt to explore: the issue of poverty; linkages between trade, trade policy and poverty reduction; concepts of “pro-poor growth”; empirical background on poverty and linkages between trade, trade policy and poverty reduction in Bangladesh and Cambodia; elements of alternative approaches to “Pro-poor” trade policies; perspectives on how the global rules based system shapes the nature of relationships between trade policy and poverty reduction efforts; and opportunities for developing societies to better use trade policy to combat poverty. The conclusion will summarise the implications of how the evolution of the current trade policy environment relates to the development of alternative “pro-poor” based approaches to trade policy.

# 2

## Framing Poverty

The literature on conceptualisations of poverty and subsequent links to trade is quite rich. At the core, poverty is often defined in terms of income, the capacity to access and consume basic needs and public services (food, clothing, shelter, healthcare, education), and the capacity to produce or acquire ones basic needs via subsistence activities or via selling labour, goods or services in the market place. Clearly, any policy measure that increases the price of something sold by an individual or household, increases income while any measure that reduces the price reduces income. Also, any policy measure that increases prices of what an individual or household consumes, decreases income and while any measure that decreases the price, increases incomes.

Poverty in most developing societies remains predominantly a question of the conditions of life for people in rural areas. In general, the majority of populations in most developing societies rely on some form of agricultural related economic activity as their primary livelihood. In many cases, it is this segment of the population that makes up the largest component of the society living in poverty.<sup>6</sup> While a comprehensive look at the issue of poverty and subsequent conditions of life in developing societies, particularly in the least developing countries (LDC's) is beyond the scope of this paper, the following points of reference are offered:

- *Both World Bank and United Nations Conference on Trade and Development (UNCTAD) poverty estimates suggest that 49-50 percent of the population in LDC's were living on less than US\$1/day at the end of the 1990s.*<sup>7</sup>
- *Although LDC's had much better economic performance in the late 1990s, the overall incidence of poverty did not decline during the decade.*<sup>8</sup>
- *If current trends persist, it may be estimated that the number of people living in extreme poverty in LDC's will increase from 334 million people in 2000 to 417 million in 2015.*<sup>9</sup>
- *The World Bank reports that the number of people living on US\$2/day or less in East Asia is estimated to have fallen to 631 million in 2004, about an 8 percent decrease from the previous year.*<sup>10</sup>
- *The World Bank reports that the number of people living on US\$2/day or less in Cambodia has increased from 7.7 million in 1990, to 11.1 million in 2004. Number of people living on US\$1/day or less also increased from 4.4 million to 6.1 million during the same period.*<sup>11</sup>
- *United Nations Development Programme (UNDP) reports that 90 percent of Cambodia's poor, approximately 36 percent of the population in 1997, are rural households.*<sup>12</sup>

*Poverty in most developing societies remains predominantly a question of the conditions of life for people in rural areas*

*Majority of populations in most developing societies rely on some form of agricultural related economic activity as their primary livelihood*

*“There will be no deal on agriculture unless they open their markets to EU manufacturing exports.”<sup>14</sup>*

*“The United States is willing to cut farm subsidies if other and industrial countries also did.”<sup>15</sup>*

- In Bangladesh, poverty reduction efforts have in general produced positive results. Although Sengupta notes: “Many reports, among them the UNDP report on Asian poverty (2003) show that poverty in Bangladesh has declined steadily in the 1990s. However, in the decade of rapid trade liberalisation since mid-1980s the poverty reduction effect of growth became much weaker, despite an increase in growth rates of per capita income”.<sup>13</sup>



# 3

## Linkages between Trade Policy, Growth and Poverty Reduction

In reviewing the literature on the theoretical concepts of the linkages between trade and poverty, a range of analyses can be found which can be located in the debate between the “for globalisation” side<sup>16</sup> and the “anti-globalisation” side.<sup>17</sup> The former argue that nations which have/are embracing globalisation the most (via trade and investment liberalisation) are performing better than nations which don’t, in terms of reducing of poverty in their societies. The latter, argue that trade and investment liberalisation is shaping the current nature of globalisation in ways which tend to increase income inequality within and between societies, and in several ways constrain poverty reduction efforts in developing societies.

Alan Winters’ Trade Policies for Poverty Alleviation: What Developing Countries Might do, offers a relatively balanced approach for conceptualising the linkages.<sup>18</sup> Bhagwati and Srinivasan’s Trade and Poverty in Poor Countries, strongly support the position that “trade promotes growth” and “growth reduces poverty”.<sup>19</sup> Ademola Oyejide’s Trade Reform for Economic Growth and Poverty Reduction, notes the importance of a range of complementary domestic and international policy factors and variables being present, in order for trade liberalisation to reduce poverty in developing societies.<sup>20</sup>

In general, trade policy affects poverty via impacts on domestic economic variables such as prices, employment, wages & incomes, and government revenues and spending. Clearly, trade policy and other forms of liberalisation serve as the primary pathways by which domestic growth and development processes in developing societies are linked to the dynamics of developed economies and global markets. However, there is a robust debate on the challenges and opportunities associated with the nature of such linkages and what they mean for growth, development and poverty reduction.

The World Bank’s position is clearly articulated in their approach to mainstreaming trade in their PRSP process where the definition of a successful trade policy reform effort will result in the “poor” being better off if trade liberalisation results in a situation where they earn income from working in the export sector and consume goods from the importable sector.<sup>21</sup> Such thinking reinforces a static comparative advantage model of growth in developing societies, which suggests that “producing what you don’t consume, and consuming what you don’t produce” represents a viable element of a sustainable development strategy in the 21<sup>st</sup> century.

