Making or missing the links?

The politics of trade reform and poverty reduction

Policy-makers state that economic growth is vital to poverty reduction and that trade is critical to growth. But is the relationship that simple? In countries across the world, debates rage as to who loses and who gains as changes in trade policies open or protect national markets. The media can inform people on whether trade reforms can help tackle poverty.

Trade policies affect the lives of ordinary people and yet they often have little or no say in the decisions made. The media can highlight the important issues at stake.
FERNANDO MOLERES/PANOS PICTURES

Media toolkit on PRSPs

This is the third in a series of briefing documents for journalists on poverty reduction strategies. The brief is part of a Panos programme, *Raising debate: Transparency and ownership in Poverty Reduction Strategies*, and was produced as part of a linked project, *WTO Hong Kong and the role of the media in trade policy debates*.

For further information contact **media@panos.org.uk** or visit the Panos London website **www.panos.org.uk/globalisation**. If you use this or any other Panos media resource to cover poverty and poverty reduction strategies, please let us know how and with what results.

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Many low-income developing countries emphasise production in their poverty reduction strategies, and trade is routinely identified as an essential element. Meanwhile, in response to the UN's Millennium Development Goals (MDGs) to halve world poverty, governments and international donors talk of 'pro-poor growth', stressing openness to trade as a pillar.

But the links between international trade, growth and poverty are at the heart of policy disputes between international bodies, governments and civil society groups.

Many claim world trade policies, as set out by the rule-making World Trade Organization (WTO), are skewed towards wealthier nations. Others say the countries most in need of global rules are weak countries that will otherwise have their arms twisted by the strong in bilateral accords.

But there are those on both sides of the argument who also say that stronger debate is needed about the responsibility of developing country governments for ensuring their own national trade policy choices benefit poor people, and about whether the support of other international institutions such as the World Bank enables them to do so.

With trade now a key feature of government economic strategies, journalists can stimulate debate about the implications of trade reform for poor people and include their views in coverage. Will jobs be created or lost? Will prices of vital goods and services rise or fall? How will changes in exports or imports affect different producers, consumers, businesses, women and men?

Section 1
Setting the scene

What's at stake?

Non-governmental critics of the World Bank's policy-based lending say the economists concerned have promoted a dogmatic link between international trade, growth and poverty reduction. They claim the Bank has given automatic primacy to trade in economic strategies and also equated trade with a standard package of liberalisation policies. These, they claim, have often proved damaging.

Such critics challenge whether greater 'openness to trade' (understood as the removal of trade barriers such as import tariffs) automatically leads to higher growth and, in turn, to all citizens enjoying the rising prosperity supposedly generated by increased integration in the world economy.

Some critics even claim that poor people's lack of resources means that the benefits of foreign trade will usually go to wealthier and more powerful groups. They say increasing the efficiency of domestic markets is more of a priority for the poor. In any case, international trade rules and existing terms of trade are stacked against poor countries.

Others assert that with crucial reform of international trade rules and the right national policies, trade can be an engine for tackling poverty. The important thing for governments – rather than privileging trade as a magic wand or dismissing its relevance – is firstly to assess whether and how trade can support a wider strategy of balanced economic development, and secondly what kind of trade policies are needed specifically for poverty reduction. They note that trade success has historically stemmed from a flexible approach to economic development (see box).

Debates and controversies

Unfair world trade rules? Many commentators argue the obstacles to trade helping 'pro-poor growth' are due to failures in the WTO to address Northern double standards. Developing countries are encouraged to open up their markets; rich industrial countries face less pressure to do so, though disputes are now being brought to the WTO. Others claim tensions over protection and liberalisation in international trade talks transcend North–South lines (see Panos Media Toolkit on PRSPs – No 2, *Signed and sealed?*).

IMF and World Bank pressures? The International Monetary Fund (IMF) and World Bank have promoted trade liberalisation as an essential condition of their financial support for developing countries, both before and since the WTO's creation in 1995. Such policies have been one aspect of the controversy surrounding structural adjustment programmes (SAPs – see box on page 3).

Two-track trade or single path?

In the second half of the 20th century, expanded trade helped Asian countries such as South Korea and Taiwan to reduce poverty. They opened their markets selectively while protecting economic sectors that could not face competition. A two-track approach was pursued. The shift involved trade largely in manufactured products and now increasingly involves services.

But many poorer developing countries and millions of poor people continue to depend on a narrow range of primary commodities, including agricultural exports. To advocates of the twin-track policy of getting the domestic economy and trade policies right, this is the main spur to action. The East Asian newly industrialising countries were dependent on primary exports until they managed to diversify their economies and exports.

The World Bank points to the East Asian experience as evidence that export-led growth can work. But critics allege World Bank-supported policies in recent decades have moved countries to a single-track approach, discouraging the use of either protective tools employed by the West and East Asia to industrialise, or state intervention to manage the trade liberalisation process.

The IMF and World Bank, say critics, have required borrowing countries to undertake unilateral trade liberalisation measures (such as agricultural tariff cuts) that exceed their WTO obligations. This has weakened their bargaining room in the WTO by reducing their ability to make such concessions conditional on rich country reciprocation, critics add. It has also undermined the policy flexibility they need because of their lower level of economic development.

Others claim developing countries fail to use the flexibilities they have – often because policy is captured by vested domestic interests to the detriment of the poor.

