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Background Paper

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Experience with Trade Liberalisation from Select Developing Countries: On the Need to Mainstream Trade into National Development Strategies

EXPERIENCE WITH TRADE LIBERALISATION FROM SELECT DEVELOPING COUNTRIES: ON THE NEED TO MAINSTREAM TRADE INTO NATIONAL DEVELOPMENT STRATEGIES

I. INTRODUCTION

International trade is increasingly considered as one of the important means to eradicate poverty in developing countries. However, trade in itself is not a panacea and is contingent on host of complementary policy issues before it can bring positive development dividend. The evidence from implementation of the Uruguay round of trade agreements shows that while some sectors/countries benefited, a large section of the poor across the globe were either left behind or adversely affected. One reason for this is that international trade is looked through the prism of WTO rules and procedures are commercial in its approach. The human element or in broader context the developmental aspect is missing. Though the Doha Declaration of the trade ministers mentioned about mainstreaming trade into national development strategy, there is hardly any coherent or cogent initiative being undertaken at the country level.

Mainstreaming trade should be understood in the broad context of trade reform and the appropriate complementary policies, including macroeconomic framework, fiscal policy, regulatory and institutional issues and safety nets.[1] Since trade-led growth has been the declared economic policy of many developing countries of the world, it is bound to interact in complex ways with other domestic policies. At multilateral level too, the trade liberalization is not confined to bringing down import tariffs alone, there are host of other domestic policies that have been brought under its purview. The challenge, therefore, is to devise a coherent trade policy strategy that is supportive of broad-based development.

Since early 1990s, many developing and least developed countries (LDCs) either unilaterally or as bound by WTO obligations significantly liberalized their trade regime. As a result export has recorded robust growth in recent years in case of many developing countries. However, the corresponding growth of export of labor-intensive goods has slowed down. For instance, in India between 1995 and 2003, while labor-intensive exports grew by 7.2 percent per year, the resource–intensive, medium-technology-intensive and knowledge-intensive exports grew annually at the rate of 15 percent.[2] There is no denying that export of technology- and knowledge-intensive products results in higher economic growth and brings in new technology to the country. Similarly, the export potential of agriculture sector, which is a labor-intensive activity in most of the developing countries and the main source of livelihood for majority of poor people, has largely been unutilized.

The empirical evidence shows that enhanced trade has not had a significant impact on poverty reduction as compared to its strong link with economic growth. This is where the role of national development strategy comes in. It has been experienced that developing countries find it easy to open their economy but often face difficulties in putting in place the necessary complementary policies, which are crucial for ensuring pro-development outcomes of trade liberalization. So far in most of the cases policy-makers have largely ignored the human development aspect of international trade. It is not so much about rules and procedures negotiated at the WTO, but more about initiating policies and establishing institutions at local level, so that the poor are in a better position to exploit the opportunities arising from trade liberalization to their advantage and also to be better equipped to face the challenges through effective social safety nets.

Given the situation, this paper discusses how a country's trade liberalization programme could form an integral part of overall national development strategy so that benefits of trade liberalization trickle down to poor people as well. Based on the experiences with trade liberalization of select developing countries from South Asia, South-East Asia and Africa, the paper tries to answer the following relevant questions - What kind of right complementary

[1] Mainstreaming Trade in National Development Strategies: An Issues Paper, Twenty-third meeting of the Committee of Experts of the Conference of African Ministers of Finance, Planning and Economic Development, Kampala, Uganda, 18-20 May 2004

[2] Economic Survey 2006-07, Government of India

policies and institutions required for export-led growth to impact positively on poverty-reduction? What are the social and human considerations required to embed in national export promotion strategy?