*Trade policy affects poverty via impacts on domestic economic variables such as prices, employment, wages & incomes, and government revenues and spending*

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This author does not share that perspective. I also note that it would, in many instances, perpetuate existing economic models in developing societies (many of which have their roots in colonialism) which to date have often proved increasingly unable to sustain the kinds of growth and development processes necessary to reduce poverty. Alternative frames of reference can be found in Rodrik (2001)<sup>22</sup> and Winters, L.A., N. McCulloch, and A. McKay (2004).<sup>23</sup>

# 4

## Concepts of Pro-Poor Growth

Pro-poor growth is about changing the distribution of relative incomes through the growth process to favour the poor. Two definitions (relative and absolute) for measuring Pro-poor growth include:

- Growth is pro-poor when the distributional shifts accompanying growth favour the poor, relative to the non-poor (Klasen, 2004; Kakwani and Pernia, 2000; McCulloch and Baulch, 1999; Kakwani and Son, 2003).<sup>24</sup>
- Growth is considered to be pro-poor if and only if poor people benefit in absolute terms, as reflected in some agreed measure of poverty (Ravallion and Chen, 2003; Kraay, 2003). In this case, the extent to which growth is pro-poor depends solely on the rate of change in poverty, which is determined by both the rate of growth and its distributional pattern.<sup>25</sup>

The World Bank uses the latter definition, because it finds limitations in the former due to its higher priority on distribution relative to growth maximisation. However, this author favours the former, because of the political and economic implications of the tendency of “income inequality” to increase in societies pursuing growth maximisation based approaches to poverty reduction.<sup>26</sup>

Alternative concepts of pro-poor growth tend to place a higher value on the linkages between inequality, growth and poverty reduction. In a sense, arguing the potential for stronger growth poverty linkages, when the growth process promotes greater income equality. The following additional points are often noted in alternative approaches to pro-poor growth:

- In pro-poor growth, it is necessary to have the type of growth that raises average household incomes and household consumption. Increases in overall GDP per capita do not inherently achieve these two objectives.<sup>27</sup>
- Growth that is pro-poor tends to increase staple food production and farm employment, and provides incentives and enables devices that reduce fertility.<sup>28</sup>
- A key determinant of whether how much growth leads to poverty reduction (low-end redistribution) depends on how much at the initial stages the reduced poverty promotes additional growth.<sup>29</sup>
- Contrary to neo-liberal based concepts of the linkages between growth and poverty, alternative approaches also recognise clear instances when growth can be bad for the poor.<sup>30</sup>
- Growth is considered pro-poor when it is labour absorbing and accompanied by policies, which mitigate inequalities, and facilitates income gains particularly for women and other traditionally excluded or disadvantaged groups.<sup>31</sup>

*Pro-poor growth is about changing the distribution of relative incomes through the growth process to favour the poor*

*Alternative concepts of pro-poor growth tend to place a higher value on the linkages between inequality, growth and poverty reduction*

- An interesting case study of how one nation reformed its policy approach to development from a “growth” oriented strategy to a “social equity” oriented strategy is Malaysia.<sup>32</sup>

# 5 Empirical Evidence: Bangladesh and Cambodia

As previously noted, trade policy represents the pathways by which the dynamics of global markets can impact conditions of poverty in developing societies. Carr and Chen (2001) provide a strong gendered analysis of such pathways, with particular focus on identifying unique differences in impacts on the formal and informal economies of developing societies.<sup>33</sup>

In terms of empirical analyses of the impacts and linkages between trade policy, growth and poverty reduction the following conclusions from several studies are presented below. At the macroeconomic level, Cline estimates that global free trade would generate income gains of US\$90bn annually for developing nations from static effects, and long-term gains (from dynamic effects) of US\$200bn annually.<sup>34</sup> However, Kraev estimates losses of 10 percent to 16 percent in GDP and 4 percent to 29 percent in aggregate demand in LDC nations, due to aggregate demand deficiencies generated by rising trade deficits resulting from rapid trade liberalisation.<sup>35</sup> Christian Aid estimates losses in income associated with rapid trade liberalisation in LDC's since 1985 to be US\$250bn.<sup>36</sup>

Annabi, Khondker, Raihan, Cockburn, and Decaluwe find the following impacts of WTO Agreements and domestic trade policy reforms on production, welfare and poverty in Bangladesh: 1) Doha scenario has negative implications for the overall macro economy, household welfare, poverty, terms of trade, and increases in domestic food prices; 2) free world trade has similar but larger impacts; 3) domestic trade liberalisation induces an expansion of agricultural and light manufacturing sectors, increased wage rates for unskilled labour, and increased welfare and poverty reduction; 4) when combined, domestic liberalisation effects outweigh those of free world trade; and 5) remittances are a powerful poverty reducing tool given their importance to the poor.<sup>37</sup>

Khan finds the following poverty impacts of trade liberalisation policies:

- 1) In South Asia, trade liberalisation can lead to further poverty reduction;
- 2) Both the extent and depth of poverty decline in each household group;
- 3) Largest headcount ratio drop is for rural unskilled group;
- 4) Poverty severity falls for all household groups, except for urban unskilled workers;
- 5) Poverty reduction benefits are greater when tariffs are reduced to 15-18 percent, than when reduced below 15 percent; and