Trade choices and 'pro-poor' policies Analysts claim governments need good national policies to make the most of trade, and that international trade can be managed in ways that favour or damage poor people's welfare. But do governments make choices in favour of poor people?

The increased importance attached to trade in economic development makes it part of the debate about what is meant by 'pro-poor policies'. Some say trade and growth are pro-poor if they lead to absolute increases in poor people's income and welfare. The important thing for poverty reduction is that poor people's welfare continues to improve, regardless of how well other social groups do.

Others argue that wealth must be redistributed to ensure poor people's well-being improves relative to average national living standards. If the benefits are not more evenly shared, 'pro-poor growth' can even occur amidst rising inequality, an outcome at odds with fairness and accelerating poverty reduction.

The arguments are important in analysing the role of trade. One side says it does not matter if trade favours other social groups more, provided some of the growing benefits are shared or trickle down to increasing numbers of people. The other side claims policy-makers must ensure poor people are a priority rather than indirect beneficiaries.

SAPs and trade liberalisation

Trade liberalisation under SAPs was aimed at removing the alleged bias against exports that state protection of domestic markets involved.

Trade liberalisation was promoted not only because rising exports would earn revenue to stabilise finances and support debt payments, but also because greater outward orientation of the economy would supposedly enable countries to tap lucrative foreign markets and provide a platform for longer-term growth. In cutting barriers such as tariffs, import liberalisation would boost access to foreign goods, inputs and technology, giving a competitive spur to domestic producers. It was argued that trade liberalisation would help allocate resources more efficiently.

Since 1999, with Poverty Reduction Strategy Papers (PRSPs), the IMF and World Bank say poverty reduction is the main aim of their support for low-income countries (see Panos Media Toolkit on PRSPs – No 1, *Who's richer, who's poorer?*).

Who are the poor?

- Small-scale farmers: 52 per cent of the rural population in developing countries
- The landless: 24 per cent of the rural population (including 450 million waged agricultural workers)
- Households headed by women: 12 per cent of the rural population
- Low-wage earners in manufacturing and services
- The urban and rural under- and unemployed
- Around 70 per cent of poor people are women

Trade and adjustment reforms alter the nature of poverty and wealth as the economy changes. Are there new poor – and rich – groups in your country?

Section 2
Trade liberalisation and poverty

Debates and controversies

Critics say trade liberalisation has often been introduced indiscriminately, with removal of protective barriers such as tariffs exposing domestic producers to fierce foreign competition they could not cope with, causing losses to jobs, growth and economic diversity.

Such changes, they say, accentuate poverty and inequality as given social and economic groups endure the adjustment costs of heightened competition from imports, while those with greater assets, market power and political influence take the main advantage of restructured national markets and export opportunities. And import liberalisation, they add, has widened trade deficits in many developing countries, with some (e.g. in Asia and Latin America) covering these with speculative capital flows that cause financial instability.

Defenders say the reforms were needed to address the difficulties of state-led development based on import substitution and the domestic market. This provided protection for favoured interest groups and relatively inefficient enterprises, discriminating against the poor. As governments imposed such discriminatory policies on their domestic consumers and not on foreign ones, a side effect was to reduce exports because sales on the domestic market were more profitable for the favoured producers.

The pain of adjusting to open trade, in this view, has been an unavoidable part of pursuing longer-term gains that will provide new opportunities and greater benefits for the poor. It is better for a country to concentrate on its comparative advantage in the world economy than to subsidise and protect economic activities in which it is less competitive.

The effects of trade reform

The effects of trade reforms vary. It is crucial to examine the specific circumstances in each country. But some common observations can be made.

Intermediaries Poor people generally do not trade directly on international markets. Farmers may sell to traders who sell to other traders and the goods eventually reach shippers for export. Traders may exploit farmers' lack of knowledge about prices. Poorer coffee farmers in Ethiopia, for example, have received less than half the price for their beans offered to larger, better informed farmers.

Conversely, poor people are not importers but can be significantly affected by import liberalisation. The role and impact of intermediaries have been changing with the liberalisation of markets and trade and the evolution of global supply chains (see page 4).

Public revenue Trade liberalisation may lead to lower government revenues as trade taxes on imports and exports are reduced. Governments may cut social expenditures or levy new domestic taxes to make up for the loss, such as value added tax (VAT). Both can disproportionately affect the poor.

Many poorer countries, particularly the least developed ones, with weak administrative systems, are dependent on revenue from tariffs, which are easier to collect than other taxes.

Yet some countries (e.g. India) have shown that tariff cuts can boost revenue because they encourage higher trade flows and increase the number of duties. More and more countries are introducing sales taxes not dependent on tariffs. But this takes time.

Lowering high tariffs may reduce incentives for smuggling and corruption. This can increase the volume of goods recorded and customs revenues, in principle increasing finance for social spending.

Production, employment and income Removing trade barriers may occasion a decline in the production, market share and profits of national companies as they struggle to compete with rising imports of goods supposedly produced more cheaply by foreign competitors now having easier access to the market. Some enterprises may adapt by improving performance, but the more uncompetitive may have to close, causing job losses, unemployment and dramatic social costs for the poor groups directly involved. Labour rights may be squeezed.

These losses have to be set against possible gains for domestic businesses benefiting from cheaper inputs they need for production.

