TDP Synthesis Report [1]

[1] This paper is written by Gideon Rabinowitz (CUTS LRC). It is a compilation of the 15 country background papers that have been prepared by the respective research partners under the project "Linkages Between Trade, Development and Poverty Reduction". The respective partners are from the following fifteen countries: Bangladesh, China, Cambodia, India, Kenya, Nepal, Netherlands, Pakistan, Srilanka, South Africa, Tanzania, Uganda, UK, Vietnam, Zambia. All of the tables and graphs are taken from the country background papers.

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1. Introduction

In an increasingly globalised world prosperity is more than ever dependent on the ability of people to gain access to economic processes. One of the most significant challenges facing developing world policy-makers today is to facilitate the engagement of their inhabitants with livelihood enhancing opportunities. However, this is easier said than done as illustrated by the failure of a wide range of developing countries to achieve greater prosperity over the last three decades through stimulating domestic trading activities and increased openness to international trade.

During the 1980s a number of developing countries suffered from economic crises brought on by economic mismanagement and the global economic downturn. They were, on the whole, closed economies following import substitution policies and economies in which private economic activity was heavily regulated. Despite some successes in following these policies, these developing countries suffered from macroeconomic instability, lack of competitiveness and low levels of economic growth. In response, many countries with the support of the International Monetary Fund (IMF) and World Bank embarked on a radical reform process, which included a wide range of trade reforms. The trade reforms gave private traders greater freedom to operate in economies more open to international trade.

However, the results from these trade reforms have been mixed, with a number of economies failing to increase their volumes of trade, both domestically and internationally. Even in many countries that have been able to stimulate higher levels of economic growth and trade through trade reforms, a large numbers of people in these countries have not felt the impact of these reforms' frustrating efforts at poverty reduction.

Table 1: Tariff Liberalisation in Pakistan

Year	**Effective Rate of Customs Duty (Percent)**
1994.95	34.0
1997-98	22.9
1998-99	18.0
2000-01	17.0
2001-02	15.1
2002-03	15.6
2003-04	14.7
2004-05	14.2

Source: Central Board of Revenue

a. Excluding automobile sector

In contrast, following the lead of the East Asian Tigers, a number of developing countries in Asia such as China and Vietnam have been experiencing greater success in facilitating development and poverty reduction through expanding trade opportunities, which potentially indicates strategies that less successful regions can follow.

These contrasting experiences across the developing world in relation to the linkages between trade, development and poverty reduction have spawned a lively and often fractious debate on the nature of these linkages and the wisdom of orthodox approaches to trade policy-making as promoted by international institutions such as the IMF and World Bank. The outcomes of this debate are playing a major role in shaping the future architecture of the global economy and the nature of economic policy making in developing countries.

This is no more clearly illustrated than by the discussions taking place in relation to the Doha Round of WTO negotiations, and the serious concerns in relation to what the developing countries are being offered A large number of developing countries have challenged the emphasis that is being put on trade liberalisation through the Doha Round as a solution to the development challenges they face. This has led not only to a number of developing countries being exempted from making serious commitments in the Round, but also their demands to be provided with the policy space and support to design trade policies that respond to their development needs. These policy areas touch the most contentious issues surrounding the Doha Round as debate continues over the role that trade liberalisation plays in development and poverty reduction.

The objective of the **Linkages between Trade Development and Poverty reduction (TDP)** project is to contribute to this debate by investigating further the grassroots linkages between trade, development and poverty reduction in 15 African and Asian countries and feeding this knowledge into the policy-making process. It aims to do this through background research highlighting the key complimentary factors that can enhance trade's effectiveness as a tool for development. In addition, through a variety of national and international dialogues the project aims to share lessons learnt and grassroots experiences amongst key stakeholders and advocate for greater integration of trade and development policy.

Background papers prepared by the TDP project partners provide an overview of contemporary trade policies and their impact on development and poverty reduction in the 15 project countries, and outlines the framework through which the project activities will be conceptualised. This synthesis paper documents an overview of the findings of these background papers, drawing out common themes, which address the TDP linkages debate. It also recommends some areas on which the future activities of the project could focus.

1.1 Post Independence Economic History

In the period following independence, governments tightly controlled the economies of the TDP project countries, whether through communist rule as in China, socialist style policies as in India, Sri Lanka and sub-Saharan Africa (SSA) or bureaucratic control, as in Pakistan.

Governmental control of economic activity included high levels of protection, import substitution, exchange controls, dominance of state-controlled enterprise, restrictions on foreign ownership and substantial regulation of private trading etc. However, these policies were used in different measures by the project countries.

In China, communist rule from 1949 onwards introduced government control over every aspect of the economy with private trading prohibited, state-owned enterprises (SOEs) controlling production and marketing and collective faming, which was introduced in rural areas. These measures were coupled with high levels of protection to stimulate industrialisation and severe restrictions on foreign investment and foreign exchange.

Both Cambodia and Vietnam experienced extended periods of conflict following independence in the 1950s. The exchanges of power that accompanied these conflicts led to experiments with a number of economic systems in the immediate post-war period, including communism and socialist style command economies. Common to these regimes was state control of agriculture and industry, central planning and investment, import substitution and regulation of private economic activity.

Bangladesh, India, Nepal, Pakistan and Sri Lanka in the post-independence period practiced socialist style policies to control economic activity and trading. Import substitution was facilitated through high levels of protection, exchange controls and a system of licenses to direct production. The governments set the pace of development through investments in SOEs, infrastructure and social sectors (especially in Sri Lanka) directed by Five Year Plans. In agriculture, a system of controlled prices was introduced to manage production levels and prices. Although private trading was permitted high levels of regulation circumscribed it.

Following independence in the 1950s and 1960s the SSA countries followed a similar socialist orientation to the South Asian countries using policies such as import substitution, regulation of private trading and exchange controls. In contrast, state control was not as pervasive in the industrial sector but was a major feature of the agricultural sector. In the agricultural sector, SOEs managed large extension programmes that provided farmers with access to subsidised inputs such as fertiliser, seeds, electricity, transport, while marketing of agricultural produce was managed by the state using controlled prices.

1.2 From Independence to Economic Crisis

The performance of the TDP project economies during the post-independence period of state led development was mixed. Significant levels of investment allowed the industrial sectors to expand, especially in China and India where the development of capital-intensive industries provided an important stimulus to the economy. Other industries that became important included textiles and clothing (T&C), processed agricultural goods, mining (especially in SSA) and machine goods.

In the agricultural sector, growth was less impressive. Soviet style planning often led to agriculture being marginalised in economic planning, as industrial development was prioritised. This was especially a feature of the South Asian economies where investment in agriculture was disappointing, leading to low levels of growth. This imbalance was redressed to some degree by the Green Revolution investment that took place in India, Pakistan and Sri Lanka from the 1960s onwards, but despite this investment agricultural growth remained low.

In the SSA countries, extension services provided significant support to farmers and helped production expand, especially in regions far from the main economic centres. However, the marketing boards that bought produce from the farmers were inefficient and often failed to provide farmers with suitable prices, reducing incentives for investment and productivity gains. As a result agricultural growth remained low and erratic in the period following independence.

Despite some significant successes in stimulating development in the post-independence period, from the late 1970s onwards the project countries felt the effects of serious economic crises, stimulated by both internal and external factors.

Because high levels of protection shielded economic sectors from the competitive pressure of imports, domestic firms in the TDP project countries had limited incentives to maintain efficiency and improve competitiveness. This was especially so in sectors where SOEs dominated, which were given generous budgetary support by the government. By the 1970s, serious inefficiencies were hindering growth in the TDP project economies and contributing to expanding government deficits, as governments bailed out SOEs.

Another internal factor that contributed to this crisis was the decline in export volumes as domestic production was prioritised. Import substitution and the promotion of production for the domestic market in the TDP project countries were frequently accompanied by discrimination against production for export, using export taxes and exchange rate policy. However, this led to reduced revenues from exports and more importantly shortages of foreign exchange reserves, which made it increasingly difficult to purchase imported inputs. As domestic firms struggled to access the inputs they needed efficiency, the economy suffered even further.

The challenges posed by falling levels of efficiency, exports and economic growth were also contributed to by a general failure of the TDP project country governments to effectively manage their economies. As the state took control of an increasing range of economic sectors and institutions economic policy-making became increasingly politicized with resources being invested for political means rather than economic expediency.

At the same time, as the TDP project countries were struggling to deal with these internal factors, the oil crisis of the 1970s brought further challenges with rising oil prices stimulated a global economic downturn and a fall in demand for exports. In addition, the global recession led to rising interest rates, increasing the debt burdens of the indebted TDP project countries, especially those in SSA.

By the early 1980s, the TDP project countries were facing serious macroeconomic instability as their economies stagnated under the weight of inefficient economic sectors, overspending, foreign exchange shortages, high levels of debt and economic mismanagement. In response to these crises and in many cases with the support of the international financial institutions (World Bank, IMF and WTO), the TDP project countries undertook a wide ranging economic and trade reforms over the next decade which dramatically transformed their economies.

1.3 From Economic Crisis to Reform

The reforms undertaken by the TDP project countries during this period were designed to tackle the internal economic problems they were facing. The dominance of SOEs had been a huge burden on government's finances. Therefore, privatisation and reductions in government spending were undertaken to reduce the burden state finances. The use of non-discriminatory protection had shielded their economies from competitive pressure and restricted access to imported inputs for domestic enterprise, so trade liberalisation was undertaken to promote efficiency. The promotion of production for the domestic market had resulted in discrimination against exports so export taxes were removed and export incentives were introduced. In addition, the restrictions imposed on foreign investment had discouraged investment in the economy, so these restrictions were removed and foreign investment was promoted using incentives. However, these policies were introduced in different measures by the TDP project countries, with much of this depended on the degree of autonomy they had in introducing these reforms.

One of the earliest reformers was Sri Lanka who started implementing its reforms in 1977. This first phase of reforms was undertaken in response to IMF support and included the removal of price controls, reductions in government spending, privatisation, the introduction of foreign direct investment (FDI) incentives, currency devaluation and a reduction in the number of non-tariff barriers (NTBs), such as quantitative restrictions (which were converted to tariffs). Tariffs were also reduced and rationalized, but high levels of protection remained until the second phase of trade reforms, which was undertaken in the 1990s. These followed a serious economic crisis precipitated by macroeconomic instability and conflict in the late 1980s, and were again promoted by the IMF. This second wave of liberalisation removed more quantitative restrictions, reduced nominal tariff rates by 30 percent and reduced the maximum tariff from 250 percent to 35 percent. However, a number of quantitative restrictions remained in place in the agriculture sector in order to protect sectors within it that were vital to food security.

