

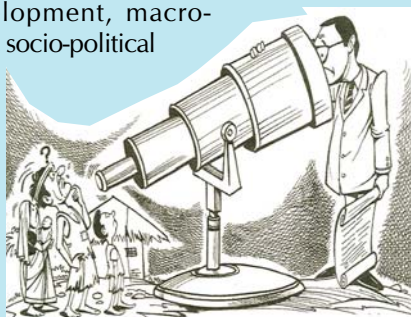
Linkages between Trade, Development & Poverty Reduction

Economic Liberalisation Has Failed to Arrest Poverty

Abid Qaiyum Suleri *

Assessing micro-economic implications of macro level policies in international trade is one of the difficult questions of the day. One hears convincing arguments from both proponents of economic reforms as well as their opponents on the issue. It is a matter of perception. These are some fundamental questions whose answers may provide a framework for further debate:

- Do rising inequalities matter in the context of rising growth?
- Is it possible in our circumstances to distinguish and separate growth strategies from distributional implications of growth?
- Can we accept 'increased per capita income' as an adequate indicator of linkages between trade and development?
- When we say development, what is it exactly that we mean — infra-structural development, macro-development, micro-development, socio-political development or social development etc?
- How are we defining poverty (economic, social, cultural, biological etc)?
- Did we undertake economic reforms (irrespective of their outcomes) on our own will or were we compelled to do so?



The Hindu Business Line

Rising inequalities do matter in the context of rising growth. However, it serves the political interest of governments to project rising growth and to ignore rising inequalities. It is very easy in our circumstances to confuse growth strategies with distributional implications of growth. "Increased per capita income" is used as a common indicator to assess distributional implications of growth. However, such increase may be associated with rising income inequality or a growing incidence of poverty.

Likewise 'development' is another vague term that is often misused by various players of the game. Macro-development as a result of increased economic growth may lead to decreased social development. It has been admitted by various studies conducted by Asian Development Bank (ADB), World Bank (WB), United Trade Conference on Trade and Development (UNCTAD), World Trade Organisation (WTO) and other independent researchers that macro-development had adverse affects including a sense of increased marginalisation on people living in poverty.

In order to assess whether the decision to undertake economic liberalisation by most developing countries was a well-informed one or due to some compulsions, we can take major South Asian countries as case study.

As for as Pakistan is concerned, impulse of liberalisation came from the unsustainable current account

deficit, which was the outcome of the overvalued exchange rate and service restrictions in trade and payment regime. International Monetary Fund (IMF) and WB proposed structural adjustment programme (SAP) to reduce the current account deficit. It was thought that SAP would attract foreign direct investment (FDI), facilitate employment and intensive exports leading to poverty reduction. Resultantly, Pakistan has abandoned import substitution strategy, and tariffs in Pakistan (barring auto industry) are now well below the bound tariffs under the WTO.

Decade average for unemployment in Pakistan during 1970s was 2.4 percent, whereas the real Gross Domestic Product (GDP) growth was 4.8 percent. Unemployment was 3.5 percent in 1980s against a real GDP growth of 6.1 percent during the decade. Interestingly, in 1990s average unemployment further increased to 5.7 percent, while the real GDP growth was 4.6 percent. These statistics indicate a meagre relationship between macro economic growth and poverty reduction.

A few things appear common in South Asian economic reforms, i.e., all of them were carried out under compulsion or on external advice. Second, due to these economic reforms, trade and exports became the end goals in themselves and

development of common people got ignored.

According to United Nations Development Programme's (UNDP's) Human Development Report of 2004, almost half of the children under five years of age in India, Nepal, Pakistan and Bangladesh are malnourished and sleep hungry; 107 children out of 1000 die before celebrating their fifth birthday in Pakistan, 93 out of 1000 in India, and 91 out of 1000 in Nepal. Bangladesh houses 58.9 percent of illiterate adults, Pakistan 58.5 percent, Nepal 56 percent and India 38.7 percent. The most worrying thing is that Pakistan was the worst performer from South Asia and was placed at 142nd in human development ranking (against Nepal's 140th, Bangladesh's 138th, India's 127th, and Sri Lanka's 96th position).