The changes may also lead to a country's resources being reallocated to newer industries or existing economic activities in which it is more efficient and has comparative advantage. Greater contact with the world market may in turn provide access to investment and technology. The poor may benefit through employment and higher wages if demand increases for unskilled or semi-skilled labour.

Prices and consumption In theory trade liberalisation may force down the prices of basic goods (e.g. food, clothing) as a result of the competitive pressure of cheaper imports, bringing benefits to given consumer groups (including poor ones), who may also enjoy better choice and quality.

A more open national market may also in theory allow domestic producers to command better prices for the goods they sell as state controls are lifted, and if the liberalisation of other countries' markets allows them to earn more from exports.

These price gains are not guaranteed. Without effective regulation by states, economic actors – domestic and foreign – may abuse their market power or employ anti-competitive practices to prevent price gains being passed on to producers and consumers, particularly the weaker or more vulnerable.

Value chains More open markets and trade have seen the further evolution of worldwide production systems and supply chains connecting national producers and intermediaries with international traders and consumers in other countries. In a 'global value chain' value is added at different stages of production, processing, marketing, through to distribution and final consumer purchase. Such chains can increase a country's revenues, support job creation and provide income.

But the distribution of final value along mainstream supply chains is determined by each level's negotiating power. It is considered that a fair share does not accrue to labourers and smaller producers, notwithstanding alternative 'fair trade' initiatives (see Section 7). Much of the revenue may go to transnational corporations (TNCs), which represent around two-thirds of international trade. There is also evidence that those participating in such chains are often not the poorest sections of the population.

Some argue that the challenge is to extend coverage of the chains (i.e. to give more poor people the opportunity to export). Others emphasise the need to increase producers' negotiating power within the chain if it is to be pro-development.

Income gains for those involved may also come at the price of long hours, highly flexible work conditions and unstable employment, as the demands of increasingly competitive and rapidly changing export markets intensify pressure for reduced costs.

External shocks, currency and finance Trade liberalisation can make an economy more vulnerable to external shocks. If this involves sectors such as agriculture or the informal sector, it can have negative effects on poor people for whom minimising vulnerability is a key concern.

Governments often promote exports by devaluing the local currency to make them cheaper for foreign buyers. But trade liberalisation has often been accompanied by financial liberalisation, which can complicate the management of exchange rates and domestic interest rates. Capital inflows, for example, if not controlled, can artificially strengthen the local currency, making exports expensive and imports cheaper, creating trade deficit and balance of payments problems.

Issues to consider and questions to ask

- **Which lobbies press your government for protection or liberalisation? Are all stakeholders consulted?**
- **How has trade liberalisation changed the level and composition of your country's imports and exports? Has tariff reduction affected government revenue?**
- **How has trade liberalisation altered production? Which sectors of the economy have been affected?**
- **Have the effects on employment and income made things better or worse for poorer groups?**
- **How has trade liberalisation affected the supply, distribution and price of essential goods and services?**

Section 3
Agriculture – food for thought

What's at stake?

Agriculture is crucial to poor people's livelihoods in developing countries. Market adjustment and openness to trade, combined with the impact of world trade rules, have been felt keenly.

Debates and controversies

Market gains or exposure? One argument for 'freer', open markets was that producers would enjoy growing markets and better prices, often held back by the state to ensure cheap food for urban groups. Removal of export taxes and restrictions in Uganda and Vietnam, for example, enabled coffee and rice farmers to increase incomes during part of the 1990s.

But critics question whether in many cases the changes have achieved benefits for small producers. Governments, with IMF and World Bank support, have often reduced credit, input subsidies and technical support, hindering small producers' ability to exploit market opportunities. Meanwhile, state marketing boards – often inefficient and needing reform – have been dismantled, exposing producers to prices dictated by private traders, who may also consort to prevent price gains being passed on to consumers. Traders may undermine domestic producers of staple foods by sourcing them from abroad, as has occurred in Haiti and Peru.

A sector divided or reaping rewards? Promotion of export-oriented agriculture, frequently dominated by commercial enterprises that are capital- rather than labour-intensive (creating fewer jobs), has often come at the expense of support for domestic agriculture, as in Mexico, say reform critics. Small-scale agriculture, based on less fertile land, has been neglected and risks serious decline, say some.

Yet many countries have seen producers, often excluded from traditional export markets, taking part in exports of non-traditional products (NTEs), such as flowers and high value-added fruit and vegetables, targeting niche markets in rich countries. NTEs are an increasingly important source of economic revenue, employment and income, and have offered opportunities for agricultural diversification. Countries like Kenya, Zambia and Guatemala have succeeded in increasing such exports.

But the number of small farmers and labourers involved in NTEs can be low nationally. Small producers, lacking capital and land, can be squeezed by larger producers and exporters, whose enterprises often display weak links with the rest of the economy, as in Kenya, according to the UN Development Programme (UNDP).

NTEs have been promoted by policy-makers as a poverty solution. Shifting from subsistence production to higher-return crops can be beneficial. But without measures to widen the benefits, many question how significant they will be.

