

Linkages between Trade, Development & Poverty Reduction November 15, 2005, Jaipur, India

India national consultation of Linkages between Trade, Development & Poverty Reduction (TDP) project was held in Jaipur on November 15, 2005. Participation was diverse with representation from all over the country included various non-governmental organisations (NGOs) and civil society organisations (CSOs), media representatives, government officials, stakeholders etc. The event was organised by the CUTS Centre for International Trade, Economics & Environment (CUTS-CITEE).

Highlights

- The event drew a very good turnout. There was wide and diverse participation from all over the country.
- Organising the event along with the national consultation of GRANITE (Grassroots Reachout & Networking in India on Trade & Economics) project, which has similar objectives, being implemented in Indian states resulted in a truly diverse audience.
- Presentations, speeches and discussions on various issues related to the TDP project were made.
- The audience was extremely participative and discussions were meaningful, and centred on the project.
- Diverse suggestions and comments were received.

Overview of the Project, Bipul Chatterjee, Director, CUTS-CITEE

Bipul Chatterjee outlined an overview of the TDP project, which is implemented in 15 countries including India. The project aims to establish the linkage between trade, development and poverty reduction, and is supported by Ministry of Foreign Affairs, The Netherlands and Department for International Development (DFID), UK.

The four-year project is being implemented with a specific methodology. In the initial phase of the project (first year), research in the form of background paper on each of the project country will be accomplished. Each background paper will contain the current scenario of the country's domestic policies *vis-à-vis* their direct or indirect impact on trade and people's livelihood concerns. In the next phase, two specific sectors in each of the project country will be identified for the study in terms of policy research, including the existing researches and ground level case studies under trade liberalisation in terms of empowerment and income generation.

Advocacy will form a major component in the overall implementation of the project. The results that emerge from the research will be analysed and the best learnings and messages culled from it. This shall form the basis for the preparation of the advocacy document.

As it is difficult to establish a direct link between trade and poverty reduction, there is a need to work more on this issue. This link can be established when economic growth results in poverty reduction. Unless complementary policies that support trade are in place, mainstreaming of international trade with national development policy is not possible.

Presentation of India Country Paper, Pranav Kumar, Policy Analyst, CUTS-CITEE

Pranav Kumar made a presentation on India country paper whereby he raised certain issues and questions of primary concerns that need to be addressed. One of the biggest challenges concerning not only India but also the whole world, especially the developing and least developed countries, is how to make trade work for poor and make growth trickle down to the poor; or more precisely, “how to make international trade more development friendly”.

As far as linkages between trade and development are concerned, it is very difficult to establish a direct linkage. A complementary set of domestic policies is required for creating stronger linkage, but unfortunately in many developing countries, this is not happening. Rather, such countries are struggling to mainstream international trade agenda into their domestic policies.

In his presentation, he underlined the need for dealing with specific sectors. In case of India (as also in the case of other poor and developing countries), agriculture sector has major impact on poverty reduction. More than 60 percent of Indian population is engaged in this sector. Hence, special attention, by way of complementary domestic policies, is needed to develop and reform this sector. Moreover, public investment on agriculture has not increased since 1980, or in fact, it has gone down in real terms and institutional reforms are lacking in this sector.

Services sector has accorded high growth rate for the last half decade contributing 60 percent to the gross domestic product (GDP). However, the poverty sensitivity of this sector is low, which needs to have fair distribution mechanism.

Ashok Bapna, Director, Institute for Integrated Learning and Management, Jaipur

Trade promotion of a country is widely considered as a positive contribution to its poverty reduction because it contributes to increasing growth, employment and income, and leads to sustained poverty reduction in the long run. In addition, a country’s level and pattern of trade also affect its poverty status. The expansion of services exports also acts as a poverty alleviation tool.

However, domestic reforms, such as skills-oriented education, land reforms and empowerment of women, are necessary to have full impact of growth generated out of trade enhancement, and which could be transmitted in terms of poverty reduction in the country.