*Remittances are a powerful poverty reducing tool given their importance to the poor*

*In South Asia, trade liberalisation can lead to further poverty reduction*

6) tariff reduction will “ultimately” benefit the poor, but the process is uneven and requires time adjust through the economic system.<sup>38</sup>

*In the 1990s,  
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The International Development Research Centre (IDRC), Canada supports the Micro Impacts of Macroeconomic and Adjustment Policies (MIMAP) project in Bangladesh that generated the following findings on the impacts of trade policy on income distribution and household welfare: 1) Since the 1980s, Bangladesh has adopted a comprehensive trade liberalisation based approach to economic policy reforms, associated with a number of Structural Adjustment Facility and Enhance Structural Adjustment Facility agreements with the World Bank and IMF; 2) In the 1990s, Bangladesh’s trade policy environment was liberalised rapidly, resulting in a rise in the share of foreign trade as a percentage of GDP and the degree in which Bangladesh’s domestic economy is integrated into the global economy; 3) In the 1990s, incidences of poverty in Bangladesh have declined; 4) Household welfare improved for all household groups; 5) Welfare gains for high-income households were larger than for low income households; 6) Wages for manufacturing workers declined; and 7) Wages for agricultural workers increased.<sup>39</sup>

*Cambodia’s  
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As noted earlier, Cambodia’s progress in terms of political stability, macro-economic stabilisation and export led economic growth in the 1990s had a limited impact on poverty reduction efforts. The UN notes that poverty rates remain very high with 35 percent to 40 percent of population below the poverty line, with 15 percent to 20 percent in extreme poverty and inequality rising.<sup>40</sup>

Given the structural composition of poverty in Cambodia (the poor are concentrated in rural areas, most households headed by farmers with limited education), the most significant linkages between trade policy and poverty are in the following areas: 1) in agriculture, expenditures of the poor on rice are the most important expenditure hence food prices are a significant factor impacting poverty; 2) impact on poverty from reducing important tariffs to 7 percent were estimated to increase household purchasing power by 3 percent to 4 percent;<sup>41</sup> 3) employment and wages for 250,000 urban workers in the garment export industry represent a significant source of income for two million relatives in rural areas;<sup>42</sup> and 4) in the post MFA environment, Cambodia’s garment industry has been able to sustain its performance. However, global competitive pressures are forcing Cambodia to move up value chain in terms of labour standards and pursue enhanced bilateral market access in US.<sup>43</sup>

# 6

## Poverty Reduction and Trade Policy: Case Studies of Bangladesh, Cambodia and ASEAN

As previously noted Bangladesh, Cambodia and the ASEAN region have experienced a range of poverty reduction related results during periods of trade liberalisation policy reforms. In the cases of Bangladesh and Cambodia, such reforms have been associated with World Bank and IMF supported efforts to “mainstream” trade policy into their national PRSPs and efforts by the IMF, World Bank and WTO to coordinate the provision trade policy reform technical assistance under the Integrated Framework (IF) initiative.

In Bangladesh, development practitioners and stakeholders highlighted broad trends such as: the importance of growth in the agricultural sector in reducing poverty; growth in agriculture now linked more closely to external trade policy; and Bangladesh’s success in reducing poverty per year during the past two decades. However, the rate of poverty reduction per year slowed in 2000 from 0.8 percent per year to 0.5 percent per year and income inequality has remained a major factor in reducing poverty. The following comments with regard to the impacts and linkages between trade, trade liberalisation associated with PRSPs and poverty reduction efforts were also noted.

Comments on some of the domestic impacts of trade policy reforms (enhanced liberalisation) include:

- The externally supported PRSP process, as opposed to efforts by domestic actors, has been the main catalyst for re-energizing the use and elevating the priority of trade liberalisation in Bangladesh’s approach to economic policy. This has led to a shift in the paradigm for national development planning from aid to trade, the processes for development policy formulation and the amount of policy monitoring.
- Decline in the numbers of SME’s.
- Greater emphasis on making the export sector via diversification to be the primary engine of growth.
- The government lacks capacity and resources to provide higher levels of support for the private sector to better compete in international markets.
- The pace of development of the sector has outpaced the development of domestic infrastructure and related business related services sector, resulting in weak forward and backward linkages.
- Domestic investment flows have been skewed toward the leading export industry (ready made garments) at the expense of other industries.
- Emergence of larger size firms using higher skilled labour in the ready-made garment industry.

*In Bangladesh, development practitioners and stakeholders highlighted broad trends such as: the importance of growth in the agricultural sector in reducing poverty*

*Greater emphasis on making the export sector via diversification to be the primary engine of growth*

*For growth to take on a more poverty reduction orientation, it must lead to creation of more services, job creation and a middle class*

- All firms in the garment industry facing increased external pressure on profit margins, delivery schedules, and quality, standards, & practices in the production methods.
- Smaller firms, which do not find niche in garment industry dying out.
- As wages and skills requirements for export jobs increase, barriers for those at lowest skill set (next generation of migration from rural to urban areas) to enter labour force are increasing.
- Trade balance has caused balance of payment (BoP) pressures during periods of rapid import growth.
- The impact of the declines in production of certain agricultural products, which were unable to compete after import liberalisation, were stronger than increases in agricultural production in products where Bangladesh could compete.
- For growth to take on a more poverty reduction orientation, it must lead to creation of more services, job creation and a middle class.
- Bangladesh needs to increase the rate of GDP growth, above 8 percent is pivot point for increasing “quality” of growth and faster rate of poverty reduction.

