Linkages between Trade, Development & Poverty Reduction

Gains From Trade are not Automatic[1]

Introduction

The world is becoming more integrated with trade in goods and services crossing national borders in line with globalisation and regionalisation. Globalisation and liberalisation has impacts on trade policy, poverty, e-commerce, technology transfer, environment, media and cross-cultural issues in developing countries.

Growing regionalisation is another dimension in the globalisation process in developed and developing countries. Even South Asian countries are moving ahead with South Asian Free Trade Area (SAFTA) and designing more free trade agreements (FTAs) to integrate intra and inter-regional trade for improving growth and thereby reducing poverty. The liberalisation of factor (i.e. capital, technology, and labour), product and trade in services is the major concern in the process, allowing free mobility between member countries with favourable terms to increase the rate of economic growth.

Trade Reforms

It is useful to consider the linkages that exist among trade policy, and poverty. Alan Winters, has identified several key Trade-Development linkages, which include changes in (a) the price and availability of goods; (b) factor prices, income, and employment; (c) government transfers influenced by changes in revenue from trade taxes; (d) the incentive for investment and innovation, which affect long-run economic growth; (e) external shocks, in particular, changes in the terms of trade; and (f) short run risk and adjustment costs.

Product and factor price changes, enterprise and government revenues and liberalisation affect the household poverty. Trade liberalisation may affect the prices of goods consumed and produced by the poor. However, tariff changes may not always result in price changes for individuals, but may be absorbed elsewhere in the system by measures such as increased domestic sales taxes.

The rising prices with increased tariff may create incentives or protection for producers to increase production, while falling prices do the reverse. When the production increases, it may lead to an increase in wages and levels of employment at the farm level. The reduction of poverty depends on the level of initial wages and the magnitude of the increase in wages, relative to the poverty line. The response by enterprises/firms to liberalisation can have beneficial effects on gender equalities, if trade policy changes create employment opportunities for women. Besides, this will also increase family income and lead to reduction in poverty levels.

In the short run there maybe losses due to trade reforms. But this should not stop the trade reform process. Introducing complementary measures like supporting infrastructure, providing credit facilities, legal frameworks for competition, removing barriers in factor mobility among sectors will improve growth and reduce poverty and will carry the reform process forward.

Supply responses by firms to changing prices through liberalised trade policies are very crucial particularly to increase productivity by diffusing new technologies and hiring skilled workers. The liberalisation process in India during the 1990s led to an increase in the rate of employment in the formal sector, but a large decline in employment in the informal sector. In this context, formal wages were well above the poverty line through creation of employment opportunities, which has resulted in a net reduction of poverty in India.

Sri Lanka has undertaken trade liberalisation since 1977, after being highly inward-looking. The trade regime was not only protectionist in relation to imports, with high tariffs and extensive Non-Tariff Barriers in place, but was also characterised by high rates of export taxes levied on the traditional triple tree crop exports – tea, rubber and coconut. The domestic food crop sector, particularly the rice sector received both tariff protection and a range of input subsidies - water, fertilizer, research and extension. In 1977, most trade barriers were replaced by a six-band tariff system for imports, ranging from 0 percent for essential consumer goods to 500 percent for luxury items like electronics. The tariff structure has been periodically reviewed since 1980 and further simplification and reductions in the tariff structure have accelerated since 1990 through trade liberalisation. During 1990s, tariff protection given to the manufacturing industry, and the domestic agricultural sector (rice and subsidiary crops such as onions, chillies, potatoes, green gram, cowpea and other pulses), and direct export taxes on tree crops have also been eliminated or greatly reduced. A 2-band tariff system was proposed in Sri Lanka to further simplify the tariff system.

Conclusion

Trade policy reforms have the potential for improving economic growth and development and alleviating poverty. However, potential gains from trade liberalisation are not automatic or guaranteed. Trade reform policies alone cannot reduce poverty. It is necessary to formulate macroeconomic policies including complementary micro policies and other strategic operational policies to create a paradigm shift in the right direction to empower more people with opportunities to eradicate poverty. Trade reforms must be pro-poor involving minimal risks and must target the poorest of the poor.