No doubt, trade liberalisation will promote global trade, and gradually, developing countries would reap benefits in terms of rising employment levels and reduction in poverty, both in the long run and the short run. But the issues of income distribution will have to be attended to achieve more benefits of trade liberalisation.

Prof. N. C. Pahariya, Department of Economics, University of Rajasthan

Development & Poverty Reduction: China is an ideal country exemplifying linkages between growth and poverty reduction. During its post-liberalisation era, since 1978, China had been able to double its per capita income through impressive growth rates and took seven years to reduce its poverty by half. India took 23 years to do the same. The main factor responsible for China's high rate of growth is its accelerated growth of agricultural income, while India still haven't been able to increase agricultural growth, though 60 percent of our labour force is still engaged in this sector. Some of the factors responsible for slow growth and poverty reduction in India include:

- decline in per capita income and consumption though increased income in the agriculture sector has not been translated into consumption pattern;
- decline in employment opportunity in rural sector due to advent of technology and non-availability of alternative employment opportunities;
- increase in unequal distribution of income and assets; and
- increase in the gap among per capita incomes of farmers ranging from small farmers, marginal farmers to big farmers.

There is, therefore, need to speed up the rate of GDP and per capita growth of rural India. An increase in the growth in per capita income would result in speedier poverty reduction.

Character of Poverty: The character of poverty has changed. So far, poverty has been related to income poverty only. On the other hand, developmental efforts world over are concentrated on reduction of income poverty. Human poverty index (HPI), a recently developed parameter to measure poverty level, takes into account basic human abilities like literacy, health conditions, etc. The third type of poverty is lack of information and knowledge. In the 21st century, society is knowledge-driven.

Relationship between Trade and Poverty Reduction: Factor prices and resource allocation are severely affected by trade. However, distortions are common and thus, more trade simply doesn't translate into higher poverty reduction. On the contrary, studies show that increased trade has often led to increased poverty.

Example of Oilseeds: A recently conducted survey on oilseeds farming in Rajasthan has brought various facts into light. It sought information on consumer preferences and perception of farmers, and observed that 99 percent farmers did not possess knowledge of World Trade Organisation (WTO) or related issues. However, they were quite aware of prices of different commodities in the market. Farmers who were not able to fetch proper prices for mustard, switched to soyabean without anyone guiding them.

Import of palm oil at low tariffs has raised a big threat to oilseed farmers. Exporters from Malaysia are able to sell palm oil at the rate of Rs. 34 per kg, whereas production cost in India is not less than Rs. 38 per kg. Hence, some kind of restriction on import of oilseeds is necessary.

Discussions

Some of the points raised during discussions were as follows:

- Vulnerability factor of the poor needs to be dealt with. Though many economies collapsed because of price fall in the international market, India remained insulated because of the diversity of its economy and that is the reason Indian economy didn't crash at the time of the East Asian economic crisis.

- Composition of poverty needs to be examined. In-depth analysis of the poor alone will generate realisation for the best policies regarding pro-poor growth.
- Land reforms need to be given priority, which would lead to increased employment.
- Though India's services sector has prospered and resulted in employment, yet the rural youth are unable to find employment in this sector because of inability to speak English.
- Economic liberalisation without analysing its possible impact can be harmful in the long run. For example, India was aware that quantitative restrictions on oilseeds would have to be abolished; yet it did not plan and help farmers to become more competitive to face with cheap imports. In 1998, 98 percent of India's requirement of oilseeds was met from domestic production, but today, with the opening of this sector, the domestic oilseed sector has all but collapsed.
- Problems in agriculture are not unique but region-specific. There is a need for networking and research on specific regional problems to find their solutions. By analysing global and local scenario, we can guide our farmers to cope with changes.
- Apart from education, poverty is linked to land, health and water, and that these links should be analysed.