Comments on some of the external impacts of trade policy reforms (enhanced liberalisation) include:

- Insufficient harmony & coordination between IF process. In WTO special and differential treatment (S&DT) is included in talks, while policy conditionality remains focus of IMF and World Bank.
- WTO technical assistance to help implement policy reforms is on a non-binding basis.
- WTO led trade policy reforms have led to erosion of LDC’s preferences.
- In total, LDC’s were asked to pay high prices for accession into the WTO but in areas of most interest to LDC’s for capturing gains from WTO accession (like movement of natural persons) WTO has not delivered.<sup>44</sup>

In Cambodia, development practitioners and stakeholders highlighted broad trends such as Cambodia sustained a GDP growth rate between 5 percent and 7 percent from 1995 to 2004. The textile and garment export and tourism industries have emerged as the primary engines of growth. In spite of this record of growth, poverty in Cambodia increased from 36 percent in 1999 to 40-45 percent in 2004. The following comments with regard to the impacts and linkages between trade, trade liberalisation associated with PRSPs and poverty reduction efforts were also noted.

Comments on some of the domestic impacts of trade policy reforms (enhanced liberalisation) include:

- Very little impact of overall growth on poverty reduction.
- Trade policy reform has become a central component of the Government’s policy reform agenda as part of Cambodia’s participation in the WTO, ASEAN Free Trade Area (AFTA), ASEAN +3 and Greater Mekong Regional integration initiatives.
- Potential new sources of growth include: agro-processing, electronics, and energy.
- Agriculture sector remains predominantly at the subsistence level. Rice, forestry and fish are the leading products.

*Potential new sources of growth include: agro-processing, electronics, and energy*



- The government lacks capacity and resources to provide higher levels of support for the private sector to better compete in international markets.
- Limited returns to agricultural producers from agricultural exports.
- WTO accession forced a faster pace of trade liberalisation beyond development of the government's capacity to regulate or to understand range of impacts on domestic firms.
- WTO accession was also used as an external force for deeper domestic economic policy reforms.

Comments on some of the external impacts of trade policy reforms (enhanced liberalisation) include:

- Trade facilitation via improving customs systems is a major objective of trade policy reform.
- Regional integration is a major objective of trade policy, as part of an export promotion strategy to neighbouring nations.
- Export oriented garment industry dependent upon imported inputs and has very few backward linkages (beyond wages & employment) with the rest of economy.
- Tourism industry also primarily dependent upon imported products.
- WTO accession has given Cambodia greater visibility in international markets.<sup>45</sup>

While the author did not conduct interviews with ASEAN officials about trade policy regional poverty reduction efforts, the following points are offered for additional insight. The ASEAN region is one of Asia's leading growth nodes with a population of 500 million people and a regional GDP of US\$750bn. The ten ASEAN nations represent wide range of levels of development and success at reducing poverty from Singapore and Malaysia to Cambodia and Lao PDR. It is a region where international trade and investment play important roles in each country.

In terms of regional policy approaches to support economic growth in ASEAN's LDC nations, liberalising trade and investment flows by developing "corridors" between those societies and larger regional economies is the preferred approach. Hence, initiatives such as the Greater Mekong Sub Regional cooperation project have been implemented to facilitate the development of infrastructure to better enable the development and sharing of the resource base, and promote the freer flow of goods and people in the sub-region. To date, gains in regional trade and investment levels have been made. However, improvements in social indicators including levels of poverty have lagged.<sup>46</sup>

In terms of regional poverty reduction initiatives, ASEAN has two platforms which guide regional collaboration in combating poverty: Framework for the ASEAN Plan of Action on Rural Development and Poverty Eradication and the ASEAN Action Plan on Social Safety Nets. Both grew out of the painful lessons of the 1997 Asian Financial Crisis, which revealed that even successful nations were susceptible to swings in global economic forces.

The Framework for the ASEAN Plan of Action on Rural Development and Poverty Eradication is based on a vision of

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*The ASEAN Action Plan on Social Safety Nets was formulated in 1998 to help ASEAN nations build the collective capacity to respond to the human and social impacts of the 1997 Asia Financial Crisis*

*Individual examples of linkages between trade policy and poverty reduction efforts in ASEAN exist*

“Eradicating poverty, with particular emphasis on promoting the development of prosperous and self-reliant rural communities by empowering individuals, families and disadvantaged groups”. Strategic objectives include: developing human resources; building capacity for policy formulation and implementation; strengthening ASEAN’s capacity for monitoring and assessing poverty incidence and trends; encouraging the active participation of the private/business sector; promoting networking among the national and regional development/poverty research institutes of the ASEAN countries’ and creating common positions on matters related to rural development and poverty eradication among ASEAN Member Countries.<sup>47</sup>

The ASEAN Action Plan on Social Safety Nets was formulated in 1998 to help ASEAN nations build the collective capacity to respond to the human and social impacts of the 1997 Asia Financial Crisis. Key objectives of plan include: Assessing and monitoring the social impact of the crisis and identifying the needs of targeted groups; developing and implementing social safety net programmes for the disadvantaged; and monitoring the effectiveness of social services delivery.<sup>48</sup> Today, both remain complementary dimensions of ASEAN’s intra and inter-regional economic integration and trade liberalisation initiatives.