II. EXPORT PATTERN AND TREND: EXPERIENCES FROM DEVELOPING COUNTRIES

Increased share in world trade is conventionally seen as the one of the most important means to achieve higher economic growth and development. The neo-liberal economic thought which has influenced economic and trade policies of many developing countries in recent years believes that closer integration into the world trading system would create more favorable conditions for growth in developing countries and allow them to close the income gap with industrial countries. Rapid liberalization of trade and foreign direct investment (FDI), thus, has been the preferred policy approach, resulting in increased participation of developing countries in world trade, including a rapid expansion of their exports.

Between early 1970 and 2005 the merchandise exports from developing countries grew at an average annual rate of 12-13 per cent, as against 10 per cent for the world as a whole, resulting in their share in world merchandise trade increasing from less than one fourth to almost one third (See Table 1). These trends have been accompanied by a rapid transformation in the composition of their exports from primary commodities to manufactures, particularly since the early 1980s. Manufactures accounted for 70 per cent of developing country exports at the end of the 1990s, after hovering at around 20 per cent during much of the 1970s and early 1980s, while the share of agricultural commodities fell from about 20 per cent to 10 per cent during the same period. Earnings from mineral and oil exports fluctuated considerably due to sharp changes in prices, but their overall trend was in a downward direction.[3]

Table 1: Developing Countries Share (%) in World Merchandise Exports

Region	1973	1983	1993	2003	2005
South and Central America@	**4.7**	**4.4**	**3.0**	**3.0**	**3.5**
Brazil	1.1	1.2	1.0	1.0	1.2
Argentina	0.6	0.4	0.4	0.4	0.4
Africa	**4.8**	**4.5**	**2.5**	**2.4**	**2.9**
Asia*	**6.4**	**9.7**	**14.7**	**18.5**	**20.2**
China	1.0	1.2	2.5	5.9	7.5
Six East Asian Traders #	3.4	5.8	9.7	9.6	9.7
Developing Countries $	**20.4**	**26.8**	**25.1**	**30.2**	**34.0**

Source: Author's compilation based on trade data of International Trade Statistics 2006, WTO.
@ Excluding Mexico
# *Six East Asian traders*: Hong Kong, China; Malaysia; Republic of Korea; Singapore; Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (Taipei, Chinese) and Thailand.
* Excluding Japan
$ Includes Mexico and Middle East

The export trend of last three decades shows while developing countries as a whole have managed to increase their share in world merchandise exports, the benefits are not evenly distributed. There are two distinctive trends that have emerged. First, among the three continents of Asia, Latin America and Africa, Asia seems to have performed much better in comparison to the other two continents. Secondly, a handful of developing countries have got a lion share in total world merchandise exports. For instance China and six East Asian countries have more than 80 percent share in Asia's total exports to the world. The remaining developing countries just could not achieve a similar export expansion despite going for all out trade liberalization.

LDCs particularly have been the worst sufferers. Although LDCs have increased their share of world trade in recent years, they still account for a very small portion of total trade. Exports

[3] Trade and Development Report 2002, UNCTAD

are highly concentrated among a few LDCs. The merchandise exports from LDCs have increased in absolute terms since 1990, with an especially sharp increase in the past three years (2002-05). Despite this strong record, LDCs as a group accounted for only 0.6 per cent of world exports and 0.8 per cent of world imports in 2004. The trade profile of LDCs varies considerably across countries. Two LDCs account for 35 per cent of all LDC exports (See Table 2). In contrast, the 13 last-ranked LDCs in terms of export value accounted for less than 1 per cent of total LDC exports in 2004. Lack of product diversification continues to be a problem for most LDCs.[4]

Table 2: Merchandise Exports of LDCs, 2005

	Exports	
	Value (Million $)	**Share in LDCs Exports (%)**
Least Developed Countries	**81327**	**100**
Angola	23400	28.77
Bangladesh	9294	11.42
Equatorial Guinea	7177	8.82
Yemen	6380	7.84
Sudan	4824	5.93
Cambodia	3100	3.81
Chad	3065	3.76
Myanmar	2915	3.58