In addressing the trade, development and poverty reduction issue, it is required to follow the new phenomenon of building and managing broader capital issues - social capital, financial capital, physical capital, human capital and natural capital amongst the poor in developing countries by applying pro-poor policy and strategic operational policies.

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Textiles Unable to Take-off

Lack of market access skills, low labour productivity, shortage of talented managers are impeding garment sector growth in Vietnam. Vietnam's accession to WTO will not be of much use if these structural shortcomings are not addressed.


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Though garment industry has posted an export growth rate of 20 percent in 2000-2005 most of the enterprises are export processors and does not export own product. Moreover, except for local labour all other equipments, accessories, chemical fibre, natural fibre, thread, mex, zip are being imported.

Garment Industry has been seen as one of the industry for poverty alleviation in rural areas where most of the enterprises are small and medium scale. It is becoming increasingly difficult for them to sustain the international competition after removal of textile quota. Increasing market share of Chinese garments is causing serious concern to the Vietnamese exporters. Vietnam needs to make significant business reforms to enable the garment industry to take – off and be internationally competitive. *(VN Express, 23.02.06)*

Fair Trade Alleviates Poverty

Though the concept of fair trade was introduced in 1960's, it was only in 1990's did Nepal have Fair Trade Group Nepal (FTGN) to look after it. Fair trade is a means for sustainable development and poverty alleviation for developing countries. FTGN is supporting the poverty alleviation programme of the Nepali Government providing employment opportunities to 7000 marginalised people in 46 districts.

In a workshop organised by FTGN as part of 7th Handicraft Trade Fair on 'Fair Trade: Sustainable Development', Dr Mohan Man Sainju, Chairman of Poverty Alleviation Fund said, exclusion is a major hurdle in the fight against poverty.

The gap between rich and poor needs to be bridged and the developmental work over the last five decades has been unable to reduce inequality. Fair trade could be pivotal in balancing the inequitable resource distribution by providing opportunity to marginalized and economically disadvantaged producers. *(Himalayan Times, 28.02.06)*

Migration in Cambodia

The illusion of city lights is calling the rural poor who are on their way in increasing numbers to the cities of Battambang, Siem Reap and Phnom Penh. Research suggests that these cities are on a migration boom, and the cities infrastructure and social programmes are unlikely to cope with the influx of the rural population.

The push factors acting behind the migration are poverty, misfortune and healthcare debt. All these are costing families their land and livelihood thereby increasing the number of rural landless families. The cities are likely to face growth of a huge informal sector, cheap labour and increase in slum areas.

Without computer skills, English education, these rural migrants are floundering in their quest for survival. Given a choice, the people would prefer to stay back in their provinces. Slack economic condition continue pushing people to urban areas, since daily wage of an unskilled worker in the city is two or three times higher than in the country – side.

Job opportunities need to be created in the provinces to prevent migration. Though migration involves a lot of struggle, insecurity in the village make the poor, aspiring Cambodians to head to the city for survival.

(Phnom Penh Post Jan 27-Feb 9,06)

SAFTA- Srilankan Perspective

SAFTA (South Asia Free Trade Area) came into being in January 2006 comprising of the SAARC (South Asian Association for Regional Cooperation) countries. It will have a ten- year phase out of tariffs beginning from January 2006.

The trade prospects under the agreement may vary depending on the relative positions of the partner countries. In case of Sri Lanka where cost of living and labour is high compared to her neighbours, there is a probability that cheap agricultural products will flood Sri Lankan markets. This will endanger the small farmers. At the same time, this will benefit the consumers with more choice available to them at cheap and competitive price.

Thus under free trade regime, cheap Indian and Pakistani rice will reach the market and perhaps the government has to pay subsidy to dispose the paddy procured under the floor price scheme.

To survive under the SAFTA trade regime, Sri Lanka should diversify to service related investment and move away from primary agricultural products. The South Indian IT model should be linked to the Sri Lankan economy.

(Business Standard 03.02.06)

Trade Justice, Not Free Trade

Free trade was being forced on developing nations such as Zambia instead of trade justice. Trade justice is a non-governmental movement to lobby for certain standards in trade that include adherence to human rights, universal right to economic growth and the balance of trade and justice.

