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TRADE LIBERALIZATION AND POVERTY ALLEVIATION

IN

DEVELOPING COUNTRIES

A mini-thesis submitted in partial fulfilment of the requirements for the degree of LLM – International Trade Law and Investment in Africa, in the Department of Faculty of Law, University of Western Cape

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Keywords: World Trade Organization (WTO); Trade liberalization; Developing countries; Poverty alleviation; development; trade policy reform; market access, tariffs, agriculture, service (GATS), Non-agricultural products (NAMA).

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DECLARATION

I declare that **Trade Liberalization and Poverty Alleviation in Developing Countries** is my own work, that it has not been submitted before for any degree or examination in any other university, and that all the sources I have used or quoted have been indicated and acknowledged as complete references.

Maria de .Lurdes F. Magneli

May 2005

Signed……….

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Acronyms & Abbreviations

EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
GATS	General Agreement on Trade and Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GSP	Generalized System of preference
IBRD	International Bank for Reconstruction and Development
ILO	International Labour Organization
IMF	International Monetary Fund
LDCs	Least Developed Countries
MDG	Millennium Development Goals
MFN	Most Favoured Nation
MTNs	Multilateral Trade Negotiations
NAMA	Non agricultural products
NTB	Non Tariff barriers
OECD	Organization for Economic Cooperation and Development
PRSP	Poverty Reduction strategy Programmes
S&DT	Special and Differential Treatment
SPS	Sanitary and Phytosanitary Measures
TBT	Technical Barriers to Trade
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programmes
UNIDO	United Nations Industrial Development Organization
US	United States
WB	World Bank
WTO	World Trade Organization

Chapter I

Introduction

Trade liberalization and poverty alleviation are relatively new issues under the multilateral trade system. The WTO is one of the institutions that strongly advocate trade liberalization as a tool to promote economic growth, which induces to poverty alleviation, in developing and least developing countries. The main WTO challenge is to liberalize trade among the member countries through various agreements that are part of the Marrakesh package[1].

In that sense, WTO country members are urged to open their economic markets by adopting trade policy reforms, in order to liberalize trade.
Integration in the world, as opposed to closed economies, brings gains to the development process, by boosting economic growth. Indeed, countries that have managed to raise living standards and alleviate poverty of its citizens are those that were willing to open their economies[2]. However, the problem is that developing countries are economically asymmetric, with different priorities as a result of their level of development. Should it in that case be taken as granted that trade liberalization is favourable for the poor and therefore developing countries undertake policy reforms? What is on the other hand the implication of WTO policies for developing countries in this context?

Trade liberalization is understood as a "simplification of, and reduction in existing trade measures and barriers to reduce taxes on importers, reduce compliance costs for importers and exporters, making trading requirements more transparent, and hence lower the distorting effects in the economy that barriers bring"[3].

However, scholars do not agree on the impact of trade liberalisation on poverty alleviation. Some argue that there is a direct connection between trade liberalization

[1] Michalopoulos (2001), 152

[2] IMF staff, (2001), "Global trade liberalization and the developing countries", *IMF*, 01/08

[3] Department of Foreign Affairs and Trade -Australian, (2004) "South-south trade – winning from liberalization"

and poverty alleviation, while others are more sceptical about the effectiveness of trade in reducing poverty. For example Dollar and Kraay (2001) argue that trade is good for poor, it improve incomes without any adverse effect. On other hand Rodriguez and Rodrik (2000) and Ravallion (2004) are dubious about the direct effect between trade liberalization and poverty alleviation.

This paper will investigate whether trade liberalization can be a positive factor for poverty reduction in developing countries.

1.1 Aims of the Research:

General: Examine the trade policies designed by the World Trade Organization (WTO) to minimise poverty levels in developing countries, through trade liberalization.

Specific:

- Investigate and analyse the existence of a link between trade liberalization and poverty alleviation in developing countries.

- Investigate whether trade liberalization has a direct impact on poor people and if this is the case, how it is done.

- Discuss the effectiveness of the specific measures designed to reduce poverty in developing countries, through trade liberalization.

- Investigate and critically examine the ideal policy reform to be applied at a domestic level (in developing countries), in order to improve trade liberalization.

- Make some recommendations on how trade can benefit and assist in poverty alleviation in developing countries.

1.2 Significance of the research:

Trade liberalization under the WTO framework is at the top of agendas all over the world, especially amongst member countries. Access to markets, reduction of barriers between countries and free trade in general has become a challenge and a goal to achieve. In this context, developing countries are given especial attention, due to their fragile economies and high levels of poverty.
The proposed research subject is relevant in the sense that it will be a contribution to the issue of trade liberalization under the WTO Multilateral system.

1.3 Research Methodology and Overview of chapters:

The proposed paper will be fundamentally conceptual (studies, articles) and various points of view will be investigated and discussed. The paper will use examples of two developing countries, which have already initiated the process of trade liberalization.

Trade liberalization and poverty alleviation are very broad issues, and it is not the intention of this paper to discuss the subject extensively. On the contrary the research will be limited to trade liberalization and poverty alleviation in developing countries, understood to include LDCs, unless otherwise expressed.
After this introduction and background presented above, the paper will define poverty in chapter 2. Chapter 3 includes a presentation of the World Trade Organization (WTO) objectives and policies related to trade, with special focus on trade liberalization and poverty alleviation in developing countries.

Chapter 4 identifies and discusses the existence of a nexus between trade and poverty and to what extent trade can reduce poverty. Two cases are discussed, namely, Vietnam and Colombia.

Market access and trade reforms are of extreme importance for trade liberalization and also for poverty reduction. These issues are discussed in chapter 5. Market access in agriculture, services and non-agricultural products and market through GSP arrangements will be explored as well as the meaning and impact of trade reforms at national and international level under the multilateral framework.
Conclusions and recommendations are presented in chapter 6.

Chapter II

Poverty

2.1 Brief history about poverty measures

The world has deep poverty amid plenty[4]

Eradication of poverty is the ultimate goal of development. Unfortunately, the world has experienced a number of development failures, since the number of poor people tends to increase in the world. World leaders and national leaders have lately been more focused on poverty alleviation at the international level as well as the national level. Poverty is today the topic of international agenda of Millennium Development Goals (MDGs) and of the Poverty Reduction Strategy Papers (PRSP) in many developing countries[5]. This will perhaps imply to find coherence and coordination between international and national goals as to maximise the results of the fight against poverty (Millennium project 2005: 59).

Traditionally, poverty was measured as an economic concept leaving social aspects out. Between 1950s and 1960s development was seen as synonymous of economic growth. There was a belief that well being improved with growth. In 1970s, however, it was concluded that growth was not enough to reduce poverty. Multiple strategies for poverty reduction were designed; comprehending the basic needs approach (ILO 1977).

The 1980s period was a period characterized by debt crisis and global depression and different experience brought by East Asia, Latin America, South Asia and Sub-Saharan Africa. Once again it was concluded that well-being was synonymous of growth, therefore the central key was improvement of economic management[6]. Bad economic accomplishment and augmentation of poverty in many countries called for

[4]WB (2000/2001) *Attacking Poverty: Opportunity, Empowerment, and Security - World Development Report* 2000/2001, 3

[5] Millennium project (2005), *Investing in Development: A practical plan to achieve the Millennium Development Goals*, 3-4

[6]WB (2000/2001), 3-4

the attention of a non-economic concept of poverty. In 1990s human development and sustainability were measured with human development/capabilities and finally in 2000s with definition of Millennium Development Goals (MDGs) and risk empowerment, well- being meant universal rights, livelihoods and freedom[7].

To accomplish the actions for achieving the MDGs, both developed and developing countries are called to be involved in the process. While developing countries define their own strategical policies for poverty reduction, developed countries and other multilateral organizations have an important role in complementing the national strategies with action that helps to alleviate poverty, among other things, extending international trade possibilities to poor people[8].

2.2 Definition of poverty

Poverty can be defined from different angles and it can include more than simple income. Generally, poverty is associated with illiteracy or lack of basic education, which *per se* reduces the possibility of being more active in society; is also associated with people dispossessed of basic health conditions[9] and basic needs such as food, clothes, house and water.

UNDP define poverty as a multi-dimensional concept which involves material deprivation and deprivation in terms of capability, vulnerability, and influence over institutions that affect one's life (empowerment)[10]. The non-economic poverty concept includes education, health and nutrition, environment (access to water and sanitation), empowerment and participation[11].

For the World Bank (1990:25) "poverty is unacceptable human deprivation". This

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[7] Sumner (2004) "Economic well-being and no-economic well being" *United Nations University/WIDER*, Research Paper N.2004/30, 5-6

[8]WB (2000/2001), 8

[9]UNDP (2003), *Making Global Trade Work for People,* 24

[10] ibid

[11]Sumner (2004), "'Economic well-being and non-economic well-being" *United Nations University/ WIDER*, Research Paper No 2004/30, 10

definition includes low levels of income and consumption, low levels of education, health, nutrition, vulnerability and powerlessness. Furthermore, surveys suggest that loss of dignity is one of the damaging features of poverty. It gravely affects the relationships among families and communities and individual persons with the authorities (ILO 2003:21).
World Bank through world development report 2000/2001 concluded that poverty covers more than low income or human development. It recognizes that vulnerability; voiceless, powerlessness and lack of representation are part of poverty[12].