It is about time when one should stop satisfying hungry stomachs with attractive figures on economic growth. A suggestion for strengthening positive linkage between economic growth and human development is through a change in paradigm. We are giving more importance to equipments of production than human beings. Even today, we report human beings as liability and equipment/machines as an asset in our profit/loss statements. We should start thinking other way round if we are sincere in reducing poverty through economic growth.

(* Deputy Head of Sustainable Development Policy Institute, Islamabad. A full version of this article was published in *The Jung*, Pakistan, May 2005).

The Cost of 'Free Trade' to Africa's Poor

Africa is a massive US\$272bn worse off as a result of 'free trade' policies forced on the continent as a condition for receiving aid and debt relief. This was according to a research report prepared by Christian Aid, a UK-based charity. The amount Africa has lost is equivalent to a sum large enough to wipe out all Africa's debt and enable every child in the world to be sent to school and vaccinated.

The report, "The Economics of Failure: The Real Cost of 'Free Trade' stands on its head the traditional pro-market argument that free trade automatically leads to growth and a way out of poverty. Christian Aid used economic modeling to work out what might have happened had trade not been liberalised. Using data from the WB, IMF, United Nations and other academic studies, it examined what trade liberalisation has meant for African countries.

"If new aid and debt relief comes with strings attached that require countries to liberalise trade, it may well do more harm than good. G-8 leaders must agree to stop demanding harmful conditions as the price of aid and debt relief," said Clare Melamed, the author of the report. (CA Press Release, 22.06.05)



Warning on 'Quality Barriers'

Developing countries may not benefit from liberalisation of agricultural trade in the world's rich countries because of inability to meet health and quality standards set by the global food industry. This was stated in a report prepared jointly by the Organisation for Economic Cooperation and Development (OECD) and the United Nations Food and Agriculture Organisation (FAO).

Many farmers in poor countries might simply be unable to make the big investments and production adjustments to meet standards demanded by international food chains. "There is a role for markets where certain requirements are less strict and prices proportionally lower," the report said. (FT, 22.06.05)

Hilary Benn on Trade

International Development Minister of the UK, Hilary Benn, delivered a speech at the London School of Economics in late June. "Anyone who is concerned about making poverty history, must want this (Doha) Round of trade negotiations to succeed. For that to happen we need to mobilise support internationally. And that is where all our campaigning efforts should be directed," he said.

He elaborated the UK Government's aims as follows:

- Action by developed and developing countries to reduce trade protectionism and end unfair subsidies. Put the concerns of developing countries at the heart of the WTO. Only a strong, rules-based multilateral system will provide the gains that developing countries need.
- Substantially increase aid to build the capacity of the poorest countries to trade to earn their way out of poverty.
- Action by developing country governments to create the right conditions for trade, growth and poverty reduction. (CI-trade, 30.06.05)

Challenge for Asia's Poorest

Asia's poorest countries are facing a mounting challenge to benefit from the international free trade regime. This is due to the lack of diversity in their export sector. According to Anwarul Chowdhury, the UN Under Secretary-General for the least-developed countries, landlocked developing countries and small island

developing states, high dependency on one product, namely garments, has shut these nations out from tapping global markets.

"With women forming an important part of the largely low-skill workforce in the clothing sector in developing countries, the social costs of job losses and factory closures could be high," stated the report 'Economic and Social Survey of Asia and the Pacific' prepared by the UN Economic and Social Commission for Asia and the Pacific (UNESCAP).

"The current rates of economic growth (in poor Asian countries) are insufficient to overcome poverty. Few jobs are created and there is little money to invest in much needed social services," said Raj Kumar, Head of UNESCAP's Poverty and Development Division. (Phnom Penh Post, May 20-June 2, 2005)

Tea: Top Earner for Sri Lanka

Sri Lanka's tea exports are at par with the country's apparel exports. This was one of the findings of a study entitled, "Tea Review 2004". It states that although the Government recognised the importance of agriculture in its annual budget process, fiscal levies are pushing the plantations to non-viability.

It has also been found that "Ceylon Tea" is the world's best and cleanest. The year 2004 saw tea exports passing the 300 million kilogram mark. Export earning was US\$752mn. Former Soviet countries remained Sri Lanka's largest export market and Ceylon Tea averaged the highest price in the world market. (The Island, 20.05.05)

Uganda Needs Balanced Trade

Ugandan Minister for Tourism, Trade and Industry, Daudi Migereko urged the South African business community to see to it that his country achieve balanced trade with South Africa. In 2003, South African exports to Uganda were US\$98mn, while Uganda exported a paltry US\$3mn.