Source: Compiled from International Trade Statistics 2006, WTO

It is important to examine what caused this skewed distribution of trade benefits among developing countries? The trade expansion of the last three decades has largely been driven by the growth in manufacturing exports. The share of agricultural in total world merchandise exports fell drastically from almost 15 percent in mid-1980s to about 8 percent in 2005 (See Table 3). Contrary to this, the share of manufacturing in world exports continues to be very high, as its share has increased from 70 percent in 1990 to more than 75 percent today. Within manufacturing export, the technology and knowledge intensive products have major contribution. The share of labor-intensive manufactures like textiles and clothing remained almost constant at 5-6 percent in total world exports.

Table 3: World Merchandise Exports by Product (1990-2005) (Percentage Share)

	1990	1995	1999	2000	2001	2002	2003	2004	2005
Agricultural Products	12.2	11.7	9.9	9.0	9.1	9.3	9.2	8.8	8.4
Mining Products	14.3	10.7	10.2	13.1	13.2	12.6	13.2	14.4	17.2
Manufactures	70.5	74.1	76.5	74.9	74.8	75.1	74.5	73.8	72.0
Iron & Steel	3.1	3.1	2.3	2.3	2.2	2.3	2.5	3.0	3.1
Chemicals	8.7	9.7	9.6	9.3	9.9	10.5	10.9	11.0	10.9
Other semi-manufactures	7.8	7.9	7.6	7.3	7.2	7.3	7.2	7.1	7.0
Machinery & transport equipment	35.8	38.8	41.9	41.5	41.0	40.5	39.7	39.0	37.9
Textiles	3.1		2.7	2.5	2.5	2.4	2.3	2.2	2.0
Clothing	3.2		3.4	3.2	3.3	3.2	3.1	2.9	2.7
Other Consumer goods	8.8		9.0	8.8	8.8	8.8	8.8	8.6	8.4

Source: Author's compilation based on data from various issue of annual WTO's International Trade Statistics

[4] World Trade Report 2006, WTO

The world export trend of last decade and a half clearly shows that the export opportunities (market) of products of export interest to majority of poor developing countries have not increased significantly. For instance, agriculture, which is the main source of livelihood to billions of poor people of the world, has been experiencing a declining share in world export. In percentage term the contribution of agriculture in total world export has gone down from 12.2 percent in 1990 to 8.4 percent in 2005. Mining products, the major export of African countries that include many LDCs, its share in world export decreased in 1990s with a slightly upward trend in recent years.

There are four major factors that have contributed to the present world export pattern and trend. Firstly, the trade in manufacturing has been liberalized considerable in various rounds of trade negotiations under the aegis of GATT, the predecessor of WTO. For instance, tariffs on manufacturing products fell from a trade-weighted average of 35% before the creation of GATT in 1947 to about 6.4% at the start of Uruguay Round in 1986. Secondly, world agriculture market remained highly distorted for a larger period of post-world war II era. It was only during the Uruguay Round the first serious attempt was made to bring agriculture within the ambit of multilateral trade disciplines. However, it has been more than 20 years since then world agriculture market is still highly distorted. Thirdly, the world market of labor-intensive products like textiles & clothing was governed by quota system. Lastly, the falling commodity prices in the world market have impacted adversely on export prospects of many LDCs.

III. LINKING EXPORT TO DEVELOPMENT AND POVERTY REDUCTION: EXPERIENCES FROM DEVELOPING COUNTRIES[5]

In the previous section we have seen highly inequitable distribution of benefits from trade expansion, which has taken place over the last two decades. The empirical evidence clearly demonstrates that exports of majority of developing countries (with the exception of the original six ASEAN countries[6]) are still concentrated on the exploitation of natural resources and low-skilled labor. Despite frantic efforts to liberalize trade multilaterally since the days of the Uruguay round of trade negotiations in mid-1980s these products still lack dynamism in world markets. Thus, in case of a large number of developing countries the situation defies the logic of traditional trade theory that openness to trade helps countries utilize their resources better in several ways. First, trade allows a country to specialize in the productive activities that it does relatively better than other countries, and thus exploit comparative advantage. Second, trade extends the market facing local producers, allowing them to better exploit economies of scale, which increases income levels and the efficiency of resource allocation. These effects are characterized as static gains from trade.[7]