China's reform process, which was initiated in 1978, has been entirely domestically led. The first phase of reforms involved the freeing up of agriculture to private trading and this was followed in the mid 1980s with the removal of foreign exchange controls, a widespread trade liberalisation programme (reducing the average tariff to 47.2 percent by 1992, 17 percent by 1997 and 9.9 percent by 2004) and a devaluation of the Yuan. In addition, the government provided increased opportunities for SOEs to develop their production strategies and retain profits for autonomous investment. However, much of industrial and capital intensive production remained in the hands of the state and certain sectors continued to receive high-level government support (e.g. through the establishment of jointly owned, local government-private sector Town Village Enterprises) and protection throughout the reform period. For example, in the electronics sector tariffs remained above 50 percent until the late 1990s.

Another country that undertook its reforms independently was Vietnam. From 1986, the Vietnamese government started implementing its *Doi Moi* (Open Door) programme, which involved the partial privatisation of SOEs, increased opportunities for private trading, the removal of restrictions on foreign investment and the reduction of tariff and NTBs (mainly in the capital and input goods sector as higher level of protection was maintained in the consumer goods sector). To underpin its liberalisation programme, Vietnam signed a free trade agreement (FTA) with the EU in 1992, joined Association of Southeast Asian Nations (ASEAN) in 1995 and started negotiations to join the WTO. By 2003 only one percent of Vietnam's tariffs were over 50 percent and its average tariff had fallen to less than 16 percent. However, government intervention in the economy still remained significant throughout the reform period with SOEs continued to play a role in the industrial sector and government funded extension services – an important part of agricultural policy.

Bangladesh initiated its reform process in the early 1980s being guided by the World Bank and the IMF. These reforms continued through the 1990s and included reductions in government spending, devaluation, export promotion, the removal of quantitative restrictions (reduced in number from 275 to 5) and tariff reductions (highest tariff reduced from 350 percent to 25 percent and nominal tariff rate 10 percent by 2000). However, Bangladesh has maintained significant levels of protection in certain sectors (especially in agriculture) and is estimated by United Nations Conference on Trade and Development (UNCTAD) to be the eighth most protected economy in the world.

Table 2: Kenya - Distribution of Goods By Tariff Bands (1990-91 to 2002-2003)

Tariff Rates (%)	**90/ 91**	**91/ 92**	**92/ 93**	**93/ 94**	**94/ 95**	**95/ 96**	**96/ 97**	**97/ 98**	**98/ 99**	**99/ 00**	**00/ 01**	**01/ 02**	**02/ 03**
0	**6.1**	**3.7**	**2.9**	**3.1**	**3.2**	**3.3**	**3.3**	**3.3**	**3.2**	**3.2**	**3.5**	**6.9**	**20.2**
1-10	**1.6**	**4.0**	**4.6**	**5.2**	**4.9**	**1.8**	**12.8**	**13.2**	**14.9**	**19.1**	**22.3**	**19.7**	**7.4**
11-30	**37.4**	**47.6**	**47.6**	**26.5**	**67.8**	**71.8**	**60.0**	**83.6**	**81.9**	**77.7**	**66.1**	**56.3**	**56.2**
31-50	**21.6**	**17.7**	**20.9**	**35.2**	**24.1**	**23.1**	**23.9**	**-**	**-**	**-**	**8.1**	**17.0**	**15.8**
51-60	**6.3**	**3.0**	**24.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0.4**
61-70	**-**	**24.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
71-	**27.0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0.1**	**0.1**
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Kenya country background paper, TDP

India initiated its reform process in 1991, when following a severe balance of payments crisis it called on the IMF for support to stabilise its economy. The structural adjustment programme it implemented included reductions in government spending, devaluation of the rupee, the relaxing of exchange controls, privatisation of SOEs the removal of quantitative restrictions and reductions in tariffs (average tariff fell from 80 percent in 1990 to 37 percent in 1996). However, a large number of quantitative restrictions remained in place in agriculture, which remained quite heavily protected until the late 1990s. This first phase of liberalisation was focused on the capital and industrial goods sector. The major reforms in the agricultural sector took place in the late 1990s and early 2000s in compliance with India's commitments under the WTO's Agreement on

Agriculture (AoA). This led to quantitative restrictions being removed on a wide range of agricultural products, although these were replaced by reasonably high tariffs, providing continued tariff protection. However, the provision of subsidies in agriculture (for electricity, water and fertiliser) has continued, as this support is not at a level sufficient to be disciplined by the AoA.

Pakistan initiated its own reform process in the late 1980s following a period of macroeconomic instability and economic decline. Its reform programme saw the removal of virtually all-quantitative restrictions, substantial tariff reductions (from a maximum of 125 percent in 1987 to 30 percent in 1998), reductions in government spending and privatisation. These reforms were deepened even further in the late 1990s as Pakistan implemented a structural adjustment programme under the tutelage of the IMF and World Bank.

Perhaps the most intensive reformers during this period were the SSA countries and Nepal. These countries were hit hugely by the debt crisis, falling commodity prices and the global economic downturn of the 1980s, and faced complete economic collapse when they called on IMF and World Bank to support their economies. In response, the IMF and World Bank promoted a radical reform programme which included reductions in government spending, mass privatisation (Zambia had privatised 253 SOEs by 2001), devaluation, the relaxing of exchange controls and trade liberalisation. The trade reforms were introduced across the economy, reducing agricultural tariffs as well as industrial tariffs (average agricultural tariffs are 14 percent in Nepal compared with 10 percent overall) and also removed a wide range of quantitative restrictions.

One of the most significant features of the reform process in these countries was that privatisation and fiscal austerity led to the abolishment of the state owned parastatals that operated in the agricultural sector. These parastatals provided farmers with subsidised inputs (especially important to those far from the main cities), controlled prices and marketed agricultural produce. However, once they were abolished farmers were required to buy their inputs and sell their produce on the private market, exposing them to vagaries of the market and the impact of fluctuating world commodity prices.

Table 3: Summary of Reform Process in 15 Project Countries

Country	**Relevant agencies involved**	**Reform period**	**Reforms undertaken**
Bangladesh	World Bank and IMF	1st phase – 1982-86 2nd phase – 1987-91 3rd phase – 1992 -	Removed QRs (275 to 5) Highest tariff lowered from 350% to 25% Effective rate of protection reduced from 76% to 24% Devaluation VAT introduced Export promotion
China	Domestically led	Agriculture reform from 1978 Trade reform from 1985	Part-privatisation of SOEs Average tariffs reduced from 47.2% in 1992 to 9.9% in 2004 Foreign exchange restrictions relaxed FDI promotion Devaluation
India	IMF and WTO	Trade reforms from	QRs removed (not until late

		1991 Agriculture reforms from late 1990s	1990s in agr') Average tariff reduced from 80% in 1990 to 37% in 1996 Fiscal austerity Devaluation Foreign exchange restrictions relaxed Privatisation
Kenya	World Bank and IMF	SAP implemented from 1980 Main reforms from 1986	QRs removed Average tariff reduced from 49% to 17% Removal of agricultural subsidies Privatisation Foreign exchange restrictions relaxed FDI promotion
Nepal	IMF	SAP implemented from 1985	Average tariff down to 14% (10% in agriculture') Devaluation Foreign exchange restrictions relaxed Removal of agricultural subsidies VAT introduced
Pakistan	IMF	From 1987	QRs removed Average tariff lowered to 17% Maximum tariff reduced from 125% to 25%
South Africa	IMF, WTO	Early 1980s	QRs removed and tariffs bound Fiscal austerity Tariff reduced by 1/3 on joining WTO (still high ceilings in agriculture') Export subsidies removed Privatisation (some marketing boards still remain in agriculture)
Sri Lanka	World Bank and IMF	1st phase- 1977 onwards 2nd phase- 1990s	QRs removed Price controls removed Fiscal austerity Devaluation FDI promotion Foreign exchange restrictions relaxed Maximum tariff reduced to 35%
Tanzania	World Bank and IMF	SAP implemented during 1990s	Average tariff reduced to 12% Privatisation Foreign exchange restrictions relaxed Removal of agricultural

			subsidies Devaluation
Uganda	World Bank and IMF	1st phase – 1987 onwards 2nd (intensive) phase – 1995 onwards	Trade liberalisation Privatisation Foreign exchange restrictions relaxed Removal of agricultural subsidies Devaluation
Vietnam	Domestically led	From 1986	Part-privatisation of SOEs Average tariff reduced to 16% FDI promotion Foreign exchange restrictions relaxed

2. Impact of Reforms

2.1 Theoretical Background

The linkage to establish the interrelationship between trade, growth and poverty generally concerns the relationship between trade and growth and the relationship between growth and poverty. While many studies have concluded that there is a positive association between trade and growth, most are unable to identify causality. Does trade openness lead to growth or does growth lead to trade openness? For instance, the richer a country gets the more inclined it might be to open up to the outside world. An alternative explanation might also be that both are caused by a third factor such as the quality of institutions in a country that impacts positively on both the prospects for enhanced growth as well as the effectiveness of trade policy.

The problem is made even more complex by the fact that countries that undergo trade reforms typically tend to do so as part of an overall growth enhancing policy package that includes many structural reforms implemented sequentially or in tandem.

However, the majority of studies do conclude that trade liberalisation is good for growth and that increased opportunities for private enterprise to operate within and across borders provides a positive stimulus to growth. This relationship is usually explained by the positive impact trade openness has on efficiency through improving price signals, promoting specialisation, reducing opportunities for rent seeking and opening opportunities for the import technology.

However there is much less clarity on how freer trade affects poverty as the theoretical linkages between trade and poverty are far more complex and multi-directional. We can illustrate this by presenting the theoretical framework, which Alan Winters has developed to study the impact of trade liberalisation on poverty showing that liberalisation can have both negative and positive welfare impacts depending on the channels down through which the impact is communicated.

The theoretical framework developed by Alan Winters suggests trade reforms impact welfare through three main channels: their impact on the enterprise (profits and wages); their impact on the prices and availability of goods; and their impact on government revenues and spending.

Trade reforms are likely to have a major effect on the prices of factors of production – where wages of the unskilled are the most important factor viewed from a poverty perspective. If reform boosts the demand for labour intensive products, then there is a likelihood of an increase in wages and employment. However, this reduces poverty depends on whether the poor are strongly represented in the type of labour for which demand has risen. If the poor are mostly unskilled, while trade reforms boost demand for semi-skilled labour, poverty will be unaffected – or it could even worsen as wages of unskilled workers fall.