From an economic perspective, "poor people have insufficient economic resources to acquire enough commodities to meet basic needs"[13]

The World Bank introduced the one-dollar-a-day measure in the 1990s and this paper will follow the same definition of poverty.
The one dollar a day is quantified by contrasting income/consumption and basic material needs for food, shelter and clothing (ILO 2003:20).

2.3 Poverty status quo

Poverty is concentrated to the developing countries. The World Bank estimated that in 1999, 2, 8 billion people were poor living on less than $ 2 a day, while a 1.2 billion of these lived on less than $ 1 a day. The world population was estimated to 6 billion the same year. Around 44 percent of the poor lived in South Asia, 24 percent in Sub-Saharan Africa and 23 percent in East Asia and the Pacific[14].

During the period of 1987 to 1998 countries like East Asia took actions that managed to reduce the number of poor people living on $1 dollar a day from about 420 million to about 280 million. While East Asia was enjoying this success, the numbers of poor people were increasing in Latin America, South Asia and Sub-Saharan Africa (World Bank 2000/2001:3). Furthermore, the Sub-Saharan case is seen as unique, because

[12] WB (2000/2001), 3
[13] Bannister and Thugge (2001)"International trade and poverty alleviation", *IMF*, WP 01/54, 3
[14] WB (2000/2001), 4

it faces huge difficulties to overcome poverty. Indeed, population in poverty increased from 227 million to 333 million between 1990 and 2001[15]. Among poor populations, women are the ones carrying a heavy burden, because they are responsible for children, the elderly, and the sick.

The millennium project (2005:148-149) suggests that the situation of poverty in Sub-Saharan Africa has not improved and that it is due to the domestic low savings which is not compensated by inflows of foreign direct investment, this as a result of poor infrastructure and inflows. To worsen the situation, Africa carries a heavy burden of disease (eg Malarias, HIV/AIDS), very low diffusion of technologies from abroad, among other things[16].

The increasing number of poor people implies that poverty reduction has become priority for most developing countries and many strategic actions have been designed to reduce poverty.

During the 1990s a number of United Nations poverty conferences were held and ended up with the United Nations Summit in New York in 2000. In this conference 149 countries agreed on the MDGs. The approach of poverty shifted it focus to a wider view on development. The MDGs includes indicators for income poverty, education and gender equality in education, health and environmental poverty. It is in this context that the Millennium Development Goal challenged the world by calling for extreme poverty reduction. According to MDGs, until 2015 the proportion of poverty should be halved in each country, implying a decrease in world poverty from 27.9 percent to 14.0 percent[17]. Millennium and Monterrey Consensus were the first international goals recognizing at political levels that if poverty is to be eliminated it should be done only if developing countries manage to define and implement adequate plans of poverty reduction[18].

The poverty focus is also evident in the Poverty Reduction Strategical Programmes

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[15] Millennium project (2005), *Investing in Development: A practical plan to achieve the Millennium Development Goals*, 14

[16] Ibid

[17] www.developmentgoals.org

[18] Millennium project (2005), 4

(PRSP) that many developing countries are implementing with assistance of the IMF/WB. Usually, the PRSP describes macroeconomic, structural and social policies and specify programmes to alleviate poverty. The conception and definition of national strategies for poverty reduction is the responsibility of each government and is designed according to national priorities[19].

Most of the PRSPs do not include in their macroeconomic programme, the trade component as a tool to fight poverty. These programmes could have a larger impact on poverty reduction if the trade component were included. If advantages from trade liberalization are to benefit poverty alleviation, then one efficient way to do it would be to make trade policy an integral part of National Development Strategy policy in developing countries[20]. Most developing countries are pursuing PRSP programmes for poverty reduction and are also in the process of freeing their economies. In that sense, it might be useful to articulate national development strategy objectives related to poverty alleviation with the whole economic context; i.e., mainstreaming poverty into trade reform policies[21]. The programmes should also identify groups which would lose from trade liberalization and take in account adequate measures to assist them[22]

[19] www.worldbank.org/poverty

[20] Sarpn (2004) "Can Africa trade her way out of poverty?", *SARPN*, Seminar report

[21] Ibid

[22] Bannister and Thugge (2001), 24

Chapter III

WTO and Developing countries

3.1 WTO Objectives

WTO's main goal is to improve living standards and ensure full employment in member countries, particularly in developing countries. The organisation also shows awareness that LDCs need special attention and efforts as to guarantee their share in the global trade[23]. This is clearly spelled out in Marrakesh preamble, which stated that: "in the field of trade, economic endeavour should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand and expanding the production of and trade in goods and services..."[24] The aim of raising living standards could also be found in the GATT ideals expressed in GATT 1947 preamble[25].

"The establishment of the World Trade Organization (WTO) as a custodian and guarantor of a rule-based multilateral trading system was one of the cornerstones of the Uruguay Round (UR) of MTNs concluded in Geneva on 14 December 1993 and the signing of the Final Act as 'single undertaking' at Marrakesh in April 1994."[26]

WTO was created to be a dynamic multilateral system guaranty that trade can "keep pace with the evolution of the world economy[27].

3.2 WTO Policies

In principle, rules and policies under WTO multilateral system are uniform for all WTO member countries; regardless the different levels of economic development. Therefore, its implementation is also equal for all members, based on MFN and reciprocity principles[28].

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[23]WTO (2002) *The Legal Texts – The Results of the Uruguay Round of Multilateral Trade Negotiations,* 4

[24]Marrakesh Agreement establishing the World Trade Organization in WTO (2002) *The Legal Texts,* 4

[25]Kwa (1998) " WTO and developing countries" ,*INFOCUS,* Vol.3, N.37

[26]Shahim, "From Marrakesh to Singapore: the WTO and developing countries", *www.twnside.org*

[27]Ibid

[28] Kwa (1998) "WTO and developing countries" ,*INFOCUS,*Vol.N.3, N.37

By reciprocity it is understood "one country give a concession in an area, such as the lowering of tariffs for a certain product, in return for another country acceding to a certain agreement."[29] The reciprocity principle provides fair trade rules and is meant to stop free riders. The reciprocity principle is an important rule to keep the balance of treatment between partners and it obliges a country not only to receive but also to give some concessions back. Whereas under the Most – Favoured-Nation (MFN) principle, "any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties."[30]

The understanding of MFN treatment is that if a country under a multilateral system decides to lower its tariffs of certain product as a favour to another partner country, this should unconditionally be extended also to other country members and not only to the partner that it was negotiated with. In short: what you concede to one country will be extended to other WTO trade partners.

However, the MFN rule has some exceptions, where member countries are allowed to waive this principle. This is the case, for example of GATT Article XXIV concerning regional integration; Article XX which refers to general exceptions for adoption of measures to protect the public moral, human, animal or plant life or health; to the conservation of exhaustible natural resources. Another example of exception to MFN rule is the generalized system of preferences[31].

The acceptance of the WTO "package" constitutes a challenge for developing countries. Trade under a multilateral system requires the adoption of compatible policies. This means that the countries might need to undergo deep policy reforms, such as institutional and structural changes to be able to trade under the WTO system[32]. Oxfam (1999:30) found that many developing countries did not have a clear understanding about their financial involvement resulting from Uruguay Round commitment. An estimation of the financial resources required for the implementation

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[29] Ibid

[30] See Article I, part I of GATT 1947in WTO(2002) *The Legal Texts*

[31] WTO Major Trading Partners (2004), *2004 Report on the WTO Consistency of Trade Policies*, 208-209

[32] Finger and Schuler (2002), "Implementation of WTO commitments: the development challenge", *WB*, 493 - 503, 493

of UR agreements on customs valuation, sanitary and phytosanitary regulations and TRIPS could amount to more than a year's development budget for the world's poorest nations (Oxfam1999:30).

An important question is, of course if poor nations have the capacity to respond to the standards demanded by developed countries via the multilateral framework, in order to gain access to their markets?
Through article III in the SPS agreement, countries are urged to harmonize sanitary or phytosanitary measures, by meeting international standards. While the developed countries already have the operational system in place, the developing countries might be far away from meeting the standards, putting a heavy burden on these countries institutions and economies. The upgrade is however necessary for the countries to get access to the international markets[33].
Jawara and Kwa (2003:26-27) believe that developing countries took one step ahead by accepting the whole package, even knowing the difficulties inherent from multilateral framework, because they were hoping to collect some benefits, more specifically through the liberalization of agriculture and reduction of subsidies in the OECD countries[34]. In this context most developing countries went, unilaterally, through significant changes in market access as part of their liberalization programmes[35]. Regardless of all the efforts, developing countries seem to have been left with empty hands, since no substantial progresses has been made under the multilateral system, regarding market access on agricultural products.

However, developing countries are entitled to special arrangements as recognition of differences in the levels of development among WTO members. And the preference is not to benefit only developing countries that are historical or political related, but all developing countries, in general (WTO Major Trading Partners 2004:208).

Special and differential treatment was introduced to give developing countries "space for breath", although differing from the MFN principle. These treatments are basically concentrated in three areas: market access; exemptions of the implementation in some policies and technical assistance. In reality, all WTO agreements contain

[33]Finger and Schuler (2002), 496

[34]Jawara and Kwa (2003), *Behind the Scenes at the WTO,* 27

[35]Shahim, "From Marrakesh to Singapore: the WTO and developing countries" *TWN*

special provisions allowing developing countries "longer-time periods to implement agreements and commitments to increase their trading opportunities and support to help them build the infrastructure, to handle disputes and implement technical standards"[36].