Saying it with flowers: non-traditional exports have created new trading opportunities, but some say at a cost to domestic agriculture.
TRYGVE BOLSTAD/PANOS PICTURES

'All we want is for the government to assist us to acquire simple processing machines, so that on a small scale we can start to process our produce, which will help us to cut back on losses during the periods of glut.'
Tomato farmer, Ghana

Standards and market access Access to lucrative export markets is hindered by food safety and quality standards which smaller producers may find difficult to meet. Evidence from Kenya indicates contracts are often awarded to better-resourced producers able to comply with the changing demands of buyers purportedly reflecting consumer expectations.

There is legitimate consumer pressure in rich countries for effective food health, safety and environmental standards. But some argue such standards have been over-rigorous or abused by others for protectionist purposes.

Supply side constraints such as poor transport, communications, market information and product quality are also serious barriers to reaching foreign markets. Those advocating the benefits of international supply chains say that, rather than being exploitative, their further development would require these market access problems to be addressed.

Rise of the supermarket The growth of supermarkets in rich countries is a talking point in agricultural trade. Observers debate whether smaller producers and workers in developing countries can obtain fair rewards from these profitable markets.

And now, following liberalisation, the rise of international supermarket chains is a phenomenon in developing countries too. Some say food retail companies offer new and potentially more stable markets for producers and greater choice for consumers. But, as in the North, others claim they abuse their power to drive down the prices and terms of contracts offered to suppliers, and manipulate prices in segmented consumer markets. Traditional community markets, unless they can adapt, may be threatened, observers warn.

Import surges and dumping A 1999 Food and Agriculture Organization study looked at developing countries' experience of implementing the WTO's Agreement on Agriculture requiring tariff cuts. It found that it had led to a surge of food imports, for example dairy and meat products, but not an increase in exports, forcing farmers out of business.

Many blame rich country subsidies and companies for dumping – selling on world markets at below the cost of production. Dumping of products such as maize, rice, soybeans, tomatoes, poultry and beef at artificially cheap prices, they say, has stopped poor country producers obtaining economic returns in their own markets, and squeezed their access to foreign ones. Such problems have to be set against possible price gains for some consumers, however.

Commodity crisis Many poor countries and people rely on exports of traditional agricultural commodities. But prices collapsed in the 1980s and UNCTAD (United Nations Conference on Trade and Development) says they face long-term decline, despite signs of recent recovery. As countries increase export volumes to maintain revenue, oversupply compounds the downward pressure on prices.

Critics say world trade talks have failed to address this problem, despite its human costs and proposals in the WTO by Uganda, Kenya, Tanzania and other African governments. While international donors have promoted agricultural exports, this is said to have overlooked 'fallacy of composition' problems in which entry of several countries into a market (e.g. coffee, cocoa or vanilla) cause oversupply and price falls.

Others point to links between weak commodity prices and concentration of rewards in supply chains. In a world coffee market suffering oversupply and plummeting prices, they claim, coffee-producing countries have earned increasingly less for exporting more. Meanwhile, international coffee roaster companies and retailers dominating consumer markets cut their costs and boost profits.

Up the escalator? Observers allege developing countries' ability to add value to commodities (e.g.Ghana or Côte d'Ivoire producing more cocoa powder or chocolate rather than just selling raw beans) is penalised by tariff escalation in rich countries, with higher duties charged on imports of processed and semi-processed goods. This makes diversification difficult and stops developing countries moving up the value chain. Others say there is no such tariff escalation for Africa's EU exports, and that the absence of processed exports points to more fundamental market access problems.

Issues to consider and questions to ask

- **What are your country's main agricultural exports? Is their volume and value increasing? Which producers, companies and traders are involved?**
- **Do the people producing export goods receive fair prices or wages?**
- **Is your country involved in international supply chains and non-traditional exports?**
- **Have community markets changed since reforms?**
- **Have farmers and consumers been affected by cheap food imports? Do consumers gain or lose?**
- **What do worker, farmer, consumer and business groups say about changing agricultural markets and trade? What do agriculture and trade ministers say?**

Section 4
Manufacturing: back to the future?

What's at stake?

Manufacturing can help developing countries engage in areas of world trade that add greater value, providing opportunities to raise poor people's living standards. But, apart from given countries in each world region, particularly East Asia, growth in value-added products has bypassed most developing countries, say bodies like UNDP and UNCTAD.

Debates and controversies

Upgrading or de-industrialisation? For advocates, trade liberalisation promises to reallocate resources from inefficient industries to manufacturing in which a country is more competitive and can tap foreign inputs and markets. In the 1990s India saw a boom in high-technology exports as a result of liberalising investment and encouraging exports, outweighing in economic terms losses endured by the textile industry after import liberalisation. In other given Asian countries, growth has been matched by significant job creation in sectors such as garments and microelectronics.

In a 40-country study UNCTAD says liberalisation helped rapid expansion of manufacturing exports in almost half of the cases, with a minority, particularly in East Asia, involving industrial upgrading. But, it claimed, these benefits were possible because reforms were introduced selectively as part of long-term industrial policy that first nurtured a level of industrialisation. In contrast, half the countries studied (most low-income countries) had experienced de-industrialisation as a result of trade liberalisation, following exposure of still emerging or often heavily protected traditional industries to competition.

An example of the possible costs of rapid opening is Zambia. Lower import tariffs on clothes from industrialised countries meant local firms could not compete. In 1991 over 140 textile companies employed 34,000 people; by 2002 only eight remained, employing 4,000.