Statistics showing a considerable expansion of technology and skill-intensive exports from developing countries are also misleading. Expansion of such exports has not been accompanied by concomitant increases in value added and income earned in developing countries. Much of the value added contained in these products still accrues to foreign owners of capital, know-how and management. As a result trade expansion has not necessarily been accompanied by faster growth in their GDP and by greater income convergence with industrial countries. The share of developed countries in world income (in current dollars) increased from less than 73 per cent in 1980 to 77 per cent in 1999, while that of developing countries stagnated at around 20 per cent. And although the share of developed countries in world manufactured exports fell from more than 80 per cent to about 70 per cent during this period, their share in world manufacturing income (value added) rose.[8]

III.1 Impact of Trade Liberalization: Negative Consequences

In most developing countries where labor is abundant, labor-intensive sectors have a social function of absorbing labor into the country's economy. Labor-intensive industries, therefore,

[5] This section largely draws upon the findings of various country case studies undertaken as a part of CUTS Project entitled "Linkages between Trade, Development and Poverty Reduction". The four-year project is being supported by Ministry of Foreign Affairs, The Netherlands and Department for International Development, UK

[6] These countries became closely integrated with the global trading system and established a significant industrial base long ago.

[7] World Trade Report 2003, WTO

[8] Trade and Development Report 2002, UNCTAD

play an important role in the reduction of poverty. However, negative shocks in those industries can lead to dramatic social and economic consequences. The impact could be more severe where there is scarcity of alternative economic opportunities. This heightens the vulnerability of the poor, resulting in loss of employment as a consequence of further liberalization efforts. As it has been the case in the textile and garment industry in countries like Kenya and Nepal (See Box 1), liberalization can incite a new arrival of imported goods competing with local production and lowering the demand for local goods, which can lead to increased unemployment in that sector. The effects of employment loss can reach much beyond the individual and create a snowball effect when whole community has to take in the impact of unemployment by supporting the impoverished families.

Box 1: Nepali Garment Workers Face Unemployment
The RMG sector in Nepal continued to grow during the first five years of the quota phase out and the share of the RMG industry in the manufacturing sector rose from 26 percent in 1994/95 to 37 percent in 2000/01. The decline in exports began only after 2001. The impact, however, has been severe after quotas on all RMG products were completely eliminated on 31 December 2004. The impact ranges from negative consequences in the macroeconomic situation of the country to employment and other human development aspects of the workers. In the post ATC period, while RMG manufacturers are facing problems in finding ways to adjust to the changed situation and enhance the competitiveness of their products to survive in the international market, a majority of workers have lost their jobs and those who have found new jobs have seen a decrease in their earnings. In a survey conducted by SAWTEE, 80 percent of total employees surveyed have lost their employment because of garment factory closure in the last two years.

Source: Impact of Textiles and Clothing Quota Phase-out on Nepal, South Asia Watch on Trade, Economics & Environment (SAWTEE), Nepal.

Seeing the not so favorable conditions for labor-intensive manufacturing and in order to respond to increased competition, many industries in developing countries have adopted capitalization strategies to enhance productivity. Traditional practices, which are more labor-intensive, have often been replaced by modern technology dependent approaches. In fact, improved technologies in farming and textile industries have reduced employment significantly. Another important condition for efficient labor markets is labor mobility between sectors. When import competing sectors contract as a result of trade liberalization, for instance, the released labor may not be automatically integrated into the expanding sectors because of the possible gaps in skills and experiences required. This structural mismatch does not allow the labor mobility needed to compensate for the adverse impact of liberalization. Moreover, the emergence of alternative employment with higher social rewards might endanger the sectors important from a poverty reduction perspective by provoking a skilled labor scarcity (See Box 2).