Non-reciprocal arrangements consist basically of agreeing on advantageous conditions for market access in (industrialized) countries without reciprocity as would be the obligation under the MFN principle or under other reciprocal agreements. From the exemptions, developing countries with a GNP less than US$ 1,000 per capita are allowed to use export subsidies for their merchandise exports[37]. An example of exemptions given to developing countries is the case of an agriculture agreement that allows them to use subsidies and not to reduce tariffs at the same levels as developed countries[38].

The multilateral system is a complex process which demands a full participation and technical knowledge. The majority of the WTO members being developing countries have indicated their difficulties to respond adequately to these demands. In this regard, technical assistance has to be designed in a way for these countries to adjust to WTO rules and disciplines, to implement obligations and exercise their rights of membership and capacity building, as well as to give them the opportunity for fully participation in the Multilateral trading system[39].

The 4th Doha ministerial meeting, which was hold in Doha, Qatar in 2001, was mostly focused on development issues of developing countries concern, including technical assistance above discussed and market access to LDCs[40]. In that meeting, it was proposed that this technical assistance would be achieved based on the "country file concept" and in coordination with UNDP and WB, because of their in-country presence.

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[36] www.wto.org - Doha Ministerial Declaration

[37] Millennium project (2004), *Trade, development and the WTO: an action agenda beyond the Cancun ministeria*l, 124

[38] See www.wto.org and the WTO legal text

[39] Schott, (2002) "Reflections on the Doha ministerial", *Institute of International Economics*, Vol.7,N.1

[40] Hertel, Hoekman and Martin (2002), " Developing countries and a new round of WTO negotiations" *WB Research Observer*, Vol.17,N.1,113 at 140,114 - 115

Indeed paragraph N.38 of Doha Ministerial conference states the following[41]:

> "We confirm that technical cooperation and capacity building are core elements of the development dimension of the multilateral trading system, and we welcome and endorse the New Strategy for WTO Technical Cooperation for Capacity Building, Growth and Integration. We instruct the Secretariat, in coordination with other relevant agencies, to support domestic efforts for mainstreaming trade into national plans for economic development and strategies for poverty reduction. The delivery of WTO technical assistance shall be designed to assist developing and least-developed countries and low-income countries in transition to adjust to WTO rules and disciplines, implement obligations and exercise the rights of membership, including drawing on the benefits of an open, rule-based multilateral trading system..."

In principle, with technical assistance, beneficiary countries would enhance their knowledge on multilateral issues, including the understanding of various WTO agreements, which consequently would help them to improve its implementation. At the same time they would benefit from institutional capacity building, which would help them to improve their performance in multilateral issues and in global economy as well.

The WTO has in various agreements provisions allowing special and differential treatment for developing countries. Special and differential treatment is a prerogative, which developing countries enjoy under the multilateral system, this as a result of economic asymmetries between WTO member countries. Under these clauses developing countries are not expected to fulfil their obligations in the same period defined for other WTO member countries, allowing more flexibility for these countries, exclusion of reciprocity principle in market access (see chapter V), including exemptions and less stringent discipline[42]. However, these schemes are unilateral decisions, which mean that the modalities and selection of the country that is the beneficiary of the preference is made by the donor country. With this preference developing countries are expected to improve their exporters' capacity to compete in developed countries markets[43].

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[41] See www.wto.org

[42] Pangestu (2002) "Industrial policy and developing countries" *WB*, 149 at 159, 157

[43] Acharya and Daly (2004) "Selected issues concerning the multilateral trading system" *WTO,* discussion paper N.7,16

Despite some aspects focused on developing countries interest above discussed, policies in the WTO are designed taking in account all Members as a group. This has been one of the reasons for debates. According to WB (2004:222) suggestions have been made by some developing countries and civil society, regarding changes on some WTO agreements, eg, Agriculture and Trade-Related Aspects of Intellectual Property Rights Agreements. These suggestions for changes have been made because, most agreements are not backing development and rules are detrimental to the interest of these countries. The same position was also taken by those defending the so called "development box in Agriculture Agreement"[44].

3.3 Implications of the multilateral system for developing countries

Contrary to GATT1947, which was seen as protector of OECD countries' interest, a system based on "à la carte", WTO is more sympathetic with developing countries issues and therefore their role should become more active[45]. In WTO, decisions are made by consensus (one member one vote), thus, the organization can become a balanced forum. However, the ability of developing countries to push for changes relevant for their own development interest will depend on their effectiveness in the WTO forum[46].

A multilateral system is supposed to contribute to a prodigious transparency and create certainty in the commercial relations among WTO members, due to the character of a binding commitment[47]. In addition, the legal status of obligations and commitments made under WTO framework, combined with dispute settlement mechanisms can encourage governments to act stronger against demands of political groups which would tend to advance their particular powerful interest[48].

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[44] WB (2004), 222

[45] Hoekman and Kostecki (1995), *The Political Economy of the World Trading System: From GATT to WTO*, 235

[46] Michalopoulos (2001) *Developing Countries in WTO*, 152

[47] Foreign Affairs and Trade Australia (1999), "Global trade reform: maintaining momentum" www.dfat.gov.au 7

[48] Ibid

However, the single approach given to developing countries raises issues that its implication might be negative or bring heavy burden to developing countries. For instance, the lack of full participation in discussion of issues of their own interest due to financial and technical scarce resources, it frustrates these countries and is caging them from better understanding of multilateral issues and for picking their priorities in these negotiations[49]. WB (2000/2001) estimations is that about 60 percent of the developing country members of the WTO are very limited in their engagement. These limitations results, of course from financial incapacity and the ability to participate in all WTO technical meetings, which is a constant endless process, with an average of about 45 meetings a week. Moreover, the one-vote-one member principle, which gives the "egalitarianism" base, i.e., the same voice for developed and developing countries, has not being enjoyed by developing countries. This is because many of consensus related to different trade negotiations issues are taken in this day-by day informal meetings that function "at each level of decision-making of the WTO"[50].

To make matters worse, most of least developed countries have only one official representing the country in all the meetings, which are not only at WTO but also in other international organizations as well[51].

Moreover, rules and decisions until now seem to reflect more the issues of developed nations concern, than those of developing countries interest. The fact that issues like enlargement of market access in agriculture, manufacture and textile and clothes did not reach the expected results is an example of this imbalance[52]. Another indicative example is the fact that subsidies are allowed for agriculture sector, but not for industrial sector, which ironically is the most needed by developing countries to spur national industry.

The fact that developing countries were faced with multiple subjects in sectors that previously (GATT1947) was based on voluntary choice reflects the uneven levels of WTO members: rules on customs valuation, antidumping, subsidies, technical

[49]Hertel, Hoekman and Martin (2002) , 128

[50] Narlikar (2001) "WTO decision-making and developing countries" *South Center*, Working Paper 11, 2-3

[51] WB (2000/2001) WDR

[52]Millennium project (2005) *Investing in Development: A Practical Plan to Achieve the MDG,*212

standards and phytosanitary measures[53]. Indeed, the selected standard rules are those already used by developed countries[54]. Consequently, the upgrade of standards as to comply with the international defined standards will raise huge financial costs for developing countries.

Besides, article II of SPS agreement might become an obstacle, striking against developing countries, as the prerogative given to governments, through this article is to protect, if necessary, human, animal or plant life or health, by restricting trade[55]. This because developing countries still in process of enhancing their system.

Special and differential treatment (S&DT) which was meant to give and increase market access to developing countries is not accessed to products of developing countries interest or is mostly for products that the tariffs is already insignificant[56]. For example, the total share of least developed countries exports in EU, during 1980 and 2000 decreased from 1.0 percent to 0.5 percent, regardless of preferential arrangements[57]. Furthermore, S&DT are seen as distracting developing countries from more engagement as a group in multilateral negotiations, based on MFN principle. The consequence will probably reflect negatively in the use of dispute settlement mechanisms, which per se is an asset, especially for developing countries and will create division between developing countries, preventing them from forming blocks of multilateral negotiations in pursuit of their own interest[58].

Another important aspect, which should be seen as an disadvantage for the whole process of liberalization under multilateral framework is the fact that preferential arrangements keep alive quantitative restrictions, meaning that the country that is opening its market for preferential access while at the same time it maintains protective measures (WTO 2004:28).

As expected the developing countries have been encountering difficulties to handle

[53]Hertel, Hoekman and Martin (2002), 129

[54]Ibid

[55] WTO (2002), Agreement of Sanitary and Phytosanitary Measures in WTO (2002) Legal Texts

[56]IMF and WB staffs (2001), "Market access for developing countries' exports", *WB,* 31

[57]North-South Institute-editor (2004), *The Reality of Trade: The WTO and Developing Countries*, 33

[58]Millennium project (2005), 217

WTO demands, due to scarce financial resources and technical knowledge. The lack of full participation in multilateral system is placing developing countries even further behind, while industrialized countries takes full advantages in policy decisions, due to their financial capacity, which allow them to use adequate resources enabling them to take comprehensive engagement (WB 2000/2001). Besides, the aspects of scarce financial resources, the lack of expertise/experience are also hindering developing countries from enjoying benefits of dispute settlement mechanisms.

WTO provisions including those directed only to developing countries are mostly amicable, because they give space for trade policy reforms without harming poor people[59]. Additionally, WTO rules are friendly to trade and FDI policies, which aim to fight poverty[60]. However, in terms of balance between developed and developing nations interest, it is far from flawless, because the way as it is constructed now, the pendulum seems to be inclined towards issues that are in the interest of industrial countries[61]. Symmetry under multilateral system is important for developing countries, because it would allow them to carry out trade liberalization process in a way that can reduce poverty[62].