Individual examples of linkages between trade policy and poverty reduction efforts in ASEAN exist. In the case of Indonesia, a 2003 study noted the negative impact on poverty reduction efforts in terms of decreases in incomes for rice farmers, resulting from import trade liberalisation of rice from 1995 to 2001.<sup>49</sup> A similar report noted a positive impact on poverty reduction efforts in Vietnam, from trade liberalisation of rice and agricultural inputs.<sup>50</sup>

# 7 Alternative Approaches to “Pro-Poor” Trade Policies

Exploring alternative approaches to trade policy to combat poverty must be placed in the context of the debate on the role of trade in development in the current international trading system. Regardless of perspectives on the current liberalisation orientation of trade policy to combat poverty, a more interesting debate centres on the varying reasons offered whenever instances of trade liberalisation do not lead to improvements in poverty reduction.

Some institutions argue that when trade liberalisation does not appear to help produce robust poverty reduction results or is associated with exacerbating existing conditions the source of the failure is insufficient liberalisation (hence additional import liberalisation is the solution) and/or the absence of other necessary institutional changes and policy reforms. Neither the structure of the global trading system nor the fundamental premises and assumptions associated with the liberalisation orientation of trade policy are called into question.<sup>51</sup>

In a report on growth and export competitiveness in Bangladesh, the World Bank argues that in order for Bangladesh’s export performance to both sustain previous results<sup>52</sup> and to respond to the new global competitive challenges which put Bangladesh’s export led growth performance at risk, broader and deeper policy reforms “additional import liberalisation” are necessary to address Bangladesh’s sources of competitive disadvantage.

The World Bank cites the use of an integrated value chain analysis to quantify the costs of corruption & red tape and constraints created by poor infrastructure, tariffs and high costs of finance on the competitiveness of the export sector.<sup>53</sup>

A more critical approach argues that the source of the failure of trade policy within the current global rules based system to better support poverty reduction efforts, is a combination of both the liberalisation orientation of trade policy itself and the existence of contradictions, distortions and other structural aspects of rules based system. Together, they more often than not help create external constraints on poverty reduction efforts in developing societies.

To cite one example, a brief examination of the trade policies and global rules based system governing the trade of agricultural produces offers several insights. In spite of the clear recognition of the magnitude of the global market distortions created by developed

*When trade liberalisation does not appear to help produce robust poverty reduction results, the source of the failure is insufficient liberalisation*

*Broader and deeper policy reforms “additional import liberalisation” are necessary to address Bangladesh’s sources of competitive disadvantage*

nation's agricultural subsidies and the subsequent devastating impacts on the poor in developing societies,<sup>54</sup> a leading development institution continues to support the use of trade policies that include agricultural import liberalisation in developing societies to remove domestic constraints on local producers and distortions in domestic markets.<sup>55</sup>

*There is a bitter irony in developed nations requesting "compensation" from developing nations, as a condition for reducing their policy action that distort international markets*

The author questions if such approaches to trade policy actually lead to more efficient domestic agricultural markets and producers, or the importation of global market distortions into domestic markets and external constraints on local producers? This author also finds it extremely problematic that in the current WTO Doha Round of negotiations on agriculture, negotiators representing the very same developed nations that routinely highlight the consequences and costs to growth of developing nations using subsidies, have openly conditioned agreeing to reduce their global market distorting subsidies on developing nations making concessions in other areas.

There is a bitter irony in developed nations requesting "compensation" from developing nations, as a condition for reducing their policy action that distort international markets. It strikes me even more that the leading multilateral development institutions, in calling on "all nations to make concessions", are in a sense endorsing a structural adjustment programme like conditionality in the global trade rules based system.

Cambodia provides another interesting example to further probe the debate. The World Bank noted in the 2004 PSRP review that the Government of Cambodia had successfully completed all six PRGF reviews, maintained macroeconomic stability in spite of internal and external shocks, and successfully completed its accession into the WTO.

*Development of the agriculture sector and labour-intensive industries and services is defined as key for absorbing surplus labour*

Development of the agriculture sector and labour-intensive industries and services is defined as key for absorbing surplus labour. Future growth will depend on the government's ability to diversify the engines of growth by overcoming challenges of governance to attract investment and compete against its neighbours.<sup>56</sup>

The World Bank also notes that in order for Cambodia to take advantage of the market access opportunities provided by acceding to the WTO, the government must implement broad and deep domestic economic reforms to decrease corruption, strengthen the rule of law, build the institutions that will attract businesses and better enable the private sector to lead growth, to help diversify the economy, and to increase their role in public service delivery.<sup>57</sup>

The author finds the above comments reflecting the common positions of many donors and IFI's which clearly seek to support trade policy reforms with an export bias, to correct perceived import substitution oriented policies which contain an "anti export bias". They have a tendency to see this approach as superior for generating growth via expanding exports and increasing investment and subsequently reducing poverty, regardless of the results.<sup>58</sup>

In the global context, Cambodia is one of the poorer nations with a per capita income estimated to be around US\$271 in 2000. It ranked 121<sup>st</sup> out of 162 countries on the United Nations Development Program's (UNDP's) Human Development Index for 2001.<sup>59</sup> Given this starting point and my interviews with stakeholders and development practitioners, I question the pace, timing, sequencing and the adverse impact of rapid trade liberalisation on establishing backward linkages from Cambodia's export industries, with the need to develop labour intensive industries and services and promote governance to reduce poverty. One also wonders how the government is expected to do "more" while reducing tariffs and taxes to promote private sector development?