Box 2: Scarcity of Skilled Labor in Sri Lanka's Garment Industry
Even though the Sri Lankan economy faces high unemployment among young school leavers, the major constraint of the garment industry is the scarcity of skilled labor. SMEs are particularly vulnerable to this as training programmes are additional costs in a highly competitive environment. The garment export industry in Sri Lanka has become unattractive as alternative income opportunities with relatively high social status are emerging elsewhere. This development brings the whole industry into a fragile situation where the country may already have lost the ultimate advantage of labor costs.

Source: Trade Liberalization in Sri Lanka: A Case Study of the Garments Industry, CUTS-CITEE

Within 10 years of liberalization of the oilseeds and edible oil sectors in India, i.e. by 2004-05, all the quantitative restrictions (QRs) were removed and upper 'bound' (maximum) limits on tariff levels were placed. Monopoly was also removed and imports were placed under the Open General Licence (OGL) system. The rules governing edible oil import became more transparent and responsive to market forces. However this change in policy towards the market economy affected the Indian oilseed sector adversely. Although the policy change benefited the consumers, increase in imports led to difficult situation for the domestic producers, especially small farmers and domestic processors. It affected mostly the small inefficient ones who were not able to withstand the pressure of the new and liberalized market environment. Hence, India became the largest importer of oilseed in the world. The share of import of edible oils in the total agriculture imports increased to 50 percent in 2004-05, while sufficiency level decreased to 53 percent in 2002-03 (See Box 3).

Box 3: Trade Liberalization Adversely Affected Oilseeds Sector of India
In India the trade liberalization in oilseeds sector initiated in 1994-95 continued unabated and gradually, between 1999 and 2004-05, all quantitative restrictions (QRs) were removed and tariff rates were brought down significantly. As a consequence imports of edible oils rose from a low level of a million tonnes in 1995-96 to a whopping five million tonnes in 2003-04, making India the largest importer of edible oils in the world. The domestic condition of oilseed complex became grimmer. Trade liberalization measures were undertaken without bringing in place much-awaited domestic reforms in marketing and processing sectors.

Source: Impact Assessment of Trade Liberalization in Oilseeds Sector: A Case Study of Rajasthan, India, CUTS-CITEE

III.2 Impact of Trade Liberalization: Relatively Positive Outcome

As per the empirical evidence, trade liberalization has had some beneficial impact in some sectors in Asian countries. For instance, in Bangladesh, the trade liberalization might not have benefited the entire economy; the exports from RMG sector are growing even after the phase-out of quota in December 2004. In fact phasing-out of quota has quite a different impact on Nepal and Bangladesh, both being Southern Asian Least Developed Countries (LDCs). While Nepal suffered a large decline in employment, Bangladesh did not experience the predicted dramatic decline in trade nor in employment (See Box 4). The fact that Bangladeshi RMG industries have been well established since the 1980s as well as the frequent political turmoil in Nepal might offer some explanation.

Box 4: Bangladesh Ready-Made Garment Sector
Bangladesh's RMG exports grew by taking advantage of MFA quotas that restricted the export supply from other advanced developing countries. The abolition of MFA had been predicted to bring severe consequences for the sector employment and growth. However the country has managed to maintain its past performance. The growth rate of employment for the period 1980-2004 has been estimated at 24 percent per annum and exports have increased by 14 percent per annum since the beginning of the 1990s.