Despite, the amicable character of trade polices under a multilateral framework, once a country is bound to its commitment, there is no way, in principle, to reverse the policies undertaken, unless situations foreseen in the safeguards clause arise, which in that case gives the country temporary right to reverse or stop its commitment. Otherwise, it might be difficult to change committed trade policies. This is seen as an "insurance policy", which creates confidence for investors. But from a strategical poverty reduction point of view, this kind of rule, which is a mechanism for locking in countries, might perhaps reduce the space for policy manoeuvre for a country. Developing countries need flexibility to look for adequate ways of creating economic growth and alleviating poverty[63].

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[59]Hoekman, Michalopoulos, Schiff and Tarr (2001), "Trade policy and poverty alleviation", *WB*, Working Paper N.2733, 14

[60]Hoekman, Michalopoulos, Schiff and Tarr (2001), 14

[61]Millennium project (2005), 212

[62]Ibid

[63]North-South Institute- editor (2004), *The Reality of Trade: The WTO and Developing Countries,* 22

In conclusion, the implementation of the WTO policies is a challenge for developing countries.

Chapter IV

Link between trade and poverty alleviation

4.1 What is trade liberalization?

"Openness of an economy is the degree to which foreigners and nationals can transact without government imposed costs (including delays and uncertainty that are not levied on a transaction between two domestic citizens"[64].

4.2 Theories vs. facts

WTO has been advocating trade as tool to boost economic growth which as a consequence would improve the welfare of poor people in developing countries. In this context, countries are urged to put more efforts on reforming trade policies by removing all trade restrictions and allow trade to flow naturally.

In fact, the WTO argument seems to be based on the comparative trade theory. Accordingly, trade liberalisation would generate: lower import prices; increased access to new products; "increase government taxes and transfers influenced by changes in revenue from trade taxes"; increased market access and inflow of capital; new jobs and increased wages; incentives for investment growth; external shocks; and short-run risk and adjustment costs[65].

The theory argues that even if a country produces all goods cheaper than other countries, it would benefit by specializing in the export of its relatively cheapest goods or the goods in which it has a comparative advantage[66].

[64]Bergand and Krueger (2002) "Lifting all boats: why openness helps curb poverty", *Finance and Development-IMF*, Vol.39, N.3

[65]Hertel and Reimer (2004) "Predicting the poverty impacts of trade reform", WB, WP3444, 6

[66]UNDP (2003), *Making Global Trade Work for People*, 25

Moreover, trade brings knowledge, which might help to increase productivity, due to the entrance of new imported inputs and it optimizes turnovers and innovations[67].
The understanding is that once a country opens its doors for free trade, poor people would benefit through the generation of new jobs, wage improvement, multiple choices concerning products and cheaper prices. However, developing countries are economically asymmetric with different infrastructures, needs and priorities. In this context, the question is, should countries take for granted the argument that trade liberalization is the key for poverty alleviation and therefore, trade reforms are a strategic tool to poverty alleviation?
In the mid 1980s a majority of developing countries based their development efforts on this premise undertook reforms, making international trade system their vertebral column of economic reform agenda. Most of these reforms were not under the multilateral system, but unilateral, as part of their structural adjustment programmes, wishing with this to achieve the propagated economic growth and reduce poverty[68]. Countries experienced different results from these reforms, thus questioning the effective results of free trade as meaningful tool for poverty alleviation. Bangladesh saw good results from its liberalization, but Uganda saw negative results and Nepal both positive and negative effect (UNCTAD b, 2004:194).

Indeed, studies about the impact of trade liberalization in poverty have reached different conclusions. Despite the propagated thesis that trade affects growth and therefore reduces poverty, no convincing evidence has been brought forward to show the predictability of trade liberalization related to economic growth[69]. On the contrary, all available facts rather suggest that the correlation seems to be small between trade liberalization and poverty alleviation. Least developed nations are example cases where the poverty seems to grow in the countries with open economies and in relation to those with closed economies (UNDP2003:39). Perhaps this gives the signal that trade reform per se does not always reflect positively in poor people or that, trade liberalization does not automatically translate in poverty reduction[70]. Neither that beyond trade liberalization, there are other issues relevant

[67]Bergand and Krueger (2002),) “Lifting all boats: why openness helps curb poverty”, *Finance and Development-IMF*, Vol.39, N.3

[68]UNCTAD (2004)*Trade and Development -Report* ,75

[69]FAO (2003)*Trade Reforms and Food Security; Conceptualizing the Linkages,* 17

[70] UNDP (2003) *Making Global Trade Work for People,* 34

to poverty alleviation, eg improvement of balance-of-payments. Nor, that the “famous” theory of the invisible hand does not perfectly function in the case of developing countries[71].

Openness is not always an easy process and insofar what has been confirmed is that countries as they get richer with a solid economy are more prone to open their economies. Countries that today are developed, did not manage to develop with open doors. On the contrary, these countries managed to develop their economies “behind protective barriers” and, when they felt economically comfortable and strong enough, they lowered their tariffs[72]. The problem is that poor countries are told that the key to reducing poverty is related to trade reforms and liberalization. But, no country has reached development only by opening the doors for international trade and investment. Even in cases where trade generate gains, it is not clear that these gains will benefit the poor people, since the benefits do not automatically go to the poor[73].

The process of liberalization is not automatic and the way trade might affect poor will depend on the structure of poverty in a given country, i.e., on whether poverty is sensitive to growth in average incomes and on how the improvements in trade alter the structure of income in the country[74]. One of the ways that trade can generate growth is through the reduction of “anti-export bias of trade policy leading to a more efficient allocation of resources”[75]

On the African continent for example, trade liberalization has brought very little benefits to poor people. Economic growth and integration in the global economy did not improve as foreseen and the fact is that African shares in the world economy have decreased from 4.1 percent in 1980 to 1.6 percent in 2000 instead of growing[76]. Moreover, Sub-Saharan Africa has developed a chronical situation when it comes to poverty. All these facts are an indication that trade liberalization is a complex matter,

[71] Stiglitz (2002), *Globalization and Its Discontents*, 73

[72] UNDP (2003), 29

[73] WB (2004), 18

[74] Ibid

[75] Geoffrey and Thugge (2001),12

[76] ATPC (2004) ”Trade liberalization and development: lessons for Africa”, *Economic Commission for Africa*, Work in Progress N.6,4

which can produce positive results in one country and negative in another, this making it difficult to weigh the effect in poverty reduction.

These facts should not be understood as refuting the role of trade in the development process under the multilateral system, nor that it might greatly contribute for development and poverty reduction (UNCTAD 2004: 77).
In the words of Rodriguez and Rodrik (2000:62) “the tendency to greatly overstate the systematic evidence in favour of trade policy has generated expectations that are unlikely to be met and it may have crowded out other institutional reforms with potentially greater pay-offs”.

Furthermore, the argument that integration in the world economy is a sine quo non condition for growth has not been proved as indisputable strategy for development[77]. Indeed as above pointed out, many countries keen to reach development and reduce poverty went through trade reforms by opening their doors to international trade, but some of the achieved results seem to throw over this argument. Moreover, what has been said by Rodriguez and Rodrik is that liberalizing trade may not per se be sufficient to alleviate poverty since there is no clear causal link between free trade and poverty reduction. Perhaps countries with high levels of poverty should instead focus on policies that might directly change the situation of poor people.
How can trade liberalization produce the same effects in countries with different levels of economy and levels of development? In most developing countries with high poverty level, where poor people are not part of the formal economy, would liberalization have a positive impact on the poor? How to explain the cases of Asian and African countries, where trade reforms results went in different ways? The results vary from country to country, and some have managed to reach positive results in terms of poverty reduction while others have seen adverse effects.

Other policies might be necessary to boost development. Trade might not be the only factor that can build integration; there are other factors of relevant significance that have to be taken into account. Many countries that were keen to open their economies, but without yet having an economic atmosphere, have experienced

[77]Rodriguez and Rodrik (2000) “Trade policy and economic growth: a skeptic’s guide to the cross-national evidence”, www.cepr.org, Discussion paper , 63

greater difficulties performing “their own national policies for development and integration into the global economy”[78]. Trade should not be seen as a goal for reaching development, but instead as a road. Countries need space and flexibility to develop their own domestic policy to overcome problems that are an impediment for development and poverty reduction[79]. As indicated by Stiglitz (2002:74), “trade theory says that an efficient market economy requires that all the assumptions should be satisfied”, meaning reforms should not be carried out only in one isolated sector, they should on the contrary be carried out in various sectors as to make the process efficient.

In all this the nexus between trade and growths seems to be in grey area and the thesis that liberalizing trade is a status quo for poverty alleviation is questionable, if one takes into account the discussed arguments. Trade liberalization might induce great benefits, if the protectionism process is conducted correctly and gradually, in such a way that new jobs are created to cover ineffective jobs[80].
China and India, for instance, are seen as successful cases when it comes to liberalization. Between 1980 and 2000 China managed to reduce poverty from 28 percent to 9 percent (1978-1998) and India from 51 percent to 27 percent (1977/78 – 1999/2000)[81]. These results are associated with trade reforms and to the integration in the world economy. However, according to Ravallion (2004:10) reduction of poverty in China did not come only as a result of trade openness, but other factors might have stimulated growth and poverty alleviation. Indeed, the peak of poverty reduction which occurred in 1980s did not happen in the same period when the major volume of trade reforms were carried out, but later on, in 1986 and from mid 1990s preceding China's accession to the WTO. In fact, Ravallion’s suggestion is that there is no correlation between poverty reduction and trade openness in China. Moreover, China only decided to remove its barriers, twenty years after it had entered in the market process (Stiglitz 2002:60).