*Cambodia is one of the poorer nations with a per capita income estimated to be around US\$271 in 2000*

The author suggests that the need for the formulation of truly alternative approaches to pro-poor trade policy to combat poverty is supported in many quarters, including local stakeholders and some international institutions like UNDP.<sup>60</sup> Without an alternative approach, the most likely result is that growth, development and poverty reduction efforts in Cambodia will increasingly be dictated by the logic of dynamic global forces, as opposed to the specific needs and unique conditions of Cambodia's poor.<sup>61</sup>



# 8

## Elements of an Alternative Approach to “Pro-poor” Trade Policy

Before turning to specific examples of alternative “pro-poor” trade policies in Bangladesh and Cambodia, I would like to offer the following general points:

- The goal of an alternative “pro-poor” trade policy approach would substitute reforms to promote growth with reforms to reduce poverty.
- An alternative “pro-poor” trade policy approach would substitute priorities of import liberalisation, privatisation, financial liberalisation, with priorities on job creation, protection against global distortions penetrating domestic markets.
- An alternative “pro-poor” trade policy approach would place a priority on reforms that support labour utilisation and productive output in agriculture.
- In the area of agriculture, an alternative “pro-poor” trade policy would enable developing countries to de-link new commitments on market access from negotiations on global market distortions from tariffs, NTB’s and subsidies.
- An alternative “pro-poor” approach to trade policy would not restrict the domestic economic policy space of developing nations to support industrialisation and creating new competitive factor advantages.<sup>62</sup>
- An alternative “pro-poor” trade policy approach would focus on supporting growth of domestic demand & consumption led growth engines.
- An alternative “pro-poor” trade policy approach would support local and international market development for SME’s.
- An alternative “pro-poor” trade policy approach should substitute supporting increased production for export, to producing different things for export and domestic consumption.
- For larger developing societies like China and India currently using global markets as catalysts for industrialisation, growth, development and poverty reduction processes, an alternative “pro-poor” trade policy approach support a gradual re-balancing towards using their domestic markets and consumption based engines of growth to sustain there growth, development and poverty reduction processes.
- An alternative “pro-poor” trade policy approach should support remittance generating opportunities for citizens originating from developing societies.
- In total, an alternative “pro-poor” trade policy approach should be one of many policy instruments in a comprehensive policy approach to poverty reduction and industrial development based on institutional innovation and structural transformation.

*The goal of an alternative “pro-poor” trade policy approach would substitute reforms to promote growth with reforms to reduce poverty*

*An alternative “pro-poor” trade policy approach would support local and international market development for SME’s*

*“Unless serious concessions are made by all sides – developing countries as well as developed countries Europe, the US, Japan, everyone - the Doha round of trade talks will fail and the people who will suffer most are the world’s poor.”<sup>65</sup>*

*“The developing countries’ problems arise from the structural imbalances and weaknesses of several of the WTO agreements. In the Uruguay Round, developing nations made concessions and paid the costs in the hope of receiving benefits later. The continued lack of reciprocity in benefits and costs would thus add to the present imbalances.”<sup>66</sup>*

The following quote captures the foundation of an alternative “pro-poor” approach to trade policy: “Liberalisation and integration into the global economy are the results of trade and economic success; trade and growth are not necessarily the results of liberalisation and integration. Thus the high priority given to liberalisation can be questioned. Growth is the prerequisite to liberalisation. Countries need to deal with development priorities from the very beginning of their development process”.<sup>63</sup>

In Bangladesh, elements of alternative “pro-poor” trade policies would include:

- The point of departure for combating poverty is defining the source of poverty as structural injustices;
- From this, the point of departure for an alternative “pro-poor” approach to trade policy is that it should be a component of a national development strategy for structural transformation and change; and
- An alternative “pro-poor” approach to trade policy would support making the domestic economy more resilient to global economic forces.<sup>64</sup>

In Cambodia, elements of alternative “pro-poor” trade policies would include:

- Trade policy reforms that support domestic demand expansion;
- Trade policy reforms which support expansion of agricultural production;
- Adopting alternative “pro-poor” trade policies that support the use of labour in rural areas, where 85 percent of the population resides; and
- Trade policy reforms, which support the development of forward and backward linkages between tourism and textile/garment export sectors and the domestic economy.



# 9

## External Constraints on Alternative Trade Policies to Reduce Poverty

There is a great deal of existing literature on the elements of the rules based multilateral trade system that creates challenges to development processes in developing societies. One could focus on issues of market access<sup>67</sup>, tariff peaks<sup>68</sup> and NTB's<sup>69</sup> for products and services of value to developing countries.

The lack of balance within the Trade Related Intellectual Property Rights (TRIPs) agreement between protecting intellectual property rights (IPRs) and facilitating the technology transfers to developing countries, or the shrinking of policy space from the Trade Related Investment Measures (TRIMs) agreement at a time when policy freedom is crucial to help developing societies react to rapid changes in the global economy.