Source: Trade, Development and Poverty Linkage: A Case Study of Ready Made Garment Industry in Bangladesh, CUTS-CITEE

Geographic remoteness from centers of trade, unequal power relations within households, and lack of access to resources for the poor, are some of the major obstacles in better distribution of benefits from liberalization. However, in Vietnam, some industries traditionally manned by the poor in remote areas have been successful in seizing new economic opportunities brought by open markets (See Box 5). Trade liberalization in the shrimp industry in Vietnam has promoted production and social infrastructure improvements in villages. Investments in transportation, irrigation and power supply were undertaken not only by enterprises but also by cooperatives and individual farmers. Furthermore, linkages between shrimp farmers and processing units, breed centers and other service suppliers have been set up and developed in rural areas. But even in these few positive examples, the poor still have to struggle with inequalities regarding access to credit, inputs, and markets in order to maintain their newly acquired means out of poverty

Box 5: Laborers Benefit from the Vietnam Shrimp Industry
Thousands of laborers in the Ben Tre region of Vietnam have seized the opportunity created by liberalization to escape poverty by breaking from a rice monoculture economy to an export-led shrimp industry and thus reducing rural employment pressure. Trade liberalization has stimulated increased social investment resulting in raised capital, fully mobilized resources, mass investment in pond cultivation, development of shrimp-related services and export processing, leading to further employment and income generation. Some risks of sliding back into poverty remain, though, as relatively richer traders enjoy certain advantages by having larger-scale production, easier access to market information and improved technologies.

Source: Trade Liberalization and Shrimp Farming of the Poor in Ben Tre Province of Vietnam, CUTS-CITEE

Like Bangladesh, Cambodian textile and clothing sector too has performed well in post quota phase-out. The textile & clothing sector in both Bangladesh and Cambodia have resulted in significant economic empowerment of women. It has been experienced that poverty commonly had a stronger impact on women and children through unequal power relations in the household. A large part of workers in the textile industries consists of low-waged, female migrant workers. To have a female member in the garment industry has often been considered to be one of the key factors for rural families to escape poverty. Since the majority of female workers are unskilled and belong to low-income families, employment in the textile industry has significantly improved the living standards of their family (See Box 6).

Box 6: Opportunities for Women in the Cambodian Garment Industry
Garment industry has widened opportunities for women to participate to the country's economic activities. Women represent as much as 85-90 percent of the labor force in that sector. These women migrate from areas where livelihoods are at risk due to frequent problems in the agricultural production.

Source: Trade and Poverty Link: The Case of the Cambodian Garment Industry, CUTS-CITEE

Yet, the risks for these women workers to return to poverty have increased through liberalization. First of all, their wage elasticity is high, which means they are highly vulnerable to price increases and demand shocks. Secondly, increased foreign competition has made the textile sector of many countries more fragile. Thirdly, the negative perception of their employment in a factory can have a strongly harmful impact on their social status. Finally, while foreign direct investment (FDI) tends to be more capital-intensive, reducing the demand for unskilled cheap female labor, upward mobility also suffers from gender discrimination leaving women in more risky, low-level employment. Protecting these women, therefore, must be a priority.

IV. ACHIEVING PRO-POOR EXPORT STRATEGY: THE POLICY CHANGES REQUIRED

There are no two opinions that trade liberalization is not a panacea for all economic and social ills. The empirical evidence gives enough credence to the facts that wherever trade liberalization yielded positive outcome, a favorable domestic enabling environment played a crucial role. The key message, therefore, is to strengthen complementary domestic economic policies, which can support increased trade and ensure the desired pro-poor growth. Efforts towards increased trade have frequently been detached from those towards development progress, whereas both goals are tightly interconnected, and in fact depend on each other. On one hand, increased growth and employment opportunities are necessary for lifting people out of poverty. On the other hand, sustainable growth needs human capital, educated and healthy people, as well as a favorable business environment. It is with a holistic perspective of these dependencies that trade needs to be integrated into national development strategies.