East Asia is also frequently mentioned as an example case that was successful but, these countries did not expose themselves to the world economy, before they were

[78]UNCTAD (2004) *Trade and Development-Report*, 95
[79]UNDP(2003), 35
[80]Stiglitz (2001) *Globalization and Its Discontents*, 52
[81]Bhagwati and Srinivasan (2002), “Trade and poverty in the poor countries”, www.econ.yale.edu, 5

well prepared domestically for liberalization. As a matter of fact their openness was gradually and paced, after having capital to generate new jobs[82]. Furthermore, trade liberalization was not the fundamental aspect of the success in East Asia despite the fact that exports had great contribution in keeping ongoing economic growth and poverty reduction[83]. Taiwan and Korea had growth behind closed doors, imposing protective barriers on imports while stimulating exports; the openness came later on (Oxfam 2002:51).

Trade liberalization might not be harmful for the poor. And the perception is that in a longer perspective poor people might gather some benefits. But it cannot claim that trade liberalization is the unequivocal answer for poverty reduction. Nevertheless, in this ambiguous situation, the ideal would be, to take significant trade reforms gradually, giving space for adaptation and adjustments[84] and this combined with other policies that might impact positively in poverty alleviation. These trade policies, as suggested by Oyejide (2004) in order to maximise any link between trade and poverty should be integrated into a country's development strategy on one hand and on the other hand mainstreaming development and poverty alleviation into trade policies negotiations that can influence policy reforms.

Trade can be a force for poverty alleviation in the long term, if the aggregate gains of growth on income are largely for the poor. Open trade might need changes in the production factors or structure. And it might be relevant to the country to know what to produce, with what resources and by whom, and how to use efficiently local resources[85].

Due to this complex process of liberalization and its adverse results, it is suggested that countries should, before they enter into the liberalization process (elimination process of tariffs), define other options for revenues, i.e., how to compensate what they will lose from tariffs; transformation of all NTB (import licence and other prohibitions) into tariffs, should be done in the beginning of the openness process; and to turn the process more powerful, discrepancies in the tariffs system should also be avoided (UNCTAD;b 2004:183). Furthermore, economic and social policies

[82]Stiglitz (2002), 60

[83]Oxfam (2002), *Rigged Rules and Double Standards: trade , globalization, and the fight against poverty*, report, 52

[84]Winters (2002), "Trade policies for poverty alleviation", *WB,* 28 at 37*,* 33

[85]FAO (2003) *Trade Reforms and Food Security; Conceptualizing the Linkages*, 21

and mechanisms for the market should be handled in way that give poor people access to needed resources to increase their productivity and income[86]. However, the market alone will not be enough to guarantee equal access to "public goods to sustainable pro-poor growth", government contribution will be crucial to promote poverty alleviation (ILO 2003:86).

4.3 How can trade affect poverty?

According to UNCTAD (2004:70) the direct impact of trade liberalization on poor people is not uniform for all countries, it varies depending on the structure of each country, on the domestic market factors and how the resources are allocated. Even within the country itself it can affect different groups in different ways[87].

Trade can affect poverty directly by reducing the cost of living; improving jobs and wages, mainly for unskilled people, (from a poverty point of view). If the designed reforms are able to spur the demand of labour-intensive products it will consequently, increase the demand for labour[88]. Developing countries have a lot of unskilled labour comparatively to developed countries. Theoretically trade liberalization boosts exports which increase the demand of unskilled labour (Buffie 2001:69). In the East Asia exports of labour-intensive manufactured goods played a great role on poverty reduction (Oxfam 2002:55).

Trade reform can also increase wages and employment as a direct result of demand of labour-intensive products. But whether the increased wages alleviate poverty will depend whether the poor people are effectively reflected in the labour that the need have increased. If the demand is for semi-skilled labour and poverty is concentrated in unskilled people, poverty will not be affected, in the contrary poverty might be aggravated by the decrease of unskilled wages[89]. In East Asia the increase of exports and demand of intensive-labour managed to reduce poverty, due the direct link of increased exports and households[90].

The main part of revenues for most developing countries comes from customs taxes,

[86]ILO (2003), *Working Out of Poverty*, 86

[87] UNCTAD; b (2004), 70

[88]Nordström and others (1999) "Trade, income disparity and poverty", *WTO*, 11

[89]Nordström and others (1999), 5

[90]Oxfam (2002), 51

i.e., from tariffs. With trade liberalization countries might lose these taxes. This revenue loss needs to be compensated with a tax reform that includes approval of value-added tax, tax administration and tariff peaks reduction[91]. However, for countries that rely largely on tariffs revenue, trade liberalization might have critical impact. WTO (2004:101) say that some developing countries budget comes from tax charged on international trade. In that case, for countries with a compact "domestic tax base, low efficiency of tax collection or poor design of the tax regime" liberalization might cause grave difficulties.

According to Nordström (1999:5) poverty alleviation may occur if there is enlargement of the market through insertion of the first time of goods that were not traded or available before reform and this would at the same time increase the consumers' choices. It gives the government space for manoeuvre, by allowing them to ameliorate public welfare through tax collection, which if well distributed can decrease inequalities and enhance development, by funding strategical programmes for poor[92] .

Moreover, trade may incentive effective use of a country's resources through imports of goods and services that demand high cost of production domestically (the theoretical argument of comparative advantage principle); it gives the poor a chance to travel to rich countries looking for jobs and higher wages, which if the income is well spent (investment in education) can improve the individual capacity[93]. Changes might also reflect on the stimulation for investment and innovations that influence economic growth in long-run[94].

4.4 Is poverty an obstacle for trade?

Poverty might itself be an impediment for full participation in trade process. Poor

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[91]WTO (2004), 101

[92]UNCTAD b, (2004)*The Linking International Trade with Poverty Reduction-The LDCs Report*, 79

[93]Easterly (2004), "Globalization, poverty, and all that: factor endowment versus productivity", *New York University,* 4

[94]Hertel and Reimer (2004), "Predicting the poverty impacts of trade reform", *World Bank Policy Research*, Working Paper N.3444, 6

people might have difficulties in exploiting new opportunities due to trade reform for different reasons. Poor people in rural area have to pay high transport costs due the lack of adequate infrastructures. They have no access to credit mechanisms and limited knowledge about market prices. The most severe rural poverty is often located in remote areas, far from markets. This is the case in the north of Mozambique, the mountain regions of Vietnam and upland Philippines. This implies that market access is becoming even more expensive and difficult to achieve.

This chapter discussed the causal relation between trade and poverty and the difficulties of finding this correlation. But in cases where trade might bring benefits to the poor there is also a challenge to ensure that the poor can benefit from these opportunities, due to the aspects that impede poor people to have access to new markets. Discrepancies in education, health services and properties can deprive poor from market benefits (Oxfam 2002:17).

Lopez (2004:14) has shown that lack of education implies that urban poor fails to exploit opportunities for improving their income. Good education leads to economic growth and reduces the inequalities produced by the trade openness process[95]. Uganda has been mentioned as an example of success in its policy reforms. The country had combined effectively strategically and complementary policies, which were able to reduce poverty and promote economic growth. The policy "package" comprehends education policy, tariffs reduction among multiple reforms[96].

Due to the policy of education, the number of people enrolled is far higher than what is common in Africa[97].

UNIDO (2003) means that trade did not benefit the poor because the group had no structural capacity to respond promptly to the demand of the market. They failed to produce enough quantity and quality according to acceptable standards.

A lack of adequate institutions can also reduce the possibilities of effectively exploring a market. One way of reducing difficulties encountered, due to a limited knowledge of market prices and lack of credits can be through creation of institutions that helps to facilitate trade and reduce ambiguities. WTO (2004:176) says, the role of institutions has been pointed out as of extreme relevance to promote the good

[95]Lopez (2004), "Pro-growth, pro-poor: is there a trade off?", WB, WP3378, 18

[96]Department of Foreign Affairs Australian (2004), 31

[97]Ibid

functioning of a market. Institutions can reduce irregularities on information of the market, by displaying correct and complete information about markets conditional ties, goods and who is involved; they delimit the rules of property rights and contracts.

All these issues rise the question of what kind of policies that is ideal to make international trade effective for the poor. The choice of policies has to be carefully considered, if the goal is not only trade liberalization, but also to be combined with poverty reduction. There are different sets of policies, which may induce different results. For example some policies might be effective on raising growth, but not effective in poverty reduction; other policies might induce growth and at the same time augment poverty. Pro-poor policies are those which help to stimulate growth and alleviate poverty (Stiglitz 2002:82).
As outlined in this section, trade policy depending on the way it is designed can be good or bad. But the result cannot indisputably be pre-established. If the policies are based on good relationship between international and national levels perhaps, the process might be able to create jobs, reduce inequalities based on gender, class or region; it can allow poor countries to fight poverty successfully.

The cases of East Asia have proved that it is not impossible to escape from poverty. Unfortunately this can not be done isolated from the rest of the world. Integration and trade are vital to sustain economic growth and poverty alleviation. The levels of integration of developing countries suggest that trade is of extreme importance for their economies[98].

