Linking Trade, Development and Poverty Reduction

REPORT OF THE CUTS PROJECT LAUNCH MEETING-KENYA, JULY 28, 2005

This report summarises the discussions that took place at the 1st Kenya national dialogue under the auspices of the TDP project.

Background

Trade liberalisation has been a central part of mainstream policy advice for the last 20 years and one of the most prominent characteristics of recent globalisation. Although the process of globalisation encompasses much more than trade liberalisation, reducing the barriers to international trade in goods and services will remain one of the main drivers of the former. There has been dramatic growth in world trade in the last 50 years, as successive rounds of multilateral negotiations have progressively reduced barriers to trade. This has made international trade one of the most important engines for growth in the world economy.

Agricultural markets are still heavily protected in both rich and poor countries, while international market for services is strongly biased towards domestic providers, and international mobility of most types of labour is extremely restricted. Consequently, further trade liberalisation has the potential to deliver further gains in efficiency and higher rates of growth for the world economy. Trade liberalisation therefore matters in its own right. But given the central role of growth in long-term poverty reduction, it particularly matters to the poor.

The link between poverty and trade liberalisation matters because poverty is the greatest challenge to public policy- and reducing it is the most fundamental objective. Trade liberalisation is an important part of the policy package for prosperity and growth and potentially for poverty alleviation. However, it is defined, poverty is not a direct result of international trade, rather it arises from such phenomena as lack of assets, poor access to resources and public services, geographical isolation, poor health and education, powerlessness and vulnerability. Thus the important policy problem is how to alleviate poverty, not the link it with trade policy. The link with trade policy matters to the extent that:

- Trade liberalisation affects the direct determinants for poverty
- Trade liberalisation is a significant contributor to reducing poverty relative to other whole range of possible policies. It is an efficient route to poverty alleviation.
- Trade liberalisation may have adverse consequences for some, including some poor people— that should be avoided or ameliorated to the greatest extent possible. However, trade liberalisation aids growth, which, in turn, aids poverty alleviation.

Introduction

- Mr John Ochola of CUTS Nairobi Resource Centre (CUTS-NRC) made an introductory presentation of what the TDP project was about. He outlined the objectives of the project as to:

  ⇒ Facilitate cross-fertilisation of experiences and lessons learnt on linkages between trade, development and poverty reduction in the developing countries to develop appropriate policy responses;

  ⇒ Help strengthen the ability of developing countries through the provision of policy support and other know-how and do-how on trade and development issues, and to defend their viewpoints and negotiating and advocacy positions on issues of concern, prevailing and emerging in the international trading system and their relationship with development and poverty reduction;

  ⇒ Facilitate synergy between governments and civil society organisations (CSOs) between and among the Northern and Southern stakeholders to learn from each other and strengthen their collective perspectives and positions in the emerging debate on the linkages between trade, development and poverty reduction; and

  ⇒ Advocate development-oriented trade policies, based on learning from research and other activities, by taking into account the interests and priorities (needs and aspirations) of the poor and marginalised sections of the society and look into the aspects of policy coherence.

Session I: Trade Policy Reforms and Poverty in Kenya: Process and Outcomes

- Dr Walter Odhiambo of Kenya Institute of Public Policy Research Analysis (KIPPRA) presented the background paper, which reviewed Kenya's experience with the implementation of trade reforms and their implications on sustainable development. The aim of the paper is to assist in understanding the role and effects of policy reforms in achieving sustainable livelihoods in Kenya. The questions raised in the paper included: Did the government make the changes in order to meet domestic political objectives or international requirement? How were trade reform policies adopted and implemented in Kenya? How have previously implemented policies succeeded or failed in promoting sustainable development? Have the changes improved access to international markets? How should current policies be changed or reforms deepened for poverty reduction?

- In his introduction, he started by presenting a brief conceptual framework on the trade poverty nexus. This was followed by an assessment of the nature and processes of trade reforms in Kenya. Based on research findings of different studies, the paper then reviewed the impact of trade reforms on poverty in Kenya.