A brief summary of the constraints would include: new rules have not addressed original constraints on trade faced by LDC's on areas like agriculture, textiles, and dispute settlement hence the desire to call the Doha Round the "development" round; new rules have recreated the original constraints, in new forms; new rules have created new barriers for LDC's in terms of TRIPs, GATS, TRIMs, and SPS; new rules eliminated some of the "helpful" policy instruments and measures (in name of fighting corruption, inefficiency, bias against agriculture, and exports) formerly used by LDCs and developed nations at their initial stages of industrialisation.

The current evolution of the global trade architecture both in terms of the rules based system and the dynamics of power within the system, are increasingly combining to create a less conducive environment (perhaps even new structural constraints) to the formation of pro-poor trade policies. One dimension of this challenge is rooted in recognising that poverty in developing societies is a product of the interaction of both internal and external dynamic factors.<sup>70</sup>

Just as the World Bank found value in using global value chain analyses to encourage economic policy reforms including deeper trade liberalisation in Bangladesh, the tool can also be used to explore both the evolution of the underlying dynamics of the global trading system and the external constraints and opportunities for developing nations to utilise trade policy as a component of a pro-poor oriented development strategy to reduce poverty. Four aspects of how the current global trade architecture appears to be increasingly less conducive to the formation of pro-poor trade policies include:

*New rules have not addressed original constraints on trade faced by LDC's on areas like agriculture, textiles, and dispute settlement*

*New rules have created new barriers for LDC's in terms of TRIPs, GATS, TRIMs, and SPS*

*Replacement of ideals such as “preferential treatment”, “special and differential” and recognition of structural challenges facing developing societies in the international trade system with principles of a “level playing field” and “equal opportunity”.*

- The replacement of ideals such as “preferential treatment”, “special and differential” and recognition of structural challenges facing developing societies in the international trade system with principles of a “level playing field” and “equal opportunity”.
- The failure of the global trade architecture and rule based system to address the failure of the growth in export volumes to translate into additional export revenues and ability to purchase imports, due to structural nature of both declining prices and price instability for commodities (the primary exports of many LDC’s).
- The expansion of the global trade regime into areas once defined as domestic policy via new regulations governing global markets and de-regulation in domestic markets, leading to a convergence or harmonisation of rules both in international and domestic markets and a shrinking of development policy space.<sup>71</sup>
- An expansion of the number of global value chains in different industries and sectors which operate on the basis of buyer drivenness has been facilitated by changes in international and national regulatory frameworks, such as trade and import liberalisation, financial and currency liberalisation, increasingly stringent standard formation, and the collapse of previous “pro-poor” elements of the global trade architecture such as international commodity agreements.<sup>72</sup>

In buyer driven global value chains a small number of global buying actors usually based in developed nations are able to maintain barriers to entry and dictate opportunities for upgrading into the higher value/profitable segments of their global industry supply chains while reducing barriers to entry into lower value/less profitable activities to a decentralised global network of competing firms in developing societies.<sup>73</sup>

It is this evolution of power relations between firms and consumers in developed and developing societies, where the former exercise control over the latter by defining global standards, quality specifications, retail market information, certifications and brands within the international trading system, which can generate constraints on the development of pro-poor trade policy approaches.<sup>74</sup>

*“Trade liberalisation does not necessarily lead to fully open markets or perfect competition*

In addition, these types of constraints represent a category of NTBs that do not fall in the realm of negotiations in multilateral trade regime forums. *“Trade liberalisation does not necessarily lead to fully open markets or perfect competition. The decisions made by “lead firms” operating in global value chains can exclude some categories of actors, even if there is no trade barrier involved”.*<sup>75</sup>

Recognising that real world outcomes of changes in approaches to trade policy are determined by how both the rules of the system and the dynamics power within the system are interlinked in unique ways in individual global value chains, would strengthen the discourse on formulating alternative “pro-poor” trade policies in two key ways:

- They would enable clear insights into the weaknesses of the opportunities (trade creation and development impacts) for LDC’s created by bilateral FTA’s such as: FTA’s have excluded areas of most interest to LDC’s, FTA’s frequent use of “narrow” rules of origin (RoO) have reduced potential gains, and LDC’s already

had “good market” access based on other regimes in relation to concessions they granted in FTA’s.<sup>76</sup>

- They would also support the inclusion of additional critical perspectives on where and to what degree is the Doha Development Round going to fundamentally change or perpetuate (in different forms) the qualitative development dimensions of the global rules based trading system.<sup>77</sup>



# 10

## Domestic Policies for Moving up the “Value Chain” to Reduce Poverty

As noted at the outset of the report, domestic structural constraints represent an equally important dimension of the challenge to developing alternative “pro-poor” trade policies. The impact of domestic constraints is particularly critical in terms of the roles that could be played by the state in partnership with civil society and the private sector, to locate and pursue opportunities to more successfully use trade as a part of a development strategy to combat poverty.<sup>78</sup> However, in recognising such constraints and given the evolution of some of the underlying dynamics of the global economy, the following suggestions are offered as examples of what could be pursued.