The textile industry in India has suffered economic losses.
But liberalisation has led to a boom in the high tech industrial sector.
ATUL LOKE/HELDUR NETOCNY/PANOS PICTURES

Such restructuring, affecting labour-intensive sectors and thus poor people, has often seen a shift in employment from the formal to informal sector where wages and labour rights are weaker. If alternative sources of better paid employment in manufacturing or services are not found, employment and wages and worker remittances to family members living in rural areas may decline.

Success in manufacturing export growth, while in principle important for improving living standards, does not automatically reduce poverty and inequality. Growth can favour skilled rather than unskilled labour, and technological change may not always favour job creation, given its labour-saving effects and bias against the less skilled. This was seen in the above example from India, notes Oxfam.

Export processing and diversification Many countries (e.g. Sri Lanka, Bangladesh, Bolivia, the Philippines) have created export assembly and export-processing zones (EPZs) in a bid to diversify.

Foreign companies may be exempted from taxes for a given number of years if they set up a factory in an EPZ and produce solely for export. The number of EPZs and countries hosting them has grown rapidly, often increasing job opportunities (particularly for female labour). Against these gains, the labour rights record of EPZs has often been poor, say critics. EPZs may also divert attention and investment away from domestic manufacturing and display weak links with local businesses, including the small and medium enterprises (SME) of interest to the poor.

'Even though the quality of locally-made clothes is better, a customer will still opt for the cheaper products, because of low wages that the majority of people in Zambia earn.'
Boyd Zulu, textile worker, Zambia

Production is often dominated by the assembly and re-export of imported components, reducing local added value and technology transfer. Reliance on low-skill, low-wage exports has left countries vulnerable to competition from countries with even lower wages, such as China. This has even been the case with countries like Mexico, which, though a leading exporter in Latin America, has lost ground to competitors and made little or no progress in tackling poverty and inequality, say observers.

While manufacturing exports have increased in many countries, their competitive supply and low added value have led some to claim they face problems similar to agricultural commodities.

Supply-side constraints face many countries' efforts to increase manufactured exports. There may be limited skills and capital to develop new industry. Export promotion services may be under-funded, even though breaking into new markets requires resources and market research.

Issues to consider and questions to ask

- **Has trade liberalisation led to industrial growth or decline? Which sectors (e.g. textiles, electronics)?**
- **Who has gained or lost in industrial restructuring through openness to trade and foreign investment? What do business associations or trade unions say?**
- **What has been the effect on the jobs, wages and rights of workers and on their families?**
- **How have small and medium companies fared? What has been the effect on the informal economy?**

Section 5
Services – for whom?

What's at stake?

Public services – water, energy, transport – are vital and commercial services are significant too for the poor. Policies on banking can affect poor people's access to credit.

Debates and controversies

Privatisation Most services liberalisation – the opening up of domestic services sectors to foreign competition – has taken place outside the WTO General Agreement on Trade in Services (see Panos Media Toolkit on PRSPs – No 2, *Signed and sealed?*). Investment by foreign companies has stemmed largely from adjustment policies involving privatisation as a condition of IMF and World Bank support.

Notwithstanding the frequent failings of state services, controversy has surrounded private sector involvement in utilities and other public services. The record of such policies has varied.

Telecoms liberalisation, for example, in many cases may have considerably extended and improved the quality of service delivery, and has been welcomed by many, though universal access to information and communication remains a challenge.

International water companies, stressing the need for investment to improve and extend provision, have often introduced cost recovery systems and increased user charges. People with little or no cash have been excluded or cut off. In some cases reforms have sparked serious political conflict, as in Bolivia.

Issues to consider and questions to ask

- **Have policy changes led to foreign companies providing services in your country?**
- **Which service sectors (e.g.banking, tourism, food retail) and companies are involved? Is there public information and consultation on the contracts?**
- **How has liberalisation of public services (e.g. energy) affected quality, cost and poor people's access?**
- **Do bodies exist to regulate services in the public interest? Are stakeholders consulted (e.g. consumers)?**

Section 6
Trade reform and gender

Trade policies affect women and men differently. They have different private resources and levels of access to public ones, and unequal power relations between them are both altered by and influence the impact of trade policies on production and consumption. Women bear the main responsibility for reproduction and, as traditional carers, for family and household management and community organisation.

Yet gender can be overlooked in trade decision making, even though policies have a bearing on women's paid and unpaid work, responsibilities and welfare. Equally, changes such as a factory closure following import liberalisation can alter men's traditional roles, self-perception and social standing.

This leads to a complex reworking of gender relations in the home, the economy and public life. Poor women, as well as retaining domestic production and reproduction responsibilities, may take up outside employment (e.g. as assembly workers or small entrepreneurs in the informal sector). Poor men searching for work may migrate from rural areas to cities or indeed other countries to earn a living and help their families.

Tourism is a growing service sector and foreign exchange earner in many developing countries, but the benefits for poor people are not guaranteed.
SVEN TORFINN/PANOS PICTURES

> *'It has not been easy. At times we sleep hungry, at other times we receive support from relatives.'*
> **Mary Mbao Kaiba, former textile worker and second-hand clothes entrepreneur, Zambia**

Some changes may be positive. Women may gain a chance to adopt new roles outside the home, conferring greater freedoms. But these opportunities can involve low pay and rights and come at the cost of multiplying poor women's labour burden. Observers refer to the 'feminisation of poverty'.