Whether a particular trade reform policy is pro or anti-poor also depends on how much of a price change is passed through to the poor i.e. what impacts a trade reform impels on the prices of products that the poor buy. Lower income sectors of society a larger proportion of their disposable income on foodstuffs than higher income segments, so the impact of trade reforms on the prices of foodstuffs is vital to the relationship between trade reforms and poverty. More important than price changes may be whether markets exists at all, given that trade reforms can both create and destroy markets. Extreme adverse poverty shocks are often associated with the disappearance of a market, while strong poverty alleviation can be felt when markets are introduced for previously un-traded or unavailable goods.

Trade reform can also affect government revenue, which in turn leads to welfare impacts through the rollover effect on government spending. Although reductions in tariffs lead to lower rates for the collection of trade taxes, if the volume of trade increases more than proportionately, then revenues can increase. On the other hand, if trade openness is taken to its extreme and countries move towards complete liberalisation, then trade tax revenues will fall causing major challenges to revenue collection. However, even in this scenario it is not inevitable that the poor suffer, as it is ultimately a political decision whether new taxes are introduced to make up the shortfall, or government expenditures are cut instead. The impact on poverty then depends on whether the new taxes or cuts in expenditure fall disproportionately on the poor.

With trade reforms impacting growth and poverty reduction through these and other channels the linkages are complex and more research is required at the national and sectoral levels to improve our understanding of the phenomenon. A presentation of the country background studies carried out through the TDP project will hopefully allow us to test the theories already developed and discover new ideas about the pathways through which trade, growth and poverty are linked.

2.2 Impacts on Trade, Growth and Poverty

Following independence the TDP project countries followed isolationist and inward looking economic policies which made the state to intervene in every sector of the economy and led to intense regulation of economic activity. However, the reforms that they undertook during the 1980s and 1990s were to radically transform their economies, integrating them more closely with the global economy, and encouraging the state to take a step back from economic affairs by creating more opportunities for the private sector to engage in economic activity. However, the growth and poverty impacts have varied across the TDP project countries and across the various sectors within these countries.

Bangladesh

During the pre-reform period (1980s) the gross domestic product (GDP) growth rates averaged 3.5 percent and this increased to an average of 4.8 percent between 1990 and 2004, (post-reform period[2]) during which a clear trend of higher growth can be seen from the data. This higher growth trend has been especially apparent in the period 1997-04, during which annual GDP

[2] Refers hereafter to period after which the reforms were initiated

growth has been consistently 5 percent or above. In terms of GDP per capita (in PPP terms) between 1985 and 2000 Bangladesh achieved a marginal increase in per capita income from US$250 to US$350.

This GDP growth trend has been paralleled with a sustained and dramatic growth in exports which grew 11 percent between 1991 and 2005, supporting an increase in export values from US$0.9b in 1979-80, to US$1.5b in 1989-90, to US$8.6b in 2004-05. This growth in exports has led to an increase in the export/GDP ration from 6 percent in the late 1980s to 14 percent in 2004.

The ready-made garments (RMG) sector has been by far the most significant contributor to the growth in exports and has seen the most significant gains in this reform/post-reform period of any sector in the economy. Of the 17 percent annual growth in exports achieved 1990-96 and 8 percent growth 1997-03, non-RMG exports contributed only 1.31 percent and 0.11 percent respectively. Other sectors that have achieved consistent growth in exports since 1990 include petroleum products, engineering products, chemical products, frozen food and shrimps and handicrafts. The services sector has also grown well during this period providing increased employment opportunities.

However, a number of sectors have not responded well to the reform process, most significantly the agricultural sector, which grew quite poorly during the 1990s. The trend in growth rates in the agricultural sector during 1991-03 is not significantly different from that of the 1980s and there is general recognition, even amongst supporters of the reform programme that agriculture has performed poorly during this period.

There is also evidence that many non-RMG industrial sectors have struggled during the reform/ post-reform period, as RMG growth has been responsible for virtually all the industrial growth during this period.

Considering the reasonably impressive rate of economic growth achieved since the early 1990s, progress in terms of poverty reduction has been disappointing. Despite the poverty rate falling from 59 percent in 1991-2 to 51 percent in 1995-6, it was still 50 percent in 2000, and fell by only 0.5 percent per annum between 1999 and 2004. One factor contributing to the low rate of poverty reduction over this period has been the increase in inequality, as the Gini coefficient for Bangladesh increased from 0.26 (1991-2) to 0.31 (2004).

China

Overall GDP growth has been dramatic since the economic reforms were initiated in the late 1970s. Between 1978 and 1995 GDP per capita quadrupled supported by an average growth rate of 9.3 percent. In terms of GDP per capita (in PPP terms) between 1985 and 2000 China more than tripled its income level, which increased from US$250 to US$800, with most of the increases achieved since 1990.

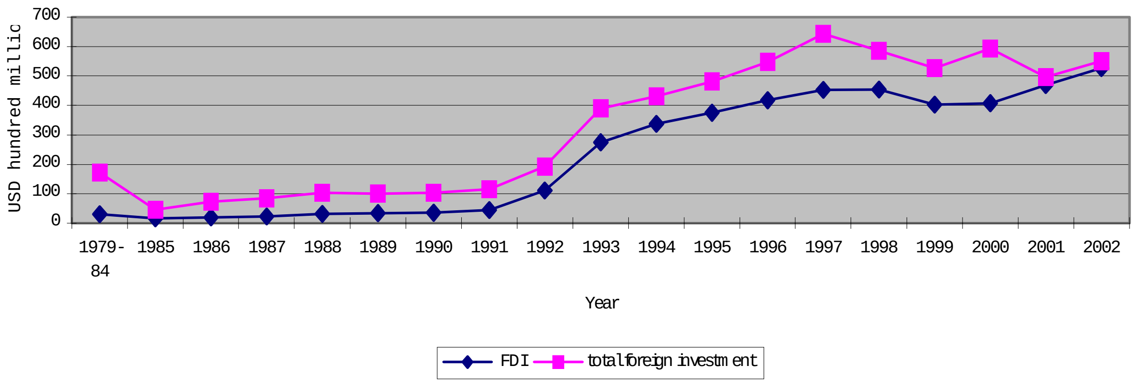
Much of this growth has been supported by the expansion of industrial sectors such as T&C, footwear, toys, machinery, transport and electronics, which have increased their exports massively in response to liberalisation and investment by the Chinese Government and foreign investors (FDI increased from US$1.7b in 1985 to US$52.7b in 2002). The exports of sectors such as these have supported growth in trade from US$3.6b in 1978 (9.8 percent of GDP) to US$115.4b in 2004 (71 percent of GDP).

The rural sector has also shared in this growth, as annual grain output increased by a third between 1978 and 1984, with the establishment of Town Village Enterprises (TVEs) during the late 1970s also providing an important stimulus to the rural economy.

Parallel to the impressive rate of economic growth achieved since the 1980s, China has achieved an unprecedented rate of poverty reduction in recent decades that has lifted tens of millions of people out of poverty. The most significant gains were achieved between 1978 and 1985 during which the absolute number of people fell from 250 million to 125 million, with most of this occurring in rural areas.

Since the mid 1980s impressive rates of poverty reduction have continued, with the absolute number of people falling from 125 million in 1986 to 80 million in 1993, before reaching 26 million in 2004. Most of the poor belonged to the remote rural areas in the western and middle region of the country.

Figure 1: China's Total Foreign Investment and FDI (1979-2002)



India

The Indian economy has struggled to respond positively to the reform process undertaken from 1991 onwards, with annual GDP growth barely above the level of 1980s (e.g. 5.6 percent) and during 1992 to 2003 (e.g. 5.9 percent). However, since 2003 the annual growth rate has picked up pace, averaging over 7 percent. In terms of GDP per capita (in PPP terms) between 1985 and 2000 India doubled its income level, from US$250 to US$500 with most of the increase came in the period 1995-2000.

Agricultural growth post-1991 has been disappointing with growth rates struggling to climb above 2-3 percent, compared to an average growth rate of 3.8 percent during the 1980s. However, performance has varied across the various agricultural sectors as rice, sugar and wheat production has increased but cotton sector has struggled to maintain production in the face of increased import competition.

Despite performing significantly better than the agricultural sector since 1981 (with an annual growth rate above 6 percent in most years) the relative performance of the industrial sector in the post reform period has followed a similar pattern to that of overall growth. Between 1992-93 and 2002-03 average annual industrial growth was 6.4 percent, below the annual average of the 1980s

(7 percent). However, since 2003 industrial growth has picked up pace, averaging over 7 percent and projected to hit 8.5-9.0 percent for 2005-06.

The fastest growing sector during the post-reform period has been the services sector, which has consistently registered annual growth rates of around 8 percent since 1992, comparing favorably with the average growth rate of 6.7 percent during the 1980s. The growth of this sector has been supported by the increasing trend for multi-national corporations (MNCs) to outsource operations such as software development, financial services and customer services to India.

Parallel to the consistent level of economic growth achieved since the early 1980s, India's poverty rate has fallen consistently over the last 20-30 years. However, as an analysis of the poverty statistics will show that there has been no increase in the speed of poverty reduction since the reforms were implemented.

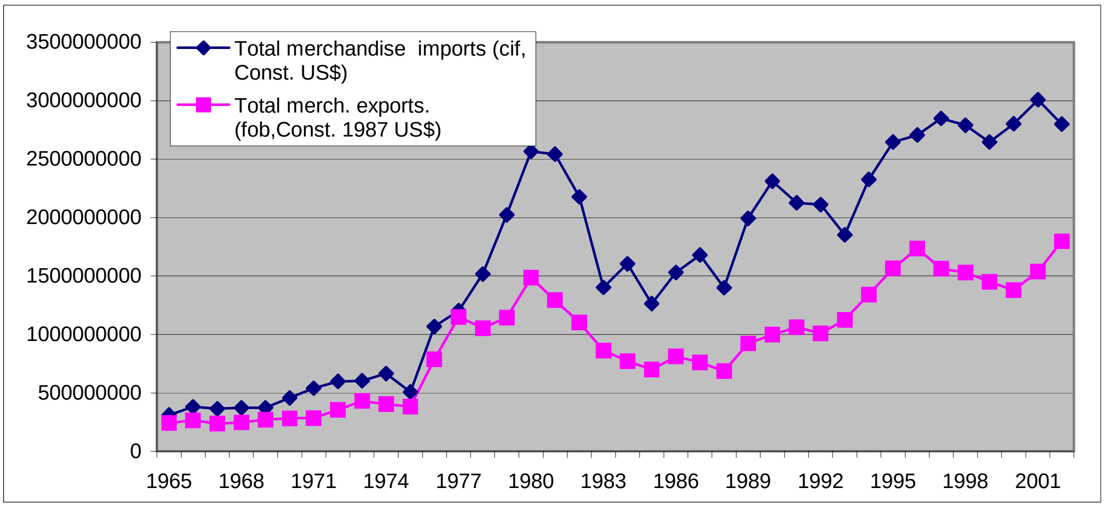
In 1977-78, the overall poverty rate was 51 percent (329 million), which fell to 39 percent (307 million) on the eve of the reform process. The initial poverty response to the reforms was disappointing with the poverty rate still at 36 percent in 1993-94, and the number of poor having actually increased to 320 million. However, the following decade saw impressive rates of poverty reduction as the poverty rate fell to 26 percent (260 million) in 1999-00, and it is presently around 20 percent (220 million).