- At the policy level, governments in developing societies should seek a deeper understanding of the strategies used by MNCs in international business development.<sup>79</sup>
- The increased trend of MNCs to outsource both of non core functions and shift specific “business costs and risks” to their suppliers, (so that they can focus on core activities and devote their resources to competing on higher forms of competitive advantage i.e., branding and marketing) is creating “changes” in the relative positioning opportunities for firms in developing societies. For firms and workers in developing countries societies which seek to gain access to or move up from their existing position in a global value chain, governments must develop their approaches to industrial and trade policy in ways to support the efforts to build their capabilities in the areas of increasing their scale of production, improving their degree of specialisation and strengthening the quality of services which the firm can provide.<sup>80</sup>
- In order for a firm in a developing society to acquire a position as a 1<sup>st</sup> tier supplier in a global value chain governments must develop their approaches to industrial and trade policy in ways to support their efforts to develop the following: Capabilities to do much of the “day to day” coordination of the chain on behalf of lead firms, and kind of a system integration role. Key skills include: Specialised communications, sector specific technical knowledge, multiple language skills, knowledge of supply country markets, trade rules and regulations, and trade administration systems.<sup>81</sup>
- Finally, to tackle the challenges pursuing opportunities to better use trade to reduce poverty in a dynamic manner over time, governments must develop the approaches to industrial and trade policy in ways which links technology and education to manufacturing competitiveness and poverty reduction. In a sense, attaining a degree of export success based on static

*Domestic structural constraints represent an equally important dimension of the challenge to developing alternative “pro-poor” trade policies*

*Governments must develop the approaches to industrial and trade policy in ways which links technology and education to manufacturing competitiveness and poverty reduction*

comparative advantage of “free trade”, without also building the education and technology capabilities to continuously upgrade, will not permit sustainable processes of income and employment growth for poverty reduction.<sup>82</sup>

# 11

## Conclusion

The primary purpose of this paper is to help inject a range of perspectives, particularly from stakeholders in developing societies, into the current discourse on how we might understand the linkages between trade, trade policy, growth and development and poverty reduction. The value of such an effort is timely given the upcoming WTO ministerial in Hong Kong. In this concluding section I would like to offer the following points.

- The basic policy issue facing developing countries is not fundamentally, one or more or less trade liberalisation, but how best to extract from their participation in that system the elements that will promote economic development.<sup>84</sup>
- The constraining dimension of mainstreaming trade liberalisation in development policy is that it places supporting poverty reducing efforts secondary to the goal of export expansion. The result is that domestic markets and industries are orientated in accordance with the logic of static comparative advantage, the dynamics of global markets, and power relations contained in the global rules based system.
- However, in a modern world, the place of most countries in the international division of labour is determined not so much by their natural factor advantages, but by their success in building local capacity, skills and experience in industries that enjoy economies of scale and specialisation.
- Assuming the need for complementary domestic and international policy factors and variables to be present in order for trade liberalisation to reduce poverty in developing societies as a given, the history of development and poverty reduction in both developed nations and those most successful in East Asia demonstrate the value of the gradual use of trade liberalisation to sustain growth at the later stages of development (when local industries and markets reached certain levels of maturity) to support processes of upgrading.
- That history of development in developed nations demonstrates that local factor advantages were not simply taken as a given and trade liberalisation was not used to successfully develop domestic infant industries and underdeveloped markets. In fact, the opposite of liberalisation in the form of industrial policy and “strategic” liberalisation were used to upgrade existing and create new factor advantages to enable trade to support growth.<sup>85</sup>
- Within the Doha Development Round, the nature of how some of the underlying dynamics of the global economy are evolving is at the core of why developing nations see different realities emerging in comparison to developed nations, from all of the efforts to create rules based trading system which “levels the playing field for all”.

*“Given the problems and imbalances in world trade, there is a need to rethink the dominant model of trade policy that has advocated across-the-board rapid liberalisation for developing countries.”<sup>83</sup>*

*The constraining dimension of mainstreaming trade liberalisation in development policy is that it places supporting poverty reducing efforts secondary to the goal of export expansion*

*Evidence indicates that some market distorting and market barrier policies are maintained or created in new forms, while others are not*

*Reorienting the political will of nation states will demand that the voices of those who live in the conditions of poverty in any society are continuously amplified, articulated and projected into the negotiating rooms where the rules are made*

- Within the trend towards the convergence of domestic economic policies and international trade rules, via domestic market deregulation and international trade rule creation, we see the common language of “removing market distortions” “inefficiencies & corruption” and “freeing of markets” as rationales for more trade liberalisation. Those who champion these principles the most, in reality are dictating how those objectives are pursued. Evidence indicates that some market distorting and market barrier policies are maintained or created in new forms, while others are not. This trend results in a continued shift in power relations between developed and developing nations, in the form of a rise in buyer driven global value chains.<sup>86</sup>

The results of the Hong Kong WTO Ministerial will either perpetuate the existing trends (doing the same things differently) or serve as a catalyst for alternative approaches (doing different things). In order for the range of alternative “pro-poor” trade policies noted in this paper to be pursued, it will be vital that progress is made on addressing the various internal and external structural constraints which impede poverty reduction efforts in developing societies.

In terms of addressing the external constraints on institutional innovation and structural transformation in developing societies, a continuous interrogation of the very premises and assumptions associated with the current dominant thinking about growth, trade and development is required. One that raises awareness about the structural nature of the issues facing developing societies and their effects on the world<sup>87</sup> and deepens the discourse of the nature of Trilateral Development Cooperation in the 21<sup>st</sup> century.<sup>88</sup>

In the end, reorienting the political will of nation states will demand that the voices of those who live in the conditions of poverty in any society are continuously amplified, articulated and projected into the negotiating rooms where the rules are made. It will be processes like the one resulting in the Dhaka Declaration of 2005, which shall remain the plow to harvest a transformation of what can be achieved in fighting poverty in the name of human dignity.<sup>89</sup>



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