He encouraged South African companies to form partnerships with Ugandan companies to help them access funding, technology, organisation skills and marketing. He said there was no need for South African super-markets in Uganda to import fresh foods, fruits and vegetables from Uganda. (The Monitor, 24.05.05)

Fair Trade and Equitrade

How much of the economic benefit of a fairly traded ethical purchase went to the country where the product was grown? According to a small group of British chocolate bar makers, pitifully little. Probably only about 5p of the £1.70 cost of an average fairly traded 100 gram bar of chocolate goes to a poor country, says Malagasy Foods. "Everyone, including the Treasury, seems to do very nicely out of that bar of chocolate, except the country that provides the raw material," said Neil Kelsall, Marketing Director of Malagasy Foods.



His figures are not broadly disputed by companies in the fair trade chocolate market. "The difference between our (Malagasy Foods) chocolate and most other fairly traded bars is that 40 percent of the income generated by every bar of chocolate stays in Madagascar, and the country further benefits because 11 percent tax is paid to the Government. We call our chocolate equitrade," said Kelsall.

The Fairtrade Foundation responded to this 'equitrade' model: "The Madagascar project is very exciting. We'd love more chocolate to be manufactured in developing countries. It's good that there are other initiatives. The two models are not mutually exclusive. The real problem is that almost all of the world's chocolate is in the hands of just three companies – Nestlé, Mars and Cadbury." (*The Guardian*, 25.05.05)

Poor Seeks Preferences

A coalition of 15 of the world's poorest countries is lobbying the US Congress for a new scheme that would give them trade preferences to offset the advantages gained by China and India since the lifting of quotas on textiles and apparel. The countries include Bangladesh, Afghanistan, Cambodia and Nepal.

They are facing a severe disadvantage selling into the US market, not only against larger competitors but also against smaller African and Latin American nations that enjoy duty-free access for many garment exports. "We don't have the resources to compete with the big players around us," said Muhammad Yunus, founder of Bangladesh's Grameen Bank.

He said if the current situation is left unchanged, Bangladesh could find itself losing an industry that the WB estimates has pulled nearly 2 million families (about 13 percent of the country's poor households) out of poverty.

(*FT*, 04.05.05)

Urge from Cacao Producers

The Indonesian Cacao Association (Askindo) has asked the Government to lobby China to cut tariffs imposed on Indonesian cacao beans and cacao products to close to zero percent. "We sent our written request directly to the minister of trade about a month ago, but so far we have not received any response," said Piter Jasman, Askindo Jakarta's Chairman.

According to him, Malaysian cacao products enjoyed a practically zero import tax, while Indonesia will have to pay an average of 10 percent on cacao products at least until 2007. Malaysia has a relatively limited production and exports of cacao beans, and thus imports the commodity from Indonesia and later profits by exporting the processed cacao products.

China is a lucrative market, with demand reaching 50,000 tonnes last year to make products, such as cacao powder and butter.

(*Jakarta Post*, 02.05.05)

Warning on WTO Moves

Moves in the WTO to stop the dumping of agricultural surpluses under the guise of food aid could put genuine assistance at risk just as the need for it is rising. The World Food Programme (WFP) stated this.

James Morris, Executive Director of WFP, said this UN agency, which in 2004 accounted for half the world's food aid, was "absolutely opposed" to any new rules requiring food aid to be exclusively in cash.

He said it should be a precondition for any trade accord that donors increase food aid to at least 11 million tonnes a year, the total donated in 2001, when the Doha Round of global trade talks were launched. In 2004, food aid fell to 7.5 million tonnes, half of what it was in 1999. Meanwhile, the number of chronically hungry had risen eight percent to 852 million.

(*FT*, 10.05.05)

View & Counter View

Protection: A Wrong Policy

Oxfam has been arguing for some years that the OECD agricultural subsidies and protection have seriously damaged the LDCs. But as many as 45 out of 49 are net importers of food and will in fact be harmed by the rise in world prices of their imports.

Now, Oxfam strikes another blow against the developing countries by arguing that they should be allowed to keep their agricultural protection even as the OECD countries knock down theirs.