4.5 Other experiences

Classical trade policies might not be suitable for most developing countries that face high levels of extreme poverty associated with other social difficulties, lack of a strong industry and poor technology. However, there are examples of countries that were well succeeded in their policies to reduce poverty and stimulate growth. These

[98]UNCTAD:b (2004) 106

countries used exports subsidies[99]. Trade regime of East Asia and other successful developing countries used these tools to encourage exports, deliberating tariffs on consumer goods, lowering tariffs on capital goods[100]. By 2003, under multilateral system, only LDCs are allowed to use these subsidies.

Exports can have several roles in economic growth, including: earnings generated by specialization due comparative advantage; improvement of capacity utilization; improve physical and human capital investment to increase returns to investment of new opportunities; growth of productivity that might come up through transfer of technology; export might also accelerate industrialization and allow resettlement of labour from agriculture to manufactures; it can also help to reduce constraints in balance of payments (UNCATDb:107-109). Exports are also a provider of foreign exchange that might induce to productivity[101].

Another aspect is that developing countries that have experienced some economic growth are those which have shifted their exports from primary commodities to processed goods. These changes are based on two reasons: "processed goods have a larger potential for intra-industry for product differentiation than unprocessed goods". Secondly, in processed goods the possibilities to augment added value is higher than for unprocessed product[102].

In sum, trade liberalization is a complex process and it's possible to take advantages from liberalization, but there are many aspects that countries should consider before entering into the process.

4.6 Case studies

Many countries have undertaken measures for trade liberalization since 1980s. Indeed, trade have since increased at a rate of about 5 percent a year[103]. However, not all countries have succeeded well in their openness, with some enjoying an

[99]North-South Institute-editor (2004), *The Reality of Trade: the WTO and Developing Countries*,

[100]Ibid

[101]Aryeetey, Weder and others (1998) "Strengthening Africa's participation in the global economy, *UNU*

[102]WTO (2004) , 17 and 18

[103] UNCTADXI (2004), "Trade and poverty. a development perspective"

increased share of the global economy, like China and the East Asian countries previously discussed. Others have seen their share decrease in the world economy and in some cases the increase of number of poor people living on less than dollar a day.

Many studies have investigated the impact of trade on poor people. The following section will discuss two cases namely Vietnam and Colombia.

4.6.1 The Vietnam case

Between 1980 and 1990 Vietnam introduced policy reforms in direction to trade liberalization (positive real interest rates, property rights reform in agriculture, liberalisation of foreign trade and FDI, tariff reduction and transformation of non tariff barriers into tariffs)[104] In that time the country had very poor trade policies, which means that reforms started from bottom.

Vietnam went through trade reforms as anticipation to the WTO accession and according to Dollar, the reforms undertaken by the government managed to improve income of the poor people leading to a dramatic poverty reduction from 58 percent in 1988 to 37 percent in 1998[105].

The successful case of Vietnam is confirmed by a study of the livestock sector carried out by Nin, Lapar and Ehui.

Livestock is an important source of income for the majority of Vietnamese farmers, particularly those in upland areas where poverty reduction has been largest. Livestock production in Vietnam is primarily undertaken on household farms, where crops and other agricultural products are also produced[106]. The study claims that the gains from trade liberalization were not allocated in equal proportions, since the level of poverty is still high.

[104]Dollar (2004) “Reform, growth, and poverty”, *WB,* 29 at 51, 29

[105]Dollar, (2004) ,39

[106]Nin, Lapar and Ehui (2003) “Globalization, trade liberalization and poverty alleviation in Southeast Asia: the case of livestock sector in Vietnam” *GTAP,* 6

The study concluded that Vietnam will still profit from further trade liberalization, but this will only be possible under two conditions: the country has to decrease the protection of manufactures and services. Another requirement is access to the international markets for Vietnam's exports of manufactured and agriculture products. Then trade liberalization would give to the poor (livestock producers) the possibility to take part on equal basis in the international trade and consequently increase their profits.

4.6.2 The Colombian case[107]

Colombia accessed to WTO in 1981, however, the reforms were already taken in 1980s unilaterally. Between 1985 and 1995 the country was keen on trade liberalization process. Colombian government objectives were the reduction of tariffs industry up to WTO levels, as per the guidelines. Indeed tariffs in manufacturing fell from 50 to 13 percent between 1984 and 1998, including textiles where the tariffs dropped by almost 70 percent. In the agricultural sector, tariffs dropped from 25 to 10.7 percent[108].

Poverty in Colombia is related to urban unemployment. Around 48 percent of individuals living in households -with the head of family being unemployed - were poor.

The levels of poverty decreased between 1984 and 1994/95, but by 1998 the situation reversed. The authors found no evidence that the decrease of poverty were related to the reforms (tariffs reduction). However, while Colombia was in the height of the liberalization process, poverty in urban areas decreased by about 10 percent[109].

The study states: "it seems fair to conclude that to what extent trade liberalization had any role at all in the decline of poverty during that period, this was through the

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[107]This study was carried out by Goldberg and Pavcnik,(2004) "The effects of the Colombian trade liberalization on urban poverty", *NBER,* paper presented at the NBER Globalization and Poverty Conference

[108]Goldberg and Pavcnik (2004) "Trade, inequality, and poverty: what do we know? Evidence from recent trade liberalization episodes in developing countries", *NBER/CEPR,* 5

[109] Ibid

operation of general equilibrium effects, the potential effects of lower tariffs on the prices of consumer goods, and the potential impact of free trade on growth" (Goldberg and Pavcnik 2004: 27).

4.6.3 Concluding remarks

The two studies above discussed, reached different results. While the trade reforms in Vietnam have produced positive results for the poor people reducing poverty by almost the half, Colombia's experience is completely different. Poverty decreased but, not due to the trade liberalization process. This shows the unpredictability of trade liberalization. In some countries it induces growth affecting directly poor people, in others the effects seems to be adverse. The argument of complementary policies and choice of priorities which should articulate with national development policies might be important.

Chapter V

Market Access and Policy reforms

This chapter discusses market access in agriculture, industrial and services sectors, including market through preferential arrangements, and policy reforms.

5.1 Market access

International experience shows that access to international markets is very important for developing countries in alleviating poverty. The Asian Tigers have dramatically lowered the number of poor households through a rapid economic growth via large exports[110].
Estimations from Oxfam (2002:51) indicate that in mid-1970s, in East Asia the levels of extreme poverty was very high, six out of ten people were living on $1 dollar a day. Due to the exports extreme poverty has been reduced from 720 million people to 278 million. In addition to that, the average incomes had grown for more than five percent a year in per capita in 1980s and 1990s. And in China the improvements of living standards have increased and poverty declined from 64 percent to 17 percent, since 1980s[111].

Facts have shown that exports had greatly contributed for poverty alleviation in East Asia, mostly through the need of labour-intensive goods manufactured, which as a consequence have improved the demand of labour and the increase of wages. Exports have also helped to increase foreign exchange for imports of inputs and technologies needed to develop their economy[112].

Improving access to international markets implies that countries need to reduce tariffs and all other barriers towards a free trade situation. The Uruguay Round have urged countries to transform non tariff barriers into "tarrification" as to make the

[110] Oxfam (2002), 51-52

[111]UNCTAD XI (2004) "Trade and poverty: a development perspective", www.unctadxii.org, press room.

[112]Oxfam, (2002) *Rigged Rules and Double Standards: trade, globalization and the fight against poverty*, Report, 51

process more transparent and be able to reduce tariffs on the "reasonable levels" and keep the levels of access already established[113].

Despite efforts to facilitate market access for developing countries, through special and preferential arrangements, key sectors as agriculture products, textiles and clothing still face barriers in OECD market.[114] Tariffs are still an important hindrance for international trade and the side-effect of it is the distortion for competitiveness and economic development.[115]

5.1.1 Agriculture and poverty

Tariff peaks in the so-called "Quad" (Canada, Japan, EU and US) are mostly directed towards sectors where the poverty reduction effects could be strong in the exporting countries. These sectors are agriculture, food products and textiles and clothing, and footwear[116]. For instance tariffs on agriculture products were over 15 percent in developed countries[117].

Theoretically, many developing countries have a comparative advantage in agriculture, because they have plenty of land labour and natural resources[118]. World Bank estimation is that around 70 percent of the poor lives in rural areas and agriculture is their main source of income. In addition to that, one quarter of developing countries GDP is generated by agriculture products, while for developed countries agriculture accounts only for about 2 percent of GDP.[119]

In this context, it cannot be denied that agriculture is the main tool for development, the generator of welfare and poverty reduction. The subsidies given to farmers in rich countries destroy the hope of poor farmers in developing countries, turning "agricultural trade policies the most costly of all goods"[120].

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[113]Ingco and Kandiero (2003) "Agriculture, trade and the WTO in South Asia", WB, 2

[114]Lippoldt (2001) "Market access: a priority for development", *OECD Observer*, 51

[115]Acharya and Daly (2004), 11

[116]IMF and WB staffs (2001), 20

[117]Bannister and Thugge (2001), 25

[118]FAO (2003)*, Trade Reforms and Food Security; Conceptualizing the Linkages,* 45

[119]Archarya and Daly (2004), 19

[120]Anderson (2004) "Agricultural trade reform and poverty reduction in developing countries", *WB*, WP3396, 3

Acharya and Daly (2004:14) have estimated that if the products facing tariff peaks today were subject to duty-free, increased exports by the LDCs to OECD markets, would be about 30 – 60 percent or would generate profits of about US$ 2.5 billion[121]. Thus, exports of agricultural products could be very important for developing countries. The industrialized countries resistance in providing market access to developing countries, while maintaining high tariffs and large subsidies to its own agriculture sector, hinders the developing countries economic development provoking a loss of about US$19.8 billion per annum, alike to 40 percent of the assistance aid for development assigned to developing countries in 1998[122].