With the vast majority of India's population (and poor) living in rural areas these overall poverty trends have been determined by the rate of poverty reduction in the rural areas, which stayed stubbornly high in the initial period following the reforms but fell impressively in the following decade. However, impressive economic growth in the industrial and services sector has also made an important contribution to poverty reduction as the urban areas (whose population increased from 140 million in 1977-78 to 330 million in 2006) have absorbed large numbers of the rural poor whilst experiencing significant reductions in poverty.

Kenya

Economic growth in Kenya the post-reform period has been significantly lower than in the pre-reform period. During the 1980s average annual GDP growth was 4.3 percent, but during the 1990s annual GDP growth fell to around 2 percent and barely reached above 3 percent in any one year. In terms of GDP per capita (in PPP terms) Kenya's income has stagnated at around US$300 over the last two decades.

Figure 2: Kenya Imports and Exports, 1964-2001



Source: World Bank: African Development Indicators, 2004

In the agricultural sector, the production of coffee, cotton, tea and sugar declined as these sectors have been hit by falling world prices, the collapse of farming cooperatives and poor infrastructure in the rural sector. However, the horticultural sector has grown impressively since the mid 1980s and presently contributes 30-35 percent of GDP and is the third biggest sector after tea and tourism. The success of the horticultural sector has been facilitated by its export performance (mainly to the EU market) with horticultural exports totaling US$300mn in 2001.

The fisheries sector has also found important new markets (mainly the EU) in recent years, which has allowed the sector to expand and increase value added production.

In the manufacturing sector, performance has been disappointing with sectors such as T&C and footwear having declined significantly since the late 1980s, following increased competition from imports. However, these sectors still operate and together with the chemicals, paper and petroleum are the main areas of industrial production.

The services sector has been the most successful performer in the reform/post-reform period, and expanded its contribution to GDP from 44 percent in 1960 to 59 percent in 2003. The services sectors' contribution to employment has also grown significantly in recent years and presently constitutes 63.5 percent of wage employment, up from 55 percent in 1980. The main services sectors that have performed well include telecommunications and tourism, which have benefited from increased FDI and greater freedom to operate privately.

The poor performance of the economy since the reforms were initiated has contributed significantly to the difficulties Kenya has faced in tackling poverty. Overall poverty rates have increased over the last 15 years, from 48 percent in 1992, to 52 percent in 1997 and finally to 56 percent in 2006. The majority of the poor live in rural areas with rural households twice as likely as urban households to be poor or very poor. However, since the reforms there has been an alarming rise in urban poverty (especially in Nairobi) contributing significantly to the overall rise in poverty during this period.

Nepal

Overall GDP growth during the post-reform period has not changed significantly from that of the pre-reform period. Despite an acceleration of growth from the mid-1980s to the mid 1990s (averaged 4.9 percent during this period) the late 1990s and early 2000s have seen growth falling back to its early 1980s level of 3.5-4.0 percent per annum. In terms of GDP per capita (in PPP terms) Nepal's income has stagnated at around US$200 over the last two decades.

The performance of the agricultural sector has also been mixed, with growth in the first part of the 1990s (2.5 percent per annum) significantly lower than that achieved during the 1980s (4.6 percent per annum), as falling commodity prices and the higher price of inputs (following privatisation of marketing boards) left many farmers struggling. However, since the mid-1990s growth has picked up pace and has averaged 3-4 percent per annum.

The performance of the industrial sector has also been mixed during the post-reform period, as despite an initial rise in growth to 12 percent per annum between 1986 and 1995 (compared to 10.8 percent between 1976 and 1985), in the late 1990s and early 2000s growth has fell to around 3 percent, well below when compared to that of the pre-reform period.

In the services sector, the reforms have not stimulated any significant change in growth and the share of the services sector in the economy changed little during the 1990s (stagnating at around 35-40 percent). The transport, communications and remittances (currently 10 percent of household income) have been the best performer during this period, but the financial services and tourism sectors have struggled.

With the vast majority (97 percent) of Nepal's poor living in rural areas, rural growth is absolutely vital to overall poverty reduction. Disappointing levels of growth in the rural sector have therefore held back poverty reduction, with overall poverty at 31 percent in 2003-04 down from 42 percent in 1995-56. Urban poverty levels are much lower and over the last decade have fallen from 22 percent to 10 percent. The Kathmandu Valley is the most prosperous area of the country with a poverty level of only 3 percent.

The last decade has also seen inequality rise quite considerably in Nepal, with the Gini coefficient increasing from 0.34 in 1995-56 to 0.41 in 2003-04. This increase in inequality has reduced the impact of economic growth on poverty levels as it has been estimated that had inequality remained constant over this period, then overall poverty levels would have fallen by a further 13 percent and rural poverty by a further 9 percent.

Pakistan

Economic growth in Pakistan in the post reform period has been disappointing with GDP growth averaging 4 percent per annum in the 1990s compared with 6.5 percent per annum during the 1980s. A major reason for this has been the difficulties faced in the agricultural sector which only achieved a growth rate of 3.1 percent per annum during the 1990s (compared with 5.4 percent per annum during the 1980s). In terms of GDP per capita (in PPP terms) between 1985 and 2000 Pakistan achieved a marginal increase in income from US$350 to US$500 per capita.

In the early 2000s, GDP growth picked up pace significantly, and was on average 6.5-7.0 percent between 2002 and 2005, reaching a peak of 8.4 percent per annum in 2004-05. This has been achieved through broad-based growth across the economy, as in 2004-05 agriculture grew by 7.6

percent, services grew by 7.9 percent, and most impressive of all, manufacturing grew by 12.5 percent.

In the manufacturing sector, the most impressive performers during the post-reform period have included the electronics, automobiles, fertiliser, paper, steel and chemicals sectors. However, the sectors, which have struggled include the cutlery and a range of traditional handicraft sectors.

Despite achieving reasonable levels of economic growth in the two decades since the reforms were initiated poverty in Pakistan has stayed stubbornly high, with a rise in rural poverty one of the major contributing factors. Between 1990-91 and 2000-01, overall poverty increased from 26.1 percent to 32.1 percent following a significant increase in rural poverty from 24.6 percent to 35 percent over the same period. Urban poverty fell from a height of 30.3 percent to 20.9 percent and overall income inequality remained unchanged during the same period.

Sri Lanka

Annual GDP growth during the period 1990 to 2004 (following the second phase of reforms) was 5 percent picking up from 3.5 percent in the late 1980s. The annual growth in exports of GDP also picked up from 21.7 percent per annum during the late 1980s to an average of 28.4 percent per annum in 2002-04. Despite a low overall level of FDI in the post reform period, FDI played an important role in supporting production in the manufacturing sector and contributed to garments becoming the most significant export sector. In terms of GDP per capita (in PPP terms) between 1985 and 2000 Sri Lanka achieved a reasonable increase in income from US$500 to US$850 with the most serious gains occurring since the late 1980s.

The agricultural sector assumes an important role in terms of its contribution to GDP and employment in Sri Lanka. However, in the last two decades its contribution to GDP has fallen from 27 percent to its present level of 19 percent. Following liberalisation in the agricultural sector domestic production of commodities such as onions, rice, chili, potatoes, green gram, meneri, milk and sweet potatoes have fallen, with the reduction in subsidies to their predominantly small-scale producers as one of the major contributing factors. In contrast, agricultural exports have increased since the reforms and the large-scale farmers that are the main producers of agricultural export commodities have benefited from the reforms. At the same time the services sector’s contribution to GDP increased from around 45 percent per annum in the 1980s to 54.4 percent per annum in 2002-04.

The industrial sector has achieved some significant successes during the post-reform period, with industrial exports growing by 21.3 percent per annum during 1978-90 and 13.1 percent per annum during 1990-04. Sectors such as readymade garments became key drivers of economic growth and the other sectors that benefited included chemicals, petroleum, rubber and plastic. However many traditional handloom and agro-processing sectors declined dramatically during this period in the face of pressures resulting from intensified competition and mechanisation.

Despite a reasonably robust level of economic growth over the last two decades poverty levels have stayed stubbornly high. The overall poverty rate fell by only 2 percent between 1985 and 1995 and the actual number of poor increased over this period. However, between 1995 and 2002 overall poverty fell by 6 percent, from 28.8 percent to 22.7 percent, supported by significant decreases in both the rural and urban sectors.

Taking the period since the early 1990s as a whole the rural/urban poverty gap has increased and poverty levels in the estate sector have worsened significantly. At the same time, inequality has risen across the economy (Gini coefficient increased from 0.34 in 1990-2001 to 0.42 in 2002), with the most significant increases occurring in the rural and estate sectors.

Tanzania

Economic growth in Tanzania has increased during the post-reform period compared to the pre-reform period with average annual GDP growth at 4 percent during the 1990s and 5.9 percent 2000-04. Inflation has also fallen impressively since the reforms and is presently around 6 percent. Exports grew on average by 8.6 percent per annum between 1991 and 2004, with exports diversifying from traditional products such as coffee, cotton, sisal, tea and tobacco to non-traditional products such as mining, fish products, tourism and horticulture. In terms of GDP per capita (in PPP terms) Tanzania's income has stagnated at around US$200.