Mainstreaming trade into national development strategy means co-coordinating and integrating trade policies with companion policy measures. In other words, there is need to take a comprehensive approach to trade reform by considering policy requisites and trade reforms in a single framework. It involves the systematic promotion of mutually reinforcing policy actions across concerned government departments and agencies, creating synergies in support of agreed national development goals. Hence, it is of vital importance for trade ministry to work in tandem with ministries of finance, agriculture, environment, textiles & clothing and planning & development. This is where most of the poor countries have failed that includes large developing country like India, resulting in lack of policy coherence.

The World Bank in the process of PRSP[9] (Poverty Reduction Strategy Papers) preparation considers trade reforms and macroeconomic, regulatory and capacity building policies in a single framework. The Bank in its efforts to assist poor countries to mainstream trade into national development strategy brought Integrated Framework (IF)[10] into the fold of PRSP. The IF in particular was subsequently restructured to ensure that trade policy, trade-related technical assistance, and capacity-building needs are articulated in a broad development context, and not addressed in isolation. This would lead to proper prioritizing and sequencing of all reforms. However, the PRSP because of its overwhelming focus on the social sectors has not been successful so far in devising a comprehensive development framework including mainstreaming trade into national development strategy.

Based on the experiences of trade liberalization in many developing and least developed countries, it has been observed that although initiatives at the multilateral level are critical for better trade performance by the poor countries, there are also domestic bottlenecks that need to be addressed. These domestic policy measures would ideally include – making provision of appropriate and predictable sources of trade finance, strengthening trade capacity of vulnerable sectors, improving trade facilitation services, addressing the fiscal implications of trade liberalization, and devising an effective social safety net.

IV.1 Trade Finance is Critical to Export Success

Access to cheap sources of finance is one of the major constraints for small entrepreneurs who want to venture into or expand export businesses. Since most of the small entrepreneurs come from informal sector, they find it difficult to get credit from financial institutions including the government owned banks. “Trade financing” refers to financial instruments and institutions to facilitate commercial transactions by exporters. A full-fledged trade-financing infrastructure includes commercial banks and export credit agencies, private sector credit insurance and finance targeted at the informal and vulnerable sector. At present in most of the developing countries export financing is taken care of by the normal commercial banks. For instance in India after more than three decades of country’s independence, a nodal Export-Import bank was established only in 1982. Further, for export insurance and guarantee, India still has only one government agency with no involvement of private sector. The establishment and strengthening of specialized export-credit, insurance and guarantee agencies, such as export-import banks is critical.

IV.2 Trade Capacity Building

In some countries, new institutions and regulatory bodies were created after liberalization, some of them successful in supporting trade growth. Yet, often because of funding issues and lack of capacity, many have not been effective enough to achieve their mandate and thus have left producers with problems such as poor information on markets and prices, delivery inefficiency, and complicated financing mechanisms. Legal and institutional development frequently lags behind the operation of market forces. As a consequence, many producers become more vulnerable to exploitation as the behavior of the different actors is not monitored and regulated adequately. Trade related regulatory infrastructure is, therefore, extremely important to ensure that a favorable and just trading environment is in place to seize the new economic opportunities.

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[9] Poverty Reduction Strategy Papers (PRSPs) are prepared by governments in low-income countries through a participatory process involving domestic stakeholders and external development partners, including the IMF and the World Bank. A PRSP describes the macroeconomic, structural and social policies and programs that a country will pursue over several years to promote broad-based growth and reduce poverty, as well as external financing needs and the associated sources of financing

[10] Six international agencies – the IMF, ITC, UNCTAD, UNDP, and the World Bank have set up the IF for trade-related technical assistance to LDCs in 1997 with World Bank as its main coordinating agency.

Crucially, good domestic policies are needed to enable the development and expansion of industries important for poverty reduction. These policies include not only the establishment and reinforcement of marketing institutions and favorable tax policies, but also Research and Development (R&D) support, investments in infrastructure, quality monitoring and human resource development. An efficient regulatory framework would ensure that market participants get the most efficient outcome not only as producers but also as consumers.