Take the sugar sector as an example. The subsidies in the European Union in the sugar sector is alone about 2.7 billion Euro per year benefiting European farmers and at the same time endangering developing country farmers by excluding low-cost imports of tropical sugar.[123] According to Elobid and Beghin (2004), the sugar market in general is highly distorted; however, it is much more distorted in OECD markets. Tariffs rate quotas and tariffs rate quotas schemes have been used to impede the entrance of sugar from other countries through exorbitant tariffs[124]. Other sectors are affected as well. Tariff peaks in the US are concentrated in 300 individual products, being the majority on textiles and clothing. This account for about "90 percent of the $1 billion annually in US imports from the poorest countries".[125] Furthermore, US subsidies to the cotton sector are around three times bigger than the US foreign aid to Africa. As a result the world cotton prices have been depressed by around 10-20 percent, diminishing the earnings of poor farmers in developing countries[126]

Even among developing countries themselves the market is characterised by high barriers in agriculture as well as industrial products[127]. The average tariff in

[121] Acharya and Daly, (2004), 14

[122] WB (2000/2001) WDR

[123] IMFstaff (2001) "Global trade liberalization and the developing countries", *IMF*, 01/08

[124] Elobeid and Beghin (2004) "Multilateral trade and agricultural policy reforms in sugar markets", working paper 04-/356

[125] IMFstaff (2001) "Global trade liberalization and the developing countries", *IMF*, 01/08

[126] WB (2004) *Global Economic Prospects: realizing the development promise of the Doha Agenda*, 17

[127] Lankes (2002) "Market access for developing countries", *Finance Development –IMF,* Vol.39, N.3

developing countries is around 14 percent, in LDCs about 17.9 percent.[128] This means, trade among south-south is very restricted. In fact middle-income economies are almost having the same policies of protectionism as those of developed countries[129].

Protection of European and American farmers through prevalence of trade barriers and subsidies in the agricultural sector in developed countries make it difficult for developing countries to reduce poverty through trade. Increased trade from trade liberalization under a multilateral system would result in gains for each country member. The argument behind trade liberalization is that trade constitute a strong instrument for poverty alleviation. However, the scenario given by industrialized countries in subsidies issue shows that there is no willingness in making the multilateral system effective for all members.

Market access is relevant from perspective of the poor people, thus would contribute to increase the capacity to tackle trade for development and poverty reduction. Furthermore, for countries that rely on agriculture, market access for agricultural products is a matter of surviving for the poorest.

The cases of China and East Asia discussed above shows that poverty can be significantly reduced through trade, i.e., market access.
Elimination of trade barriers under multilateral system would generate from $250 billion to $620 billion, whereof one-third to one-half of this would be yielded by developing countries[130].

One alternative to improve market access for developing countries might be through preferences schemes.

[128]Ibid

[129] IBRD/WB, (2005)*Global Agricultural Trade and Developing Countries,* 52

[130]Lankes(2002), "Market access for developing countries", *Finance Development –IMF*, Vol.39, N.3

5.1.2. Market access through GSP

Raul Prebisch, general secretary of UNCTAD is the foremost promoter of generalized system of preferences. He was the one arguing that the MFN principle was unfair for developing countries, due to the uneven level of economic development among the countries[131].

Under these S&DTs industrialized countries have approved legislations making concessions or duty-free access for LDCs, for almost all products. The Americans signed AGOA, in May 2000, EU with Everything but Arms (EBA) in March 2001, New Zealand in July 2001, Norway by 2002 and Australia in July 2003.[132] All these arrangements aim to give market access in a preferential scheme, in which developing countries do not need to give the same treatment to developed countries.

However, the scheme has many constraints and therefore the results are very modest and less than those expected, mainly because:

1- Key products for developing countries, in which they have comparative advantage, are not incorporated in the scheme or they are very limited because of their "sensitiveness"[133] . The reason behind the reluctance to liberalize these sectors seems to be related to lobbies and opposition encountered in domestic ground by developed countries and due to the fragile bargaining of developing countries in reciprocal bases[134].

2- Sanitary and phytosanitary measures is an Achilles' heel for developing countries, since they constitute a strong barrier for developing country exporters. The required standards are very high and developing countries have not yet adequate technology to respond to this. In addition financial resources are needed to fulfil all safety sanitary regulations imposed by developed countries[135]. All these requirements add costs of exporting and therefore discriminates poor and small farms[136];

[131]Anderson, (2004) "Agricultural trade reform and poverty reduction: implications for Sub-Saharan Africa", *UN,* Study Series N. 22, 19

[132]Acharya and Daly, (2004),16

[133]Ibid

[134]WB (2004), 209

[135]Bardhan (2003) "Globalization and the limits to poverty alleviation", 6

[136] McCulloch, Winters and Cirera (2001), *Trade Liberalization and Poverty: A Handbook*, 183

For example, the implementation of aflotoxin (a substance that may cause liver cancer) standards would diminish the volume of African export of cereals, dried fruits and nuts to Europe by around 64 percent a year, which correspond to about US$670 million[137]. With the increment of rigorous standards demanded by consumer groups, the tendency of developed countries is to squeeze sanitary and phytosanitary measures capriciously, making the process very complex and less transparent and with a lot of exemptions and economic and non economic conditional ties, which tend to reduce the gains[138]. Furthermore, it suggests that with advanced technology, industrial countries have improved their inspection capacity, which enables them to back continuously more restrictive sanitary and phytosanitary measures[139]. In fact at this stage developing countries do not have capacity not only for upgrading their standards, in order to enable their exports to enter into developed market, but also capacity to impose the same standards to other partners. While these measures are important for health prevention, they do not seem to take into consideration the significance of the real challenge for developing countries[140].

3- Furthermore, there is no security in the preferences scheme. The use of qualificative graduation implies that a country can loose its position in the scheme, when the country reach the levels considered acceptable. For example under AGOA, United States has a right to remove a certain product from the preference scheme if the export value of that product amounts to more than $100 million per annum or in the case of any possible damage to their national industry. In the case of EU, preference to European market can be excluded or suspended if there are possibilities of threats to provoke problems for the European producers[141]. EU has a list of what they consider sensitive products, which are for example, bananas, rice, sugar, manioc and beef. The sensitivity comes, because those are products where developing countries are very competitive, and this might press local producers, in case of additional import liberalization. In this regarding, the products classified as sensitive might be phased out from preferences[142].

[137]IMF and WB (2001), 30

[138]IMF staff (2001) "Global trade liberalization and the developing countries", *IMF*, 01/08

[139]North-South Institute-editor (2004), *The Reality of Trade: The WTO and Developing Countries,* 11-12

[140] McCulloch, Winters and Cirera (2001), 183

[141]WB (2004), 209

[142]North-South Institute –editor (2004), *The Reality of Trade: The WTO and Developing Countries*, 33

4- It is argued that the preferences ties developing countries and diminish their capacity as a group to bargain for more market access in developed countries under multilateral framework (MFN basis)[143].

Based on this, one can say that market access has not improved much, even with preferential arrangements. In the words of Millennium project, “rich countries have used preferences to divide developing countries and promote their narrower regional, sectoral, and political objectives, often establishing complicated regulations that exclude exports from otherwise eligible countries”[144]. Indeed, preferences given by developed countries are not on products that developing countries have the greatest potential to produce[145].

5.1.3 Market access in services

General agreement on Trade in Services (GATS), Article I, defines trade in services as the supply of a service:

a) from a territory of one Member into the territory of any other Member- cross border supply, correspond to mode 1, for example telephone calls;

b) in the territory of one Member to the service consumer of any other Member – consumption abroad, known as mode 2, eg tourism;

c) by a service supplier of one Member, through presence of natural persons of a Member in the territory of any other Member- commercial presence, mode 3, eg foreign banks operating in a country;

d) by a service supplier of one Member, through presence of natural persons of a Member in the territory of any other Member, known as mode 4, eg, consultants, fashion models[146]. The agreement on services, contrarily to other WTO agreements is friendlier to the countries because, it does not determine the models and periods in which countries should give access to their markets in services. GATS leaves the option to country members to take on the liberalization process in their own

[143]Anderson, (2004) ”Agricultural trade reform and poverty reduction in developing countries”, *WB,* 13

[144]Millennium project (2005), 217

[145]WB (2004), 209

[146]See GATS Agreement in WTO (2002) The Legal texts, *WTO*

rhythm[147]. However, the agreement is ruled by the same principles, MFN- GATS, Article II, which means one favour given to any Member country should be extended to other partners, in equal treatment- and national treatment foreseen in GATS Article XVII indicating that foreign companies, services providers should, within the territory be treated equally as domestic or national services providers/suppliers. Like other WTO agreements, in the GATS countries may use safeguard measures in case of problems with balance of payment, to restrict trade in services, including payments and transfers transactions[148].

The services sector accounts for two-thirds of value -added and employment in developed countries and is around half in the developing countries. In addition services tend to grow more rapidly than other sectors of trade, for instance, since 1988 exports in this sector have been generating about US$ 1.5 trillion annually[149]. The share of developing countries in global exports of services is gradually growing. In 2002 their share was 23.5 percent comparatively to 19 percent in 1990. Meanwhile, the gross of cross border trade services is still taken by developed countries[150].