Irene Banda of Organisation Development and Community Management Trust (ODCMT), Zambia said, "Trade justice is about giving poor people and countries the chance to work their own way out of poverty; giving them chance to earn enough to feed their families; allowing industries to develop, and creating jobs and opportunities".

Opening of markets will make Zambia a dumping ground. Removing protection makes it more difficult for people to work their way out of poverty. Gradual removal of government intervention in markets was another form of injustice, which forced poor countries into abject poverty. *(The Post, 27.03.06)*

EU Tariffs On Asian Shoes May Benefit Cambodia

EU announced that it would impose anti-dumping tariffs on shoes imported from China and Vietnam, a move that could provide relief to Cambodia's flagging shoe industry. The duties to be imposed on all leather shoes from the two countries from April 7, 2006, have been adopted due to disguised subsidies and unfair state intervention.

Competition with China has been hurting Cambodia's shoe business. Studies indicate that Cambodian shoe factory workers have a higher productivity than garment workers and good labour relations. Cambodian shoe factory owners have been exporting to Japan in increased numbers with zero orders from Europe. Now, they are hoping that the orders from EU will increase if there are less Chinese goods in EU market. *(The Cambodia Daily 25.03.06)*

Export Potential in Horticulture

The Government of Malawi is encouraging horticulture, the production of fruits and vegetables. For attaining development Malawi needs to diversify its export base.

Since Independence, Malawi relied on tobacco, tea and sugar for export earnings, which accounted for 80 percent of the total exports. Diversification is necessary, since tea and sugar are facing market access problems in Europe and America, and tobacco is facing setback from anti-smoking lobby.

A study in 1980's revealed a high demand for horticultural products in Holland, France, UK. Trade in horticulture has been an export success story for African nations especially Kenya and Zimbabwe inserting themselves successfully into value chains.

Horticulture needs a lot of investment in both airports and in farm measures. Malawian government is in consultation with other African nations like South Africa, Namibia, Lesotho, Swaziland to develop the horticulture industry. *(Nation Online (Malawi) 26.01. 06)*

A Deceitful Deal

Six of WTO's 150 member countries will thrash out the key details of the global trade deal. Trade Ministers from US, EU, India, Japan, Australia and Brazil are attempting to finalise the rules on international trade for the next decade. But there is increasing apprehension that the deal will not be working for poor people.

The rich countries and their multi-national corporations (MNCs) stand to gain an extra US$96bn from a deal that would see minimal cuts in rich world farm subsidies but deep cuts to poor nations' protection for local industry.

UN has pointed that poor countries could loose up to US$63bn in revenue from cuts in taxes in international trade. This loss to developing nations should not come as a surprise given the privileged role of western big business in the negotiations and the repeated attempts in sidelining the poverty issues in the meaningful trade talks. *(Guardian, 08.03.06)*

Rose Holds Promise for Uganda

Rosebud Ltd., Uganda's largest flower producer became the first company to export flowers to US under the African Growth and Opportunity Act (AGOA). Credit goes both to the company and United States Agency for International Development (USAID), which has rendered technical assistance to Rosebud Ltd. Under AGOA, flower exports from African countries gain quota and duty free entry to US market.

Kenya had already reaped huge dividends from this scheme where Uganda is just making her maiden entry. Ugandan flower sector needs to be organised to ensure competitiveness in the US flower market.

Uganda grows some 36 varieties of roses reputed to be some of the best in the world. The newly tapped US market holds promises to scale Ugandan economy to new heights. Uganda needs to boost her flower production to ensure increased domestic incomes and improved livelihood, without compromising the necessary quality and safety controls.

(Daily Monitor March 28-April 3, 06)

Pineapples Brings Economic Respite

The Ugandan farmers have found economic respite in the popular venture of growing pineapples. Most farmers are targeting both the local market and export markets in countries like Kenya, Democratic Republic of Congo and Rwanda. About 40 percent of pineapple produced is exported to these countries.

The Ugandan districts of Luweero, Kayunga, Masaka are well known for pineapple growing. Luweero, earlier known for coffee production have now diversified to pineapple after wilt disease destroyed many plantations.