Women in poverty are often less likely to be able to take advantage of opportunities made available by trade liberalisation, with higher-skill, higher-technology and higher-paid opportunities associated with economic growth continuing to go to men.

The relationship between the costs and benefits of trade policies and gender inequality is complex and varies by country. But media coverage is not complete without considering gender.

Issues to consider and questions to ask

- **How is the changing balance between domestic and export-oriented agriculture affecting the roles of men and women?**
- **Have men and women's access to land, credit, technology and markets changed?**
- **Is female involvement in manufacturing, home-based production, the informal sector or services (e.g. tourism) bringing gains or losses for women?**
- **How does opening the national market alter men's economic, social and family role?**
- **Does your government promote women's labour and property rights or support women entrepreneurs?**

Section 7
Making trade work for the poor

What's at stake?

Latin America has been a leader in trade liberalisation, but overall its economic growth has been modest and its record on reducing poverty and inequality weak.

In sub-Saharan Africa, trade has risen as a share of gross domestic product (GDP), but the region's share of world exports (excluding South Africa) has fallen to just 0.3 per cent. African economies grew 1.6 per cent a year between 1960–80 but shrank by about 0.8 per cent a year between 1980–2000. And while growth has gathered pace in recent years in countries such as Ghana, Mozambique, Uganda and Tanzania, or recovered in countries such as Zambia, this is from a low starting point; average incomes across sub-Saharan Africa are lower today than in 1990.

But with the MDG of halving poverty by 2015 behind schedule for most countries, debate is growing around reforming trade.

Debates and controversies

Complementary reforms?

Commentators have stressed the importance of governments having 'safety nets' to cushion people from the effects of trade liberalisation. Now they argue for 'complementary reforms'. This approach recognises that freeing markets and trade do not in isolation benefit poor people automatically, but need to be accompanied by public policy interventions.

Such policies include financial reforms to give poor people greater access to credit; the provision of input subsidies, extension services and technical support for agricultural small producers; measures to improve education, skills and training; health programmes to combat HIV/AIDS; strengthening gender policies; improving transport, communications and other infrastructure to facilitate market access.

Structural reforms?

Others suggest that complementary reforms may not be ambitious enough. They say structural reforms are needed of trade liberalisation policies themselves, or their alleged bias to privileged socio-economic groups. To ensure poor people benefit more directly from trade, reforms must address issues such as unequal access to land, a lack of labour rights, or relative powerlessness in supply chains and policy making.

Issues to consider and questions to ask

- **Are your government's trade policies 'pro-poor'?**
- **Do they favour the economic sectors and geographical areas poor people work and live in?**
- **Do they boost use of poor people's labour or their access to credit, technical support and training?**
- **Do they improve access to the goods and services poor people consume (e.g. food, water)?**
- **Do they beneficially include women in the labour market and reduce their domestic workload (e.g. childcare)?**

The right to choose?

Whatever the balance between protecting and liberalising national markets, or giving priority to the domestic economy or international trade, there have been signs on paper that international donors are considering allowing developing countries greater freedom to introduce trade reforms more carefully.

In 2005 the Africa Commission said African countries should choose when to open their markets. And in their statement on Africa, the powerful G8 governments said: 'It is up to developing countries… to decide, plan and sequence their economic policies to fit with their own development strategies.'

Yet NGO critics question whether international policy-makers' espoused support for policy flexibility will amount in practice to developing countries having the right to choose which policies to adopt. While some welcome apparent recognition that trade reforms should be better 'sequenced', others insist this will just mean allowing developing countries to phase in standard trade liberalisation policies.

Issues to consider and questions to ask

- **Does your government have a balanced approach to developing and opening the national market?**
- **What positions have the IMF and World Bank taken in lending advice to your government on the content, speed and depth of its trade reforms?**
- **Do the IMF and World Bank allow the government to consider different trade reforms in line with the 'national ownership' principle of PRSPs?**

The state, governance and private sector

While early trade and economic reform policies emphasised giving a free reign to market forces, recent approaches have stressed the state's role in the reform process. This is important as government action is needed to prioritise benefits for the poor.

Yet, alongside extolling the value of 'good governance', a key objective of international donors' support for state reform has been for governments to provide an enabling environment for the private sector, including foreign direct investment (FDI). Attracting foreign companies, it is argued, can bring expertise, capital, technology, access to international markets and foreign exchange, job creation and better wages.

But others say foreign companies can be heavily dependent on imports, display weak linkages with the domestic economy and crowd out local businesses, damaging local employment, economic diversity and self-reliance. In the case of Africa, UNCTAD cautions against states seeing FDI as a magic wand to be attracted at any cost. It suggests that profit remittances have in recent years exceeded investment inflows in several countries, and that low tax takes and modest net foreign exchange earnings have often been the norm.

Some say the state must intervene to ensure investment is positive for poverty reduction. This would mean harnessing the private sector – national and foreign – to this objective rather than assuming a pro-business environment will yield automatic benefits that will trickle down.

Some question whether certain poor country governments are prepared or able to regulate in this way, given their unwillingness to alienate business and donors, and the weakness of their own governance. The state, under both state-led protection and liberalisation, they note, has often been prone to capture and corruption by powerful interest groups, national and foreign, and its openness to civil society participation in policy making.

PRSPs: addressing the issue?