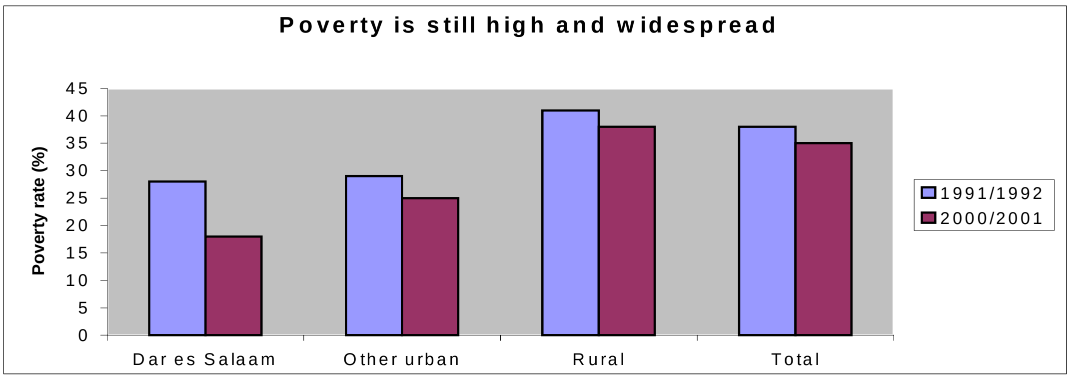
Agriculture, which accounts for almost half of GDP, employs 80 percent of the workforce and provides 85 percent of exports (mainly cash crops such as coffee, cotton and cashew nuts). In recent years, agricultural producers have been hit by falling commodity prices on world markets and rising input prices following the privatisation of the marketing boards and this has limited agricultural growth. However, recent growth in the horticultural sector has been impressive and promises new opportunities for farmers.

The manufacturing sector has struggled since the reforms as a wide range of infrastructure problems limited its ability to combat competition from imports, and the manufacturing sector contributes only 10 percent to GDP. The textiles sector has been decimated by import competition over the last decade although production has picked up pace in recent years in the oil, gas, gold and processed fish sectors, supporting export and overall growth.

The main service sector to benefit from the reforms has been tourism, which contributed around a quarter of the growth in exports during the period 1990-03.

There are presently 11 million people living under the official poverty line in Tanzania, representing 36 percent of the national population. Overall poverty has fallen by only 3 percent since 1991-02, with the stagnation in rural poverty rates as the main cause. In contrast, urban poverty fell from 28 percent to 18 percent over the same period, with the greatest gains occurring in Dar el Salaam.

Figure 3: Tanzania - Share of People Below Living on Less than US$1 a Day



Source: Based on Tanzania Household Budget Survey 1991-92 and 2000-01

Uganda

The average annual growth rate of GDP in Uganda has been around 6 percent per annum since 1995, although it has fallen to around 5 percent per annum in the last few years. Over this period, agriculture's share of GDP has fallen from 70 percent to 36 percent, industries' has increased from 17 percent to 20 percent and services' has increased from 20 percent to 42 percent. In terms of GDP per capita between 1985 and 2000 Uganda's income increased from US$200 to US$350.

Agriculture is Uganda's primary sector, constituting 36 percent of GDP, 90 percent of exports and 80 percent of employment, with coffee as its main export commodity. However, since the late 1990s agricultural growth has slowed down due to the impact of drought, disease and falling primary product prices. For example, following a 25 percent fall in coffee prices between 1999 and 2004 coffee output declined by 17 percent over the same period, reducing export revenues by over US$100mn. In addition, since the privatisation of agricultural marketing boards in the late 1980s, cooperatives in the coffee and cotton sectors have disappeared making it difficult for farmers to access inputs and market their products widely. However, the dairy sector has responded well to privatisation, with most of production directed at the domestic market.

The industrial sector has struggled since the reforms were undertaken, with sectors such as textiles and leather production declining but moderate growth achieved in basic consumer goods sectors such as cigarettes, plastics, soaps, beverages, cement and sugar. However, the industrial sector remains weak as it is import dependent and suffers from a wide range of infrastructure problems that restrict competitiveness.

The service sector has grown impressively in the last decade or so and presently contributes 42 percent to GDP and 13 percent of employment. The most important services sector is tourism, which grew by 23 percent per annum between 1992 and 2004. However, expansion of the tourism sector has been hindered by security fears surrounding the ongoing civil conflict, including its contribution to economic growth, which has been hit by the high level of revenue leakages. Other key services sectors include telecommunications, air transport and social services, sectors for which Uganda is emerging as a regional provider. Uganda's services exports increased from US$64mn in 1994 to US$500mn in 2003-04, although Uganda is still a net services importer, in part due to its high transport costs.

During the 1990s, Uganda achieved significant reductions in overall poverty rates from 56 percent in 1992 to 34 percent in 1999. However, poverty levels have since shot up and reached 49 percent in 2005. Income inequality has also risen in the last few years with the Gini coefficient increasing from 0.40 in 1999-2000 to 0.43 in 2002-03.

Vietnam

Vietnam has achieved impressive GDP growth over the last decade or so, with growth averaging 7 percent per annum between 1993 and 2002. In terms of GDP per capita (in PPP terms) over the last two decades, Vietnam has achieved an increase in income from US$200 to US$350 p.c, with the most significant gains achieved since the early 1990s.

Parallel to the growth in GDP, Vietnam's exports have increased impressively from US$2.09bn in 1991, to US$9.19bn in 1997 and to US$16.7bn in 2002. This has led to an increase in Vietnam's export to GDP ratio from 24 percent in the early 1990s to 47.9 percent in 2002 and an increase in its trade to GDP ratio from around 50 percent in the early 1990s to 105 percent in 2002.

By the 1990s, the footwear and textile and garment sectors were the most significant export sectors for manufactured products, constituting 12.2 percent and 16.4 percent of exports respectively in 2002 (up from 0.5 percent and 7.6 percent respectively in 1990), helping diversify the export focus of Vietnam away from primary products. In 2003, these sectors overtook crude oil production as the most important sectors of production.

State oriented and capital-intensive industries (and their suppliers) have been the main losers from reform process, as these sectors have been exposed to increasing levels of competition both domestically and internationally and many have struggled to compete.

On an average, the poverty rate declined by around 7 percent per annum between 1993 and 2002 (paralleling the growth in GDP) leading to a reduction in overall poverty from 58.1 percent to 28.9 percent and lifting more than 20 million people above the poverty line. Being a rice producer, Vietnam had the chances of moving out of poverty considerably and being a coffee producer, it had the chances of moving out of poverty by 800 percent.

South Africa

During the 1960s, GDP growth rates averaged 5.5 percent, declining to 1.8 percent during the 1980s to turn negative in the 1990s. This economic downturn was coupled with low investment, spiraling inflation and balance of payments problems. In terms of GDP per capita between 1985 and 1990, South Africa's income stagnated at around US$4,000.

Table 4: Overview of Policy Reform Impact on TDP Countries

Country	Growth impacts	Sub-sectors	Poverty impacts
Bangladesh 1st phase – 1982-86 2nd phase – 1987-91 3rd phase – 1992 -	**Average GDP growth p.a.:** 3.5% (1980s) – 4.8% (1990-2004) **GDP p.c. (in PPP terms):** $770 (1985) – $1560 (2000) **Export growth:** 11% (1991-2005) **Agricultural growth:** 3% p.a. (no improvement since reforms) **Industrial growth:** RMG sector – 15.69% (1990-96), 7.89% (1997-2003)	**Consistent growth in exports since 1990:** RMG sectors, petroleum products, engineering products, chemical products, frozen food and shrimps and handicrafts	**Poverty rate:** 59% (1991/92), 51% (1995/96), 50% (2000) **Income inequality:** Gini coefficient 0.26 (1991/92), 0.3 (2004)
China Agriculture reform from 1978 Trade reform from 1985	**Average GDP growth p.a.:** 9.3% (1978-1995) **GDP p.c. (in PPP terms):** $820 (1985) – $3870 (2000) **Trade/GDP:** 9.8% (1978) – 71% (2004)	**Positively impacted sub-sectors:** textiles and clothing, footwear, toys, machinery, transport and electronics	**Poverty reduced** from 250m in 1978, to 125m in 1985, to 80m in 1993 and 26m in 2004
India Trade reforms from 1991 Agriculture reforms from late 1990s	**Average GDP growth p.a.:** 5.6% (1980s) – 5.9% (1992-2003), over 7% (2003) **GDP p.c. (in PPP terms):** $960 (1985) – $2420 (2000) **Agricultural growth:** 3.8% (1980s) – 2-3% (post 1991)	**Positively impacted sub-sectors:** rice, sugar, wheat, services **Negatively impacted sub-**	**Overall poverty** 51% or 329m (1977-78), 39% or 307m (1990s), 36% or 320m (1993/94), 26% or 260m (1999/2000), c20% (220m) 2005.

	Industrial growth: 7% (1980s) – 6.4% (1992-2002) **Service growth:** 6.7% (1980s) –around 8% (1992 –)	**sectors:** the cotton sector	
Kenya SAP implemented from 1980 Main reforms from 1986	**Average growth GDP p.a.:** 4.3% (1980s) – 2% (1990s) **GDP p.c. (in PPP terms):** $690 (1985) - $1010 (2000) **Agricultural growth:** Horticultural sector: 30-35% increase since mid 1980s **Service/GDP:** 44% (1960) – 59% (2003)	**Positively impacted sub-sectors:** Fisheries, tourism and telecommunications. **Negatively impacted sub-sectors:** Coffee, cotton, tea, sugar, clothing, textiles and footwear	**Overall poverty:** 48% in 1992, 52% in 1997 and presently 56%
Nepal SAP implemented from 1985	**Average GDP growth p.a.:** 3.5-4.0% (early 1980s) – 4.9% (mid 1980s to mid 1990s) and 3.5-4.0% (late 1990s to early 2000s) **GDP p.c. (in PPP terms):** $640 (1985) – $1330 (2000) **Agricultural growth:** 4.6% (1980s) – 2.5% p.a. (early 1990s) and 3-4% p.a. (mid 1990s) **Industrial growth:** 10.8% (1976-1985), 12% p.a. (1986-1995), 3% (late 1990s and early 2000s)	**Positively impacted sub-sectors:** communication and transport sectors	**Overall poverty:** 42% (1995/96), 31% (2003/04) **Urban poverty:** 22% (1995/96), 10% (2003/04) **Income inequality:** Gini coefficient 0.34 (1995/96) and 0.41 (2003/04)
Pakistan From 1987	**Average GDP growth p.a.:** 6.5% (1980s) – 4.0% (1990s) - 6.5-7.0% (2002-2005) **GDP p.c. (in PPP terms):** $980 (1985) – $1910 (2000) **Agricultural growth:** 5.4% (1980s), 3.1% p.a. (1990s), 7.6% (2004/05) **Manufacturing:** 12.5% (2004/05) **Service growth:** 7.9% (2004/05)	**Positively impacted sub-sectors:** paper, electronics, automobiles, fertilizer, steel and chemicals sectors **Negatively impacted sub-sectors:** cutlery sector and several traditional handicraft sectors	**Overall poverty:** 29.1% (1986/87), 26.1% (1990/91), 32.1% (2000/01) **Rural poverty:** 25.2% (1990/91), 34.7% (1998/99) **Urban poverty:** 26.6% (1990/91), 20.9% (1998/99) **Income inequality:** Unchanged
South Africa	**GDP p.c. (in PPP terms):** $7180 (1985) - $9450 (2000)		**Overall poverty:** 42% (1990), 44% (1996), 43% (1999), 39% (2004)
Sri Lanka 1st phase –	**Average GDP growth p.a.:** 3.5% (1980s) – 5.0% (1990-2004) **GDP p.c. (in PPP terms):**	**Most significant export sector:** garments	**Overall poverty:** 26.1% (1990/91), 28.8% (1995/96), 22.7% (2002)