Fresh pineapples are exported to Germany, Switzerland, Denmark, UK and the dried fruits to Austria, Canada, and US. In general, Uganda exports about 300 tonnes of pineapple annually and earns about €200,000 from the pineapple export sub-sector. Basing on the success stories of some of the local growers, pineapple growing has become a lucrative export earner in Uganda.

(Daily Monitor March 28-April 3, 06)

Linkages through Growth of Emerging Economies

There is a growing deliberation on the linkages that emerging economies like China, India can have in poverty reduction of the poor nations. In this context, South African Regional Poverty Network (SARPN) had organised a round table discussion on March 29, 2006 in Pretoria focusing on the benefits that Southern African Development Community (SADC) can have from China's economic expansion.

China's economic relations with Africa is gaining importance in Chinese pursuit of access to raw materials, markets and spheres of influence through investment, trade and military assistance. This new orientation has found institutional expression in the first China –Africa Co-operation Forum held in Beijing in 2000 aimed to promote trade, investment and diplomatic relations between China and African countries.

China has become a major investor in oil, hydroelectric plant factories, hospitals and strategic metals where western firms are held up because of political reasons.

Africa has become exporter of raw materials, especially crude oil to China. Obviously, with increased Chinese involvement in African infrastructure, factories comes the rationale for a cost-benefit analysis. As China loom over Africa for her energy resources and access to raw materials, many experts accuses this as neo-colonialism. Another significant cost component is a massive increase in textile exports from China.

By the end of 2004, China's textile exports to South Africa grew from 40 to 80 percent. This led to massive job losses and closure in local industries because of increased competition and cheap Chinese imports. This effect aggravated after the expiry of Multi-Fibre Agreement in January 2005. African exporters could not compete with Chinese exporters in USA markets. Such a scenario raises diverse questions on the trading relations e.g. should there be a restriction on Chinese imports with a minimum requirement on locally made goods in the shop? Will China's emergence help Africa reduce her dependence on West thereby giving her more economic freedom to develop?

There are both challenges and opportunities for poverty reduction facing the African countries as a result of growth of Chinese economy. African countries, which are dependent on labour-intensive primary commodities, should try to gain from this trading relation. To start with African nations should look for market opportunities in China to expand the labour-intensive industries. The nations can then use the export earnings to fund the pro-poor initiatives. Priority areas would be:

- identification of labour-intensive products which are likely to have a pro-poor impact;
- studies of individual value chains; and
- more in-depth studies of specific countries

There is ample scope for poverty reduction and development in Africa because of the growing trade with China.

(Source: South African Regional Poverty Network (SARPN), South Africa www.sarpn.org.za)

Project Overview – 2005-2006

Linkages between Trade, Development and Poverty Reduction was launched in 15 countries across South Asia, East Africa and Europe to facilitate cross-fertilisation of lessons learnt from trade liberalisation and its effects on poverty reduction. Under this, in 2005 the 15 partner countries came out with a background report on their individual countries' economic condition covering the socio-economic indicators and their impact on the masses.

The partners organised national dialogues in their respective countries to deliberate on the findings from the background reports, and to suggest policies to effectively address poverty reduction strategies in present day context. The dialogues emphasised on the formulation of complementary domestic policies for the trade polices to be successful in reducing poverty.

In 2006, the project activities will comprise of country specific case studies. Each partner country in the developing world will be focusing on two sectors of the economy. The studies will focus in the contribution of each sector into the trade balance of the economy and its employment generation capacity. The objective will be to study the impact on livelihood because of trade liberalisation. The study will try to find the policy coherence, socio-economic factors responsible for growth or fall of the sector and probable policy recommendations for poverty reduction.

The two developed countries of UK and Netherlands will be conducting similar perception survey, but they will be studying the measures required for promoting better market access for developing countries. The perception survey will try to find whether the policies adopted in Europe are pro-poor or not, and how to integrate the trade policies with developmental goals of the developing world.

In the second half of 2006, it is proposed to hold regional conferences in South Asia and Africa to better promote the cause of the project. These conferences will be drawing in experts from diverse fields of international trade to discuss the findings of country case studies and how international trade policy can be made more effective to suit respective countries' poverty reduction strategy.