PRSPs, as they often stress the importance of international trade and foreign investment, could be an opportunity for public consultation on trade reforms. But some observers claim they have weakly analysed the issue.

They say PRSPs have made assumptions about the potential of exports, without examining the constraints or the effects of import liberalisation. And, they add, there is little analysis of different options for trade policy, or their effects on different social groups (e.g. workers, producers, consumers, women and men).

Such weaknesses, they claim, suggest little attempt is made to consult poor people on trade, despite the 'participation' principle of the PRSP approach, though World Bank representatives have pledged to strengthen coverage of trade.

Yet research involving poor people has been conducted by civil society (e.g. Ghana).

Issues to consider and questions to ask

- **Does your country's PRSP consider different trade policies and their bearing on the poor?**
- **Have government, donor or civil society bodies carried out research on trade and poverty?**
- **What consultation mechanisms on trade policy exist? Are poor people involved?**

Meanwhile, some advocates of the private sector's role voice concern that greater state intervention, given its alleged weaknesses, risks 'arbitrary' regulation that will impose unnecessary burdens and costs on business. Far from benefiting the public interest, an unpredictable operating environment will hinder its contribution to poverty reduction.

Issues to consider and questions to ask

- **What is your government's approach to promoting the private sector and foreign investment?**
- **What do civil society organisations or small enterprises involving poor people think of the private sector's role in poverty reduction? What do local businesses and foreign companies say?**
- **How should the state manage foreign investment and trade to create and distribute wealth?**

'Fair trade': mind over market?

Northern countries have seen rising consumer concern to buy 'fair trade' goods. In response to campaigns that have raised consumer awareness, private sector companies have vowed to exercise 'corporate social responsibility' in sourcing and selling goods, sometimes joining 'ethical trade' partnerships with NGOs.

The stated aims of 'fair trade' goods and 'ethical trade' initiatives are to ensure better prices are paid to producers and that minimum labour and environmental standards are met. Under 'fair trade' labelling systems, for example, producers receive a guaranteed price that covers the cost of production, provides a living wage and enables investment.

Such initiatives provide opportunities for groups of poor people to improve their living conditions. Consumer demand for 'fair trade' brands is increasing rapidly – in the UK, sales doubled to £140 million in 2002–04.

Yet, despite the importance of 'fair trade' initiatives for consumer awareness and action, both supporters and critics of 'pro-market' policies question whether they can address the structural challenges involved in making mainstream markets work in favour of development.

South–South trade: a growing alternative?

Developing countries can boost trade among themselves. Nearly 40 per cent of their exchanges in non-agricultural products, for example, now involve this.

A key stimulus of South–South trade is surging growth in parts of Asia. India and China, as well as demanding raw materials and foods, are becoming major international traders and investors, forging partnerships with neighbours and other regions.

But while growing faster than trade with the North, South–South exchange is uneven. Asian countries account for over half of it, as Africa struggles to recover from its collapsing share of world trade.

Regional trade agreements also offer potential for increasing markets and economies of scale. In Africa most food staples are widely grown on the continent. Intra-regional trade could thus benefit smallholders. But regional integration has often been strained as countries face the domestic costs of giving greater market access to neighbours, or struggle to coordinate responses to problems such as dumping.

Some claim South–South trade could vitally help advance development. Others are not convinced. They say much South–South exchange involves lower value-added trade. And, they note, it will take active national policies and policy coordination internationally for governments to ensure higher trade volumes produce welfare gains across the South, particularly for poor people in each country. Booming exports do not guarantee equity.

Issues to consider and questions to ask

- **Which producers, workers, companies and NGOs in your country are involved in 'fair trade' initiatives?**
- **Could your country boost trade in goods and services with nearby countries to reduce poverty?**

Demand for 'fair trade' products like cocoa is rising as industrial country consumers show concern for Southern producers' livelihoods. But can this transform mainstream markets?
PIETRO CENINI/PANOS PICTURES

Addressing the commodity crisis

Despite recently surging oil and mineral prices, many commodity prices remain depressed, particularly agricultural products. Some say developing countries should join forces to get higher returns from their commodities – by jointly agreeing to sell less on the world market, imposing taxes on them, or harmonising product quality standards. Others note that international commodity agreements (ICAs) had chequered success and underwent demise in the 1980s. They question whether political will could be mustered to reinstate them. Such international supply management would also require equivalent mechanisms in developing countries. In question is whether a return to state marketing boards is possible or desirable in the wake of reforms.

Some say the challenge for the state, rather than reinstating official marketing structures, is now to play an enabling role, supporting producers' organisation so they can strengthen their bargaining power in supply chains. Others call for state regulation – nationally and internationally – to address the alleged concentration of power and rewards in supply chains, including competition policies to deal with abuses.