Arvind Panagariya, Columbia University, USA (*FT*, 19.04.05)

Little Resemblance

Arvind Panagariya misrepresents Oxfam's position on the WTO and provides a somewhat eccentric interpretation of the impact of agricultural trade liberalisation on poor farmers. Unfortunately, trade realities bear little resemblance to the trade theories that underpin this position.

Dumping subsidised surplus goods may provide cheap food in the short term, but it stifles agriculture in countries where the vast majority of poor people are farmers or farm workers who rely on getting a fair price for their goods. These are countries that have little prospect of growth in any other sector.

Duncan Green, Head of Research, Oxfam GB (*FT*, 25.04.05)

No Automatic Link between Trade Liberalisation and Poverty Reduction in Cambodia

Samsen Neak *

International trade can play a powerful role in reducing poverty in the LDCs as well as in other developing countries. But the national and international policies which can facilitate this must be rooted in a development-driven approach to trade rather than a trade-driven approach to development according to UNCTAD, the Least Developed Countries Report 2004: Linking International Trade with Poverty Reduction.

Experiences from development of countries in Asia show that trade is one of the major weapons in fighting incidence of poverty. Japan, as a leading exporter in various commodities, joined a list of advanced countries since early 1970s. Newly industrialised economies, South Korea, Taiwan, Singapore climbed to better development in late 1980s while two biggest Asian giants China and India succeeded impressive economic growth with tremendous reduction of poverty in 1990s.

However, Cambodia, whose garment exports and tourism have contributed more than 80 percent to economic growth, had a different experience. Poverty

Although trade expansion, which facilitated economic growth of Cambodia, was recorded 10 percent between 2001 and 2003, impact on overall development was very limited. Growth of per capita annual gross national income (GNP) was only 2.4 percent. Employment in agriculture dropped by one percent; in industry it rose by one percent; and in services it stagnated. Expenditure of household on consumption increased only 1.3 percent.

On the social development perspective, many indicators show no progress and, on the contrary, point towards worsening. Incidence of poverty increased from 36 percent to 40-45 percent. In 2002, Cambodia stood at 130th out of 175 in the UNDP Human Development Index. Infant mortality rate went up from 95 in 2000 to 97 in 2002. Food consumption per capita was even lower than the average level of all LDCs. Maternal mortality and life expectancy improved slightly.

In conclusion, trade liberalisation has led to economic growth but has not so far created adequate conditions

Selected Social Indicators	Value	
People living below national poverty line	36 percent (1999)	35-40 percent (2005)
Human development index rank	130 out of 175 (2001)	130 out of 175 (2002)
Human development value	0.556 (2001)	0.568 (2002)
Net primary school enrolment rate	76 percent (1997)	87 percent (2001)
Infant mortality rate	95 per 1,000 live births (2000)	97 per 1,000 live births (2002)
Maternal mortality	437 per 10,000 live births (2000)	415 per 10,000 live births (2002)
Life expectancy	53.7 years (1999)	54 years (2003)
Percentage of undernourished population	—	38 (1996-2001 average)
Food consumption per capita	—	1,905 calories per capita per day
Prevalence of HIV	3.3 percent (1997)	2.6 percent (2003)

Source: World Bank, UNDP and UNCTAD.

rate increased from 36 percent in 1999 to 40-45 percent in 2003 despite average economic growth of 6.7 percent during 1999-2003. What has been wrong with linking trade-led growth to poverty reduction in this country?

Cambodia has deregulated and liberalised its trade regime since 1994. All quantitative restrictions were removed. In terms of openness, it is ranked tenth among all the LDCs and first among the Asian LDCs by the UNCTAD the Least Developed Countries Report 2004. Share of trade in GDP rose from 81 percent in 1999 to 91 percent in 2003. Percentage growth of per capita export was nearly triple compared with that of import (36 versus 13 percent).

to ensure reduction in incidence of poverty. Thus, trade, through coherent national and international policies, will bring not only economic growth but also development.

National policies, according to the UNCTAD report, require mainstreaming trade in national development strategies and developing post-liberal development strategies. International policies must pay attention to improving international trade regime to reduce trade constraints and increasing effective international financial and technical assistance for developing production and trade capacities.

(* Researcher at the Economic Institute of Cambodia)