Finally, higher international standards for export goods have intensified the difficulties for producers in developing countries to comply with them. Meeting the imposed requirements, regulations and standards concerning environment protection, food safety and other norms can represent major financial and capacity barriers for many countries. Governments in those countries need to upgrade and strengthen their standards-setting regimes and contribute to the establishment of efficient testing, certification and accreditation of norms. Low-income countries, in particular will need assistance to reinforce their institutions to meet the new criteria.

IV.3 Better Trade Facilitation

Increase in exports has frequently been below expectation because of supply constraints and other barriers. To foster a fertile ground for trade beyond the necessary investments in trade-related infrastructure, governments have the power to facilitate trade and make all processes more transparent and efficient. The high transaction costs and bottlenecks, informal fees, and cumbersome administrative process at customs can reduce the international competitiveness of a sector and also prevent FDI. The East Asian countries that have benefited from trade liberalization have invested hugely on port infrastructure and simplifying customs procedures.

Box 8: Benefits of Cambodian Liberalization
The trade facilitation reforms launched by the Government of Cambodia in 2004 have produced remarkable achievements. The time and cost of shipments of import and export goods have been substantially reduced. Exporters spent 20.2 hours in 2005 compared with 15 days in 2003 to successfully process their goods through customs. The average cost per processing import (including border police, veterinary and phytosanitary fee, customs clearance) was scaled down from US$2,477 in 2003 to just US$673 in 2005. Furthermore, only 10 percent of firms stated to have problems with importing and exporting documentation, thanks to good dissemination by the authorities of the required documentation.

Source: Trade and poverty Link: The Case of the Cambodian Fisheries Sector, CUTS-CITEE

IV.4 Strengthening Sectors with Good Export Potential and Employment Generation

Governments can choose sectors to support according to the expected benefits in terms of poverty reduction, employment generation or rural development. It is crucial that this support is not considered to be a long-term protection but a contribution towards increased competitiveness in those sectors. As financial resources are limited, it is important that these chosen sectors bring benefits to the national development strategies. To successfully integrate trade into these strategies, it is central to identify sectors with high significance for the protection of the poor communities' livelihoods as well as with growth potential. Governments can support those selected sectors with a range of initiatives and promotion policies, which might have positive spill over effects on other sectors. International initiatives such as Aid for Trade should be taken into consideration to help an economy strengthen its domestic policies.

V. CONCLUSIONS

It must be highlighted that under the trade-led growth, country's trade policies cannot remain isolated from the broader developmental strategy. Stronger policy coherence is needed for domestic as well as international decisions. Growing economic inequalities in the context of increased liberalization can be mitigated through trade regulations and pro-poor domestic policies. The state has a role to play in promoting human development through export promotion since rising exports alone is not a guarantee for poverty reduction. As a start, the

expected increase in government revenues through more open markets can contribute to pro-poor measures and investments.
Further, desirable government interventions should not be only limited to additional financial resources directed to the poor, but should go well beyond that. In a business environment of increased competition, the competitiveness of those industries with the most potential to affect positively or negatively the lives of the poor has to be carefully evaluated. Reasons for possible decline have to be identified, especially concerning the likely import surges and domestic consumption changes brought in by liberalization. Tactical investments are crucial to increase competitiveness and enhance the production capacity through the training of workers' skills, updating of production techniques, and strengthening of the necessary infrastructure.

Certainly, many developing countries lack the production capacity to diversify their exports and therefore need financial and technical aid to diversify their production base so that they can reduce their vulnerability when facing market uncertainties. Furthermore, within a development and poverty reduction perspective, it is essential to evaluate the vulnerability of those more exposed to changes in trade patterns and investigate the different strategies available according to livelihoods, geographic locations, and socio-economic background, among other factors. The exact impact on diverse stakeholders has to be taken into account to encourage positive and mitigate negative effects.