Issues to consider and questions to ask

- **What are your country's main export commodities? Have their prices been falling? What do groups such as coffee producers say?**
- **Who buys the commodities for processing, marketing or sale on world markets?**
- **Is your government addressing weak prices?**

Trade and poverty headlines

US, EU war sours talks – John Kamau, reporting from Hong Kong, *The Standard* (Kenya), 16 December 2005

IMF, World Bank measures inadequate, say LDC ministers – Business reporter, *Daily Times* (Zambia), 16 December 2005

Supermarket giants: just another way of dumping? – Mildred Mpundu, Zambia, reporting from Hong Kong, 16 December 2005

Africa's value added dilemma – Rangarirai Mberi, *The Financial Gazette* (Zimbabwe), 24 May 2006

Glossary of key terms

Anti-competitive practices – Practices used by firms to prevent the competitive functioning of markets

Balance of payments – Account of a country's income and payments over a given period

Capital intensive – Production involving high ratio of capital investment (like machinery)

Comparative advantage – Theory that countries will be better off if they specialise in whatever they produce most efficiently

Competition policies – Policies to ensure competition in markets – e.g. restrictions on mergers, bans on cartels, prevention of price fixing

Financial liberalisation – Measures to relax capital controls, open an economy to foreign loans, short-term investment and purchasers of shares in local companies

Foreign direct investment – Investment abroad, often by TNCs, in which the investing company has a degree of control of the foreign company (e.g. a subsidiary, a controlling interest)

Free trade – Trade without artificial barriers such as tariffs and non-tariff barriers

Governance – Processes through which political, economic and social decisions are made and implemented, with the adjective 'good' or 'bad' reflecting a judgment of their public transparency and accountability and the performance of the institutions involved.

Import substitution – Domestic production of goods hitherto imported (usually involving tariff protection). A pre-1990s strategy employed by developing countries to diversify

Market access – Ability to sell products abroad; willingness to open national markets

Openness – Extent to which a country is open to foreign goods, services, labour, capital

Protection – Using trade barriers to protect domestic industries from foreign competition

Sequencing – Order in which policy changes are introduced

Supply management – Concerted measures to remove supplies from a market or to place them on it in order to influence a product's price

Tariff – Government-imposed tax on imports

Terms of trade – Ratio of a country's export prices relative to prices of its imports

Trade barrier – Measure raising the price of imports or restricting their entry (e.g. tariffs, quotas)

Trade deficit – Negative balance when a country imports more than it exports

Trade liberalisation – Reduction of tariffs and removal of non-tariff barriers (e.g. quotas, standards)

Transnational corporation (TNC) – Companies owning, controlling and managing assets in more than one country

Value added – Value of a good minus value of factors involved in its production

See also Deardorff's Glossary of International Economics: www-personal.umich.edu/~alandear/glossary/

Useful websites and more information

www.panos.org.uk/global/tradingplaces.asp – Panos print features on the WTO Hong Kong trade summit and Panos resources

www.interworldradio.net – Audio features on the impact of global trade

www.unctad.org – UN Conference on Trade and Development. See editions of *Trade and Development Report* and *The Least Developed Countries Report* (in particular 2004's *Linking International Trade with Poverty Reduction*). See *Economic Development in Africa: Rethinking the Role of Foreign Direct Investment* (2006)

http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/TRADE/0,,pagePK:149018~piPK:149093~theSitePK:239071,00.html – World Bank site on trade. See also *Assessing World Bank Support for Trade 1987–2004*

www.integratedframework.org – Donor trade-related technical assistance programme

www.undp.org – See *International Cooperation at the Crossroads: Aid, trade and security in an unequal world* (Human Development Report, 2005, chapters 2 and 4)

Our Common Future (Commission for Africa, 2005, chapters on growth and poverty reduction and on trade) **www.commissionforafrica.org**

Trade Liberalization and Poverty: A Handbook (Neil McCulloch, L. Alan Winters, Xavier Cirera, Centre for Economic Policy Research and DFID, 2001) **www.ids.ac.uk/ids/global/pdfs/tlpov.pdf**

Rigged Rules and Double Standards: Trade, Globalisation and the Fight against Poverty (Oxfam, 2003) **www.maketradefair.com**

www.eldis.org/static/DOC10465.htm – Papers reflecting debate between World Bank researchers and critics on trade, growth and poverty

www.odi.org.uk/iedg/projects/christian_aid_summary.pdf – Overseas Development Institute (UK): *A Review of the Trade and Poverty Content of Poverty Reduction Strategy Papers (PRSPs)*

www.idrc.ca – International Development Research Centre globalisation, growth and poverty programme (Canada)

Hungry for Trade: how the poor pay for free trade (John Madeley, London: Zed Books, 2000)

Power hungry: six reasons to regulate global food corporations, (ActionAid International, 2005) – **www.actionaid.org**

Food, Inc. Corporate concentration from farm to consumer (UK Food Group, 2003) – **www.ukfg.org.uk**

www.cleanclothes.org – Campaign to improve working conditions in the garment industry

www.psiru.org – Public Services International Research Unit

www.fairtrade.org.uk, **www.ethicaltrade.org**, **www.traidcraft.co.uk** – UK fair trade organisations

www.ifat.org – International Fair Trade Association, a global network of fair trade organisations

www.igtn.org – International Gender and Trade Network

Gender Mainstreaming in the Multilateral Trading System: A handbook for policy makers and other stakeholders, Commonwealth Secretariat (Mariama Williams, 2003)

www.bridge.ids.ac.uk – Institute of Development Studies (UK) Cutting Edge Pack on gender and trade

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Written by John Madeley and Jon Barnes

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Panos Media Toolkit on PRSPs

1. **Who's richer, who's poorer? A journalist's guide to the politics of poverty reduction strategies**
2. **Signed and sealed? Time to raise the debate on international trade talks**
3. **Making or missing the links? The politics of trade reform and poverty reduction**