1977 onwards 2nd phase – 1990s	$1430 (1985) – $3470 (2000) **Export/GDP:** 21.7% (late 1980s) – 28.4% (2002-2004) **Agricultural growth:** 27% (1980s) – 19% (2000s) **Service growth:** 45% (1980s) – 54.4% (2002-2004)	**Negatively impacted sub-sectors:** Agriculture – onions, rice, chili, potatoes, green gram, meneri, milk and sweet potatoes	**Rural poverty:** 29.4% (1990/91), 30.9% (1995/96), 24.7% (2002) **Urban poverty:** 16.3% (1990/91), 14.0% (1995/96), 7.9% (1998/99) **Income inequality:** 0.34 (1991/92) – 0.42 (2002)
Tanzania SAP implemented during 1990s	**Average GDP growth p.a.:** 3.96% (late 1990s) – 5.88% (2000-2004) **GDP p.c. (in PPP terms):** $430 (1990) - $580 (2002) **Export growth:** 8.6% (1991-2004) **Agricultural growth:** 48% of GDP (1997-2001) **Manufacturing/GDP:** c10% **Tourism:** contributed a quarter of export growth 1990-2003		**11m people, 36%** of the population, living under the official poverty lines **Urban poverty:** 28% (1990/91), 18.0%(2000/01) **Rural poverty:** 35% (1990/91 – 2000/01)
Uganda 1st phase – 1987 onwards 2nd (intensive) phase – 1995 onwards	**Average GDP growth p.a.:** 6.0% (1995) – 5.0% (2003/04) **GDP p.c. (in PPP terms):** $560 (1985) – $1270 (2000) **Export/GDP:** 6% (late 1980s) – 14% (2004) **Agriculture/GDP:** 70% – 36% **Service/GDP:** 20% (1986), 38% (1996), 42% (2003/4) **Industry/GDP:** 17% (1999-2000) – 20% (2003/04)	**Most significant export sector:** fruits, vegetables, fish, fish products and floricultural products **Negatively impacted sub-sectors:** cotton, tea, tobacco, coffee	**Overall poverty:** 56% (1992), 34% (1999), 38.8% (2003), 49% (2005) **Income inequality:** 0.40 (1999/00), 0.43 (2002/03)
Vietnam From 1986	**Average GDP growth p.a.:** 7% (1993-2002) **GDP p.c. (in PPP terms):** $980 (1990) – $2300 (2002) **Export/GDP:** 24% (early 1990s) – 47.9% (2002)	**Most significant export sector:** footwear, textile and garment	**Overall poverty:** 58.1% (1993) – 28/9% (2002)

2.3 TDP Trends and Contributing Factors

As the previous section highlighted the TDP project countries showing quite diverse inequalities in various developmental parameters over the last couple of decades in response to the trade and economic reform processes they have undertaken. An analysis of the experiences of the TDP project countries will allow us to explore some insights into the direction of these trade, growth and poverty interactions and the factors that played a key role in mediating their character. In carrying out this analysis we will also try and explore the role that trade liberalisation has played in producing these outcomes and provide a comparative analysis to draw out common themes from the country experiences.

Given the difficulty of measuring the extent of trade reforms, the challenge of separating their impact from that of other reforms that (commonly) occurred in parallel and of interpreting causality in empirical relationships such as these, any conclusions we make should be treated with caution and be tested through further research. In addition, given the fact that the country studies have been undertaken at a macro-level and lack detailed sub-sectoral data (in relation to the reforms and economic performance), the conclusions we draw from this analysis will be of macro nature.

Bangladesh

Bangladesh has achieved reasonably high levels of economic growth since its reforms were undertaken, although the degree to which trade liberalisation contributed to this is highly disputed. However, the achievement of higher levels of growth has been hindered by a poor business climate, supply side constraints (e.g. infrastructure) and weak institutions.

Although it has achieved reductions in poverty over the same period, this has been at much lower levels than growth (only 0.5 percent per annum since 1999). Part of the reason for this has been the poor performance of agriculture (where most of the poor gain their livelihoods) in response to the reforms. Agricultural growth has struggled to stay above 2-3 percent over the last couple of decades, as it has been hit by poor levels of productivity and investment. However, growth in the non-farm rural sectors, such as fisheries and livestock has promoted poverty reduction. These sectors currently face challenges in meeting food safety standards in order to expand production for the global market.

In the industrial sector, growth of the RMG sector has provided a large number of jobs for low skilled workers, contributing significantly to poverty reduction. RMG production is mainly for export and has been stimulated by trade preferences to EU and US markets. However, its growth has been paralleled by the decline of import competing sectors such as handicrafts since liberalisation, and also by a slow-down in real wage growth. This has limited the contribution of this sector to poverty reduction.

China

China has achieved impressive levels of economic growth over the last couple of decades, supported by freeing up of the economy to private enterprise, promotion of export sectors, selective liberalisation, large inflows of FDI, high levels of investment in infrastructure and public utilities and government intervention to support industry.

At the same time, this economic growth has stimulated high levels of poverty reduction, as growth has been enjoyed across the economy. The rural sector has benefited from the freeing up of agricultural trade and the establishment of TVEs, which are run in partnership between the government and the private sector. As of 1992, TVEs employed 25 percent of rural labour and provided 40 percent of rural income.

The massive expansion of labour-intensive industries such as T&C, electronics and toys (producing mainly for export), has provided a large number of jobs for the poor. Rural people have also benefited from the growth of these sectors as huge numbers of them have migrated to urban areas to access these work opportunities.

India

India has maintained high levels of economic growth since its reforms were initiated in the early 1990s and has achieved record growth in recent years. This has been stimulated by freeing up of the economy to private enterprise and FDI, investment in infrastructure, export promotion, selective liberalisation and government investment in productive capacity.

This economic growth has been paralleled by a significant reduction in poverty, which has been supported by growing employment opportunities in labour-intensive industries, rural non-farm activities, and especially the services sector, which has been the driver of employment creation during the 1990s.

Poverty reduction initiatives such as self-employment and public works (employs the poor on public infrastructure projects) programmes have also played a role in expanding livelihood opportunities for the poor.

However, poverty reduction has not met national targets and a large number of poor remain poor, especially in agricultural-based states due to the poor performance of the sector since the reforms. The expansion of trading opportunities in the agricultural sector has been limited by low levels investment and a narrow focus of agricultural investment on irrigation. As a result, farmers have struggled to produce efficiently for the market and employment growth in agriculture has virtually halted.

Kenya

Kenya has struggled to achieve economic growth over the last couple of decades as private traders have found it difficult to take advantage of new opportunities since liberalisation and privatisation. This has been due to a number of factors, including: poor transport and utilities infrastructure; low levels of competitiveness; excessive customs and regulatory procedures; low levels of investment; and weak institutions.

The low level of economic growth over the last two decades has been paralleled with an increase in poverty with the poor performance of agricultural trade one of the major contributors. Agricultural producers have struggled to market their produce and gain access to affordable inputs since the privatisation of state marketing boards, and the collapse of farming cooperatives has also weakened the position of farmers in the supply chain. Low levels of investment in infrastructure and research and development (R&D) have also held back agricultural growth and poverty reduction.

New opportunities have developed for rural producers in the fisheries and horticulture sectors in recent years providing new avenues for promoting growth and poverty reduction. Trade preferences to EU and US markets have provided an important stimulus to these sectors, although access to these markets is threatened by increasingly strict food safety standards demanded by western consumers.

Although the industrial sector has contracted since liberalisation, services sectors such as tourism have expanded and have contributed significantly to poverty reduction. The expansion of the services sectors has been stimulated by FDI inflows, the removal of foreign exchange restrictions and improvements in communications technology.

Nepal

Nepal has experienced sluggish levels of economic growth since it undertook its reforms in the mid-1980s due to a number of factors, including: the poor performance of the agricultural sector; poor levels of competitiveness; and the failure to develop the institutions required to manage the economy effectively.

Low levels of agricultural growth have been the main obstacle to poverty reduction, as poverty rates remain high in rural areas. Agricultural producers have struggled to afford inputs and invest in production since the privatisation of state marketing boards. The poor state of rural infrastructure and poor technological levels also continue to hinder farmers in marketing their produce, as the government has failed to invest sufficiently in the rural sector.

The industrial and service sectors have performed better since liberalisation, stimulated by the freeing up of the economy to private enterprise and FDI, tariff preferences and quotas, reductions in tariffs and regulatory improvements. The growth of labour-intensive export sectors such as clothing, carpets and jute has provided jobs for unskilled labourers and helped reduce poverty rates in urban areas. However, in recent years, industrial growth has slowed down due to poor infrastructure, low levels of skills, poor institutional management and the abolition of quotas in global clothing trade.

Table 5: Nepal External Sector Indicators (in Growth Rates)

Items/Year	**1981-90**	**1991-2000**	**2001-05**	**1986-95**	**1996-05**
Exports	19.0	28.0	3.7	23.0	13.6
Imports	18.0	20.0	4.4	23.7	8.2
Trade deficit	19.4	17.2	5.3	25.3	5.9
Service Exports	3.2	12.8	-0.4	17.4	**-5.0**
Service Imports	7.0	2.7	6.5	10.7	**0.9**

Source: MOF, Economic Survey and NRB, Quarterly Economic Bulletin (various issues)

Poverty reduction has also been limited in the post-reform period by a significant increase in income inequality, which has been fuelled by increasing landlessness and sub-division of landholdings in agriculture and low wage rates in industry.

Poverty reduction has received a significant boost in recent years from the expansion in remittances from overseas workers, which currently contributes to the income of 30 percent of households and constitutes 11 percent of total household income. The growth of the informal sector and of micro-finance programmes is also thought to have played a role in reducing poverty.