Concluding Remarks

- Trade policies have evolved from a more controlled and restrictive regime in the 1980s and early 1990s to a more liberalised regime since 1995. The result is that the country is more open today than it was a decade ago.
- Kenya's trade liberalisation efforts were largely driven by external pressure from donors. The oil crisis in 1977, collapse of the East African Community (EAC) and economic mismanagement also acted as catalysts towards the liberalisation processes. Furthermore, the liberalisation process and consequent trade policy processes were plagued by policy reversals, rent seeking opportunities and political patronage and therefore failed to address issues of gains from trade liberalisation efforts.
- International trade policy in Kenya in the post structural adjustment is largely driven by multilateral and bilateral agreements such as obligations under WTO, the ACP-EU economic partnership agreements, EAC and COMESA tariff reductions and bilateral trade agreements.
- Trade reforms agenda failed to spell out a clear long-term path towards economic growth. Most policies were not sustainable and this was mostly due to a weak institutional framework and lack of consultations with private sector and civil societies, policy formulation was not an all-inclusive process and hence was bound to be weak.
- Despite liberalisation and increased openness trade has not managed to translate into growth that would meaningfully help in alleviating poverty. Kenya's trading regime has been in the past plagued by a myriad of problems and constraints which have in turn derailed the export development progress. Some of these constraints are due to:
- Poor road and rail infrastructure
- Lack of telecommunication and Integrated Circuit Technologies (ICTs)
- Costly/low access to credit for producers and manufacturers
- Poor governance and lack of enabling environment
- Low labor productivity
- Low value addition which translates into poor prices at world markets

Issues Raised

- It is therefore important to address these issues as a country so as to facilitate export growth and development, to lower cost of production of vital industries and to increase value addition for our export products with the hope of increasing trade and subsequent economic growth.
- Kenya lacks empirical studies on the impact of economic and trade reforms of economic performance and poverty. Evidence at the sectoral levels suggests that the reforms process in Kenya created winners and losers.
- The lack of analytical capacity is also evident in government policy making ministries and departments. Although some of the ministries have economists, policies are implemented without analysis on the opportunities, constraints and the various poverty groups that are likely to benefit or to be disadvantaged as a result of such a policy.

Session II: Open Floor Discussions- Chaired by Mr. Kwame Owino (IEA)

The floor discussions were mixed and varied. There were those who were for liberalization while others strongly held the mercantilist view of protectionism. Some of these were:

- Oduor Ong'wen of SEATINI strongly felt that the Kenya performed better during the 1960's before the structural adjustments took place. Opening up of the borders led to the collapse of industries such as KICOMI (Kisumu Cotton Millers), this resulted in the inflows of '*Mitumba*'- second hand clothes. Currently the textile industry in Kenya as good as dead.
- Basil Jones of IDRC countered this argument by asking which segment of the population gained from the 'mitumba' business. Currently IDRC is carrying out a study on second hand clothing on selected countries.
- Felix Okatch author of *Marketing Management Systems, 2002*. Argued that liberalization was quite dangerous especially if the locals do not benefit, example in Services, under the tourism sub sector, international tour firms organized tourism packages in a way that tourists get everything from their hotels without patronizing the local clubs. Therefore tourism does not benefit the locals much.
- Walter Odero of DFID felt that liberalization was important for development. Example the opening up of the telecommunication sector brought improved telecommunication services and even lowered the prices of mobile phones. In the 1990's, one had to choose between buying a car and buying a mobile phone.

- The Government has not addressed trade policies in its PRSP as a strategy to alleviate poverty. This is also evident when one examines the Economic Recovery Strategy paper. The paper does not outline how tgrowth is to be achieved through trade.

<u>Need for further Action</u>

The following issues were raised:

- There is need to conduct a study on the '*mitumba'* business in order to see who are the gainers and losers. This point should be considered in the perception survey that would be carried out.
- It was important to determine whether the survey will be carried out at household or individual level.
- Caution should be taken when using a participatory approach in examining the winners and losers of liberalization as there are those who do not understand the dynamics of liberalization, and also biases arises when an individual is left to evaluate his won status.
- KIPPRA should also develop an updated Social Accounting Matrix, which will help in CGE analysis of trade liberalization.
- It was noted that most of the data used in the background study was from the World Bank and IMF, since they get their data from Kenya Government, the author should get the data directly from the Central Bureau of Statistics

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PROJECT LAUNCH MEETING
JULY 29, 2005

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