Services, like transport and distribution, education and health, banking and finance can be of great benefits for developing countries, particularly for competitive manufacturing sector and in general for social development[151].

However, as indicated by Stephenson (1999), liberalization of services is quite challenging, because barriers in services, differently from goods are based on national legislation and administrative practices. Therefore, it makes them more difficult and less clear than tariffs and quotas[152]. These barriers are there to impede the competition between national and foreign suppliers, by protecting domestic companies. Sometimes the protection is in form of "entry fee payment" or an obligation to market share restriction[153].

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[147]See GATS Article XVI, part III, WTO legal texts

[148]See GATS Article XII, part II, WTO legal texts

[149]Lehmann, Tamirisa and Wieczorek (2003) "International trade in services: implications for the IMF", *IMF*, discussion paper 03/6

[150]Braga and Brokhaug (2005) "Services and the Doha development agenda", *www.cphg.org*, 3

[151]Lehmann, Tamirisa and Wieczorek (2003)

[152]Stephenson (1999) "Approaches to services liberalization by developing countries", *www.sice.oas.org*

[153]Hoekman and Braga, (1997) "Protection and trade in services", Policy Research WP 1747, 5

Openness of trade in services implies the removal of all impediments that restricts market access to foreign competition, for instance, regulations prohibiting foreign investment, regulations that discriminate between foreign and national service and other regulations that constrain market access, which do not do more than distorting international trade[154] and application of WTO principles, i.e. non discrimination between domestic and foreign services providers. Furthermore, if any gains are to be taken from services sector, there is a need to define solid domestic regulations comprehending prudential regulations in financial and professional services and pro-competitive regulation in network services universe[155].

Trade liberalization in services is still encountering resistance for market access in industrial and developing countries. Developing countries resistance is based on the argument that service liberalization would only benefit developed countries that have capital and technology, and threaten developing countries[156]. The reluctance of developed countries is mainly in mode 4, labour mobility.

Truly, all WTO country members can take advantage from liberalising services area; developed countries might have advantage in areas, which are not very beneficial for developing countries. However, developing countries also have a comparative advantage in some sectors that would contribute to poverty alleviation, if the countries were willing to open the market. Tourism is one example of a service in which developing countries have a comparative advantage and they also have the capacity to sell the service effectively.[157] India is an example of developing country that managed to take advantage in sectors with intensive human capital application, by attracting foreign investment in information technology (IT) and thus, become a net exporter of software services[158]. Freeing trade in services, especially in e-commerce and information technology could bring technology; improve management skills and know-how to developing countries.

However, developing countries see liberalization in services, mode 4, and temporary

[154]Stephenson (1999) "Approaches to services liberalization by developing countries" www.sice.oas.org,

[155]Millennium project (2004), 78

[156]Hodge (2002) "Liberalization of trade in services in developing countries" *WB*, 221 at 234, 222

[157]Hodge (2002), "Liberalization of trade in services in developing countries" *WB*, 221 at 234, 222

[158]Hodge (2002), 224

movement of natural persons as their key for obtaining great benefits and generally alleviate poverty, therefore they demand under the multilateral framework, for more liberalization in this sector, from developed countries. Progress in this mode is reported to be small, accounting for only 2 percent of the total value of trade in services[159]. While developing countries interest in mode 4 relates to movement of low-skilled, labour-intensive people, at the moment mode 4 is only opened for intra corporate transferees, which are linked to foreign direct investment, accounting for about 40 percent; and 50 percent of the compromises comprehend other group of qualified skills, namely executives, managers and specialists and business visitors. These facts show that until now, openness in mode 4 is greatly benefiting only industrial countries[160].

Reasons for resistance in opening services in mode 4, labour mobility is because governments from these countries are not willing to commit to employment in which requirements varies with cyclical conditions and because most of these countries face problems of integrating immigrants that already exist into their labour market (Braga and Brokhaug 2005:5). Another reason is the fact that liberalization on labour mobility is mainly made in bilateral schemes, with neighbour countries or at regional level (WB 2004:150).

Furthermore, liberalization under multilateral system should be based on MFN principle, meaning that if a country decides to open mode 4, this should be benefiting all trade partners under this system.

Additional, liberalization in mode 4 (temporary services supply such as construction) could be one of the sectors that developing countries would take advantage from industrialised countries[161]. Since studies have indicated that the age distribution in the population in industrial countries is uneven (more elderly than young), education and training levels are very high and therefore, low-skilled workers are in increasing demand in areas such as health, restaurants, hotels, and construction, which still unfulfilled[162].

[159]WB (2004),144

[160]Ibid

[161]Geoffrey and Thugge, (2001), 26

[162]Sands (2004) “Temporary movement of labour fuels GATS debates”, *MIS*

Mobility of natural persons might help to decrease burden on labour markets and wages caused by unemployment. In that sense, this can be a key for solving unemployment in developing countries. By working abroad, workers may accrue knowledge and new skills from the host country that might help economically and for development in their home country[163]. Lehmann, Tamirisa and Wieczorek (2003:9) estimate that significant benefits including poverty reduction would occur in favour of developing countries, if liberalization on mode 4, temporary mobility would include low-skilled workers. This gains would be, according to recent estimations about $6 trillion in the period between 2005 and 2015[164].

5.1.4 Market access in non-agricultural products (NAMA)

Since GATT to WTO, significant progresses in tariff reduction on non-agricultural products (NAMA) have been made. The average tariffs in industrial goods have fallen from around 40 percent in 1947 to 4.7 percent, - based on MFN principle -, by the end of the Uruguay Round[165]. However, remaining tariffs are still a hindrance for international trade and still creating distortions and inefficiency in economic development.

In regard to developing countries, while in the 1960s their manufactured exports was about one-quarter, this scenario changed dramatically in 1980s and the participation of countries in industrial products increased to about one-third[166]. Indeed developing countries contribution in world economy, in 2000, on manufactures exports was 27 percent. Despite the increased performance of developing countries in manufactures exports, the piece shared by LDC's on this 27 percent is very low[167].

NAMA products comprehend a diversity which can include all manufactured goods from textiles, clothing and footwear to steel and aluminium, fish and fish products, forest products, chemicals, and minerals.

[163]WTO (2004), *Exploring the Linkage between the Domestic Policy Environment and International Trade*, 47

[164]Sands (2004) "Temporary movement of labour fuels GATS debates", *MIS*

[165]Ministry of Foreign Affairs and Trade-NZ "WTO and non agricultural products negotiations", WP N.3

[166]Hertel, Hoekman and Martin, (2002) "Developing countries and a new round of WTO negotiations" *WB*, Vol.17, N.1, 113 at 140, 120

[167]North-South Institute-editor (2004), *The Reality of Trade: the WTO and Developing Countries*, 8

During Uruguay Round, country Members agreed to improve access to markets in this sector, by cutting their bound tariffs by at least one-third. The average of tariffs from developing countries and economies in transaction were to be reduced for around 25-30 percent and for developed countries by 40 percent. These cuts were supposed to be done in equal forms and in instalments until 1999 (WTO progress report 2002). This would take down the tariffs in industrial products by 3 percent – from 15.3 to 12.3 percent for developing countries, while for industrial countries would be by 3.5 percent – from 6.3 to 3.8 percent[168].

Despite the compromises in Uruguay Round, the attempt of removing barriers for market access on NAMA, under multilateral framework had little significant impact, as well as the removal of non-tariff barriers and quantitative restrictions. Indeed during the Doha Ministerial Conference, members were willing once again to make substantial progresses by negotiating the ideal formula to cut tariffs in NAMA products.

In the Doha Mandate members agreed that negotiations on market access for non-agricultural products should focus on reduction or elimination of tariffs peaks, high tariffs and tariff escalation. It should also be focused on reduction of non-tariff barriers, especially on products of export interest to developing countries. The commitments should take into account special and differential treatment as part of the modalities[169].

However, before any tariffs are cut, an ideal formula approach for the tariffs reduction had to be agreed upon among members, therefore, the negotiations Group had to continue its work "on a non-linear formula applied on a line-by-line basis which shall take fully into account the special needs and interests of developing and least-developed country participants, including through less than full reciprocity in reduction commitments"[170].

Substantial liberalization through reduction of tariffs has been undertaken in this sector, most of them not under multilateral framework, but unilaterally as a result of structural and adjustment programmes under the auspices of IMF and World

[168]WTO (2002) "The WTO negotiations on market access for non-agricultural products", *WTO*, Progress Report, 1

[169] See Doha Development Agenda – July package (Annex B) at www.wto.org

[170] Ibid

Bank[171].

This liberalization process has mostly been undertaken by developing countries. In industrial countries protection is more disperse with concentration of tariff peaks on products of exports' interest of poor countries, namely on textiles, clothing and leather products, while, some developing countries use ceiling bindings, in order to have manoeuvre space[172]. In industrialized countries the MFN rates on NAMA products are almost the same as their MFN bound rates. This situation is contrasting with what can be found in developing countries where the applied MFN rates are 30 percent lower than MFN bound rates[173].

Most of the programmes used to stimulate industrialization have put ahead profits instead of wages and bias over employment and labour, allowing inequalities in the incomes and worsening the issue of employment. All these resulting in demoralizing traditional export industries, like textile industry (Buffie 2001:69).

5.1.4.1 Experiences of the liberalization of industrial sector in some developing countries