Pakistan

Pakistan’s economy has struggled to achieve the level of growth following the reforms that it achieved before its reforms were initiated in the late 1980s, as growth has been held back by the impact of economic sanctions, poor levels of investment and a wide range of supply side constraints.

The low level of growth has been paralleled by increases in poverty, which has mainly been caused by the low levels of growth achieved in the agricultural sector where the majority of Pakistan's poor gain their livelihood. Growth in the agricultural sector has been stymied by drought, low levels of investment and the weak rural transport and utilities infrastructure etc. The ability of the poor to take advantage of new trading opportunities has also been hit by a reduction in development spending from 7.3 percent of GDP in the 1980s to 4.7 percent of GDP in the 1990s.

In recent years, the Pakistani Government has initiated a large investment programme, and investment in infrastructure, rural development and safety nets has increased significantly. There are signs that this is already supporting the poor to improve their livelihoods.

Sri Lanka

Sri Lanka's first set of reforms (initiated in the late 1970s) failed to stimulate high levels of economic growth as macro-economic imbalances and civil war hit the economy badly. Following the second wave of reforms in the early 1990s growth has been more robust and has been stimulated by increased opportunities for private traders to operate, export incentives and FDI inflows.

In parallel to the increase in economic growth in the 1990s, poverty increased during the first half of the 1990s and then decreased to just below its 1990 level by 2002. This disappointing level of poverty reduction can be explained by a number of factors, including: the difficulties faced by small-scale farmers since liberalisation (from import competition and reduced subsidies); the decline of small scale industries such as handicrafts (due to import competition); and the low level of development and infrastructure spending.

Table 6: Impact of Trade Liberalisation on Manufacturing Units in Sri Lanka

Nature of Impact	Approved Industries	Unapproved Industries	All Industries
Closed down	8.6	3.1	4.3
Adversely affected	15.8	26.9	24.6
Benefited	37.6	18.5	22.5
Unaffected	38.0	22.5	48.7
Total	**100.00**	**100.00**	**100.00**

Source: Athukorala, (1986)

However, poverty reduction has been promoted by the development of the clothing sector, which has created jobs for a large number of people, supported by large FDI inflows. Employment through public works, remittances from overseas workers and the lower prices of some food crops etc., have also played a significant role in reducing poverty.

With many of the negative impacts of liberalisation hitting the rural sector the rural-urban poverty gap has increased over the last decade or so. In addition, poverty rates are known to be high in more remote and conflict ridden North and East regions of the country which have remained relatively untouched by the economic growth achieved in recent years.

South Africa

South Africa has experienced economic stagnation since its reforms were undertaken, as the economy struggled to overcome the legacies of the apartheid era, including low levels of skills, low levels of investment, a large informal economy, bias against small and medium enterprises (SMEs) and degraded manufacturing stock.

In parallel to this economic stagnation, South Africa has also struggled to reduce poverty in any meaningful way due to difficulties faced by producers in the agricultural and industrial sectors and a failure to mobilise the resources to increase investment in productive capacity, infrastructure and social services.

Agricultural producers have struggled since privatisation as poor infrastructure, low levels of productivity and domination of supply chains by large firms have made it difficult for them to produce efficiently for the market. In the industrial sector, the development of capital-intensive sectors has been held back by low levels of skills and the development of labour-intensive industries has been hit by increased competition from imports since liberalisation (e.g. the textiles sector).

Tanzania

Tanzania has struggled to achieve sustained economic growth since its reforms were undertaken, as private trade has been held back by the poor business climate including: excessive regulation and corruption; poor infrastructure and low levels of investment; and productivity. Also, the government has struggled to design and implement an effective economic development and trade strategy due to human resource constraints and the poor performance of institutions.

In parallel to low levels of economic growth, Tanzania's poverty levels have barely fallen over the last decade or so, in part due to the problems faced by farmers. Since the privatisation of marketing boards farmers have struggled to gain access to affordable inputs and credit, to market their goods efficiently and to maintain product quality and they continue to be hampered by poor access to productive assets such as land and technology.

On the other hand, the development of the fisheries sector has contributed to poverty reduction as the majority of fish are caught by small-scale artisanal fisherman. However, the role of these producers in the supply chain is threatened by the increasingly strict food safety standards that need to be met to access markets such as the EU (where the majority of Tanzania's fish are sold).

With the main growth sectors of the economy currently mining and tourism, both with limited spin-offs for poverty reduction (due to capital flight and poor links to the domestic economy) in order to increase the potential for poverty reduction from trade Tanzania needs to diversify its economy and expand its industrial sector. The recent trends towards export diversification and increased investment (supported by high levels of aid) bode well for this process.

Figure 4: Cotton export performance (1994=100)

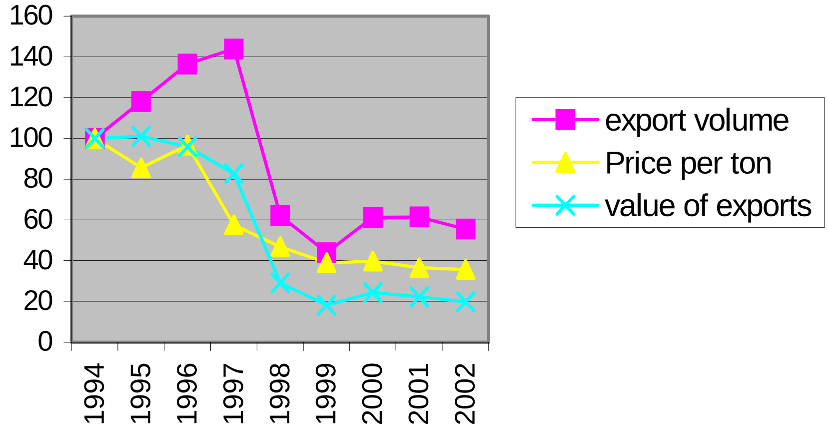
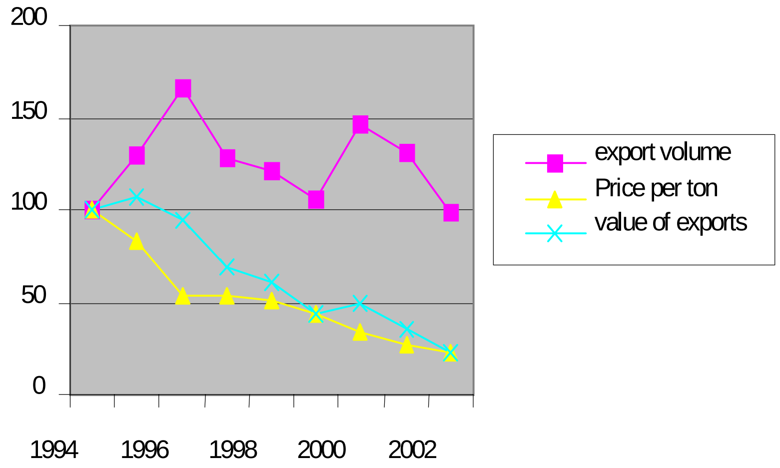


Figure 5: Coffee Export Performance



Uganda

Uganda has achieved quite high levels of economic growth over the last two decades, supported by the improved macroeconomic climate, FDI inflows, the expansion of the services sector and increasing diversification of exports.

However, over the same period, poverty has barely fallen, as following dramatic reductions in poverty during the 1990s, it increased significantly in the early 2000s. Much of this has been due to sluggish growth in the agricultural sector, which has been hit by drought, disease and falling commodity prices in recent years. Combined with the difficulties farmers currently face in accessing affordable inputs and credit, the poor state of rural infrastructure and low levels of productivity, etc., have left farmers more vulnerable since the reforms.

On the other hand, rural producers have found new opportunities in the expansion of the livestock, dairying and fisheries sector. However, increasingly strict food safety standards pose challenges for producers (especially small scale ones) to export these products to western markets.

Liberalisation has provided an important boost to the services sector, with sub-sectors such as tourism, telecommunications, transport and social services having grown impressively over the last couple of decades providing employment opportunities for the poor. Limited expansion of the industrial sector has also played a role in employment creation, although the sector still suffers from low levels of productivity and poor institutional support.

Vietnam

Vietnam has achieved impressive rates of economic growth since it undertook its reforms in the late 1980s stimulated by freeing up of the economy to private trading and foreign investment, government support to industry and agriculture, investment in infrastructure and the development of effective market institutions.

Over the same period, Vietnam has achieved impressive rates of poverty reduction as production has expanded across the economy. Egalitarian land reforms, strengthened land rights, extension services and freeing up of agricultural trade have provided an important stimulus to agricultural production and therefore contributed significantly to poverty reduction.

In the industrial sector the rapid expansion of the textiles, clothing and footwear sectors (stimulated in part by quotas, trade preferences and FDI) has provided huge numbers of low skilled jobs and promoted poverty reduction. At the same time, capital intensive and SOEs have contracted since liberalisation, although workers from the state sector have been given support to retrain and find employment elsewhere in the economy.

However, poverty rates remain high in the more remote and less developed regions of the country (the Northwest and the Central Highlands) and if poverty is to be reduced further the government will need to increase investment in these regions in order to stimulate economic activity.

3. Comparative Analysis

The background papers produced through the TDP project aim to present a brief but informative overview of the trends in trade, growth and poverty in recent decades in the project countries, information that the project partners can then utilise to inform their research activities during the project.

The previous sections of this paper have attempted to summarise the trade, growth and poverty trends experienced by the TDP project countries as presented in the background papers. This part of the synthesis paper attempts to go a step further and by comparing and contrasting the trends highlighted across the project countries attempts (in section 3) to identify in a very general way the factors that have played a role in determining the trade and poverty trends that have been documented across these countries.

In highlighting these causative factors this section of the synthesis papers aims to guide the TDP project partners and other interested stakeholders in carrying out further research and analysis on the identified policy areas in order to identify specific policies for improving the role trade can play in reducing poverty.

3.1 Economic Growth

The first conclusion that can be drawn from a comparative analysis of TDP trends in the project countries is that the most significant pre-requisite to poverty reduction is economic growth. The project countries that achieved the most significant reductions in poverty in response to their reforms were those who achieved the highest levels of economic growth, namely China, Vietnam and India. In contrast, most of the countries that failed to reduce poverty (or even saw it increase) are those that also failed to stimulate sustained economic growth following their reforms. These countries include Kenya, Tanzania and Zambia.

However, the experience of a number of project countries illustrates the fact that economic growth is not always sufficient to stimulate poverty reduction and that the character and distribution of this growth plays a major role in determining the extent of poverty reduction. Countries such as Bangladesh, Pakistan, Sri Lanka and Uganda achieved reasonable levels of economic growth, but failed to reduce poverty to the same degree (with Pakistan experiencing increased poverty).

The distribution of economic growth matters for achieving poverty reduction. Therefore, if economic growth is focused on sectors of little importance to the poor it is unlikely to have a significant impact on poverty levels.

3.2 Agricultural Growth

One of the main reasons economic growth failed to impact poverty more significantly in these countries was because they failed to focus trade expansion and growth on their agricultural sectors, where the majority of the poor gain their livelihoods. The agricultural sectors of the majority of the TDP project countries attracted limited investment and suffered from major institutional problems during the reform period. As a result these countries achieved only limited success in stimulating commercial activity almoners, for whom limited access to productive assets (such as land and tools), poor rural infrastructure, increased prices for farming inputs (following the privatisation of marketing boards) and falling commodity prices held back their ability to trade effectively.

In contrast, in China and Vietnam egalitarian land reforms, state funded extension services; infrastructure investment; and effective institutional management provided agricultural producers with the support they required to respond to private trading opportunities following liberalisation. As a result, the expansion of agricultural trade made a major contribution to poverty reduction. Although, the agricultural sector in India has struggled since the reforms, non-farm rural employment has been stimulated by investment in infrastructure and rural employment programmes.

Given that the majority of the poor make their living (in whole or in large part) from agriculture, in order to effectively combat poverty it is important that growth is stimulated in agricultural and related non-agricultural sectors.

3.3 Business Climate

Another significant factor that has contributed to disappointing levels of growth and poverty reduction in the post-reform period in many of the project countries is the poor business climate, which has held back the growth of private trading in a range of sectors. In many of the project countries, especially those in SSA poor infrastructure, excessive red tape, corruption, an inefficient financial sector and weak institutions have made it difficult for entrepreneurs to operate. As a result, the ability of these economies to create jobs for the poor in marketing and labour-intensive production has been limited.

However, a number of project countries have taken important steps to improve their business climate and this has stimulated the development of sectors such as textiles, clothing, footwear electronics and agricultural processing, sectors important to the poor. Much of this production has taken place in export processing zones in countries such as Bangladesh, Nepal and Sri Lanka, where foreign investors are offered investment incentives, customs procedures are streamlined and there has been investment in infrastructure. However, despite the large number of jobs that have been created in these sectors there are concerns the quality of employment (in terms of wage rates and working conditions) is poor and that this is holding back poverty reduction.

If the poor are to improve their access to market activities it is vital that efforts are made to improve the business climate in sectors that are potentially beneficial to them, e.g. marketing, small-scale manufacturing and labour intensive industry. This requires action to improve physical infrastructure as well as the range of regulatory and institutional problems that hinder private traders.

3.4 Growth in Services

The sector that has grown most significantly across the project countries in response to the reforms has been the services sector, which has expanded its share of national income in these countries over the last couple of decades. The tourism sector has been the most impressive performer and has created significant employment opportunities, especially in the SSA countries despite the leakages such as profit repatriation and import dependence that characterise it. Foreign investment in this sector has been important and this has been stimulated by reforms such as those related to FDI, foreign exchange and customs regulations.

Other services sectors that have grown significantly in the project countries include telecommunications, financial and customer services, software development (only really relevant to India), retailing and education (especially in Uganda). These sectors have benefited from the liberalisation of the services sector, which has improved competitiveness, stimulated FDI and provided greater freedom to private entrepreneurs to operate. The development of sectors such as telecommunications and retailing has also provided a boost to entrepreneurs operating in other sectors of the economy.

However, despite its significant contribution to national income and employment we still know relatively little about the dynamics of the wide variety of economic activities that take place in the services sector and the channels through which they contribute to poverty reduction. This is because much of this sector operates informally and the rapid transformation this sector has undergone in recent years has yet to be fully documented.

It is important that additional research is undertaken to understand the dynamics of service sectors (including informal services) so that the policy-makers can design policies to support further expansion and improve its contribution to poverty reduction.

3.5 Trade Liberalisation

Although it is clear that trade liberalisation has facilitated trade expansion in a number of the project countries, it is also clear that the countries that have benefited the most have carried out selective and gradual liberalisation and have continued to provide state support to key economic sectors. For example, China and Vietnam have extensively liberalised the import of capital goods and ram materials, but have liberalised consumer and labour-intensive goods (for which production has expanded) to a much lesser extent. SOEs have also continued to play an extensive role in their economies and operate in key industrial sectors such as textiles, clothing and electronics.

A number of other countries have also avoided carrying out liberalisation in their agricultural sectors in order to safeguard the livelihoods of farmers. Bangladesh, India and Sri Lanka continue to protect their agricultural sectors with high tariff barriers although they may be forced to lower these tariffs in the coming years due to WTO commitments.

In contrast, the most extensive liberalisers over the last couple of decades, the SSA countries, have seen their economies perform disappointingly as key economic sectors have contracted in the face of global competition and agricultural producers have become increasingly vulnerable in open markets. This poses the question whether these countries would have benefited from more selective liberalisation guided by a national trade and development strategies rather than the policies of the IMF and World Bank.

The developing countries that have seen the most positive impacts from trade liberalisation are those that have taken a selective approach to open their markets, with these decisions based on variables such as potential impacts on the poor and levels of competitiveness. This points to the need for research to explore further the right pre-conditions and accompanying reforms that are required to benefit from trade liberalisation.

3.6 Governance and Institutions

One of the most significant crosscutting issues underpinning the varied experiences of the TDP project countries in the post-reform period has been the progress of governance and institutional development. These countries have introduced a wide range of market reforms and those that have developed the institutions and expertise to manage this process have harnessed this process most effectively in support of economic growth and poverty reduction.

Countries such as China, India and Vietnam have developed a network of well-resourced institutions to monitor and manage the process of market development. These institutions are responsible for macro-economic management and for developing and implementing economic plans to guide the economy, including strategies for investment, liberalisation and export production. They are also responsible for overseeing regulatory issues such as competition, the functioning of labour markets and customs procedures.

In contrast, many of the other project countries have failed to develop effective institutions to manage their economies and their reforms have failed to stimulate the effective functioning of private markets. This problem has been especially prevalent in SSA countries where institutions face serious financial and human resource constraints and continue to suffer from high levels of corruption.

Institutions play an important role in creating and sustaining economic growth and ensuring that the benefits are spread as widely as possible. It is therefore vital that institutions that can play the role of nurturing such an economic environment are established and resourced in developing countries.

3.7 External Factors

Given the fact the last couple of decades have seen the TDP project countries opened up their economies to trade with the global economy to a greater extent than ever before, the external trade practices of their competitors have played a major role in shaping the TDP trends observed in the project countries.

As these countries have deepened their integration with the global economy they have had to deal with increasing levels of competition from global competitors, especially developed countries. Although this has provided an important stimulus to increasing competitiveness (and has in some cases been accompanied by reciprocal market opening by their competitors) this has also led to the decline of many sectors across the TDP project countries. Examples of such sectors include handicrafts (in Bangladesh, India and Sri Lanka), T&C (in SSA countries), chemicals, machinery and some agricultural sectors. As most of the project countries have not had the resources to support displaced workers and alternative employment opportunities have been slow (or have failed) to develop, the decline of these sectors has contributed to increased poverty (at least in the short run).

When talking about the impact of developed country exports on developing country markets it is necessary to devote special attention to the impact of agricultural subsidies. Developed countries such as the EU, Japan and US support their farmers with US$1bn of subsidies every day, with much of these provided to farmers in sectors of importance to developing country producers, such as cotton, maize, poultry, sugar and wheat. These subsidies have given developed country exporters a competitive advantage over producers in many of the project countries and led to the displacement of domestic producers from markets. These subsidies have also contributed to falling commodity prices as cheap exporters from developed countries have flooded global markets. These subsidies have therefore left farmers in many of the project countries increasingly vulnerable and have contributed to increased rural poverty.

Many of the TDP project countries, especially those in Asia have benefited significantly from the expansion of exports in sectors such as T&C, footwear, electronics and agricultural goods. However, the TDP project countries still face significant barriers to accessing the markets of developed countries for many of the products, which they have competitive advantage in producing.

Most significantly for poverty reduction, the agricultural markets of developed countries, especially the EU remain heavily protected and labour-intensive goods such as T&C and agricultural processing continue to face high tariffs. This continued protection is holding back the agricultural exports of many of the TDP project countries and their ability to expand industrial production. It should be noted however that the ending of quotas in T&C (which had been in place at the behest of the developed countries since the mid-1970s) is potentially a major step that will support the expansion of this sector in Bangladesh, India and China (the most competitive producers), at the expense of less competitive producers in Asia (e.g. Sri Lanka and Nepal), EU and SSA, who have been protected by quotas.

For regions such as SSA where industrial sectors lack competitiveness the provision of trade preferences by EU and US has supported a (moderate) expansion of sub-sectors such as textiles, clothing, fisheries and processed agricultural goods. However, the future of these trade preferences is unclear as they are provided to developing countries on a non-contractual basis and are currently threatened by the ongoing WTO negotiations and opposition from EU and US producers.

As the background papers have highlighted, many of the TDP project countries have expanded their exports of agricultural and food products such as fisheries, floriculture and horticulture in recent years, stimulated by emerging consumer trends and trade preferences (mainly to the EU). However, the future of these sectors and the contribution they are making to poverty reduction is threatened by increasingly strict health and safety standards that are being applied to the export of these products to the EU markets. Following a number of health scares in recent years and the increasing demands for food quality by consumers, there has been an explosion of health and safety standards that producers are now expected to comply with. Compliance with these standards requires producers to constantly monitor product quality necessitating significant investment in human, physical and institutional resources. This poses significant challenges for developing countries in terms of mobilising the financial resources to make these investments and assistance from by international donors will important in supporting these efforts.

One of the most visible ways in which developed and emerging economies have contributed to the efforts of the TDP project countries to expand their trade has been through aid and FDI, which have bolstered domestic efforts to invest in productive capacity. Aid has played a much more significant role in the SSA project countries, where it currently contributes a major proportion of national spending. FDI has played a much more significant role in Asia, especially in China and India and one of the most significant challenges facing SSA countries over the coming years is to attract increased volumes of FDI to their economies.

Developed countries can to do much more to promote development by providing developing countries with increased financial support, agreeing to more equitable trading relations and encouraging their corporations to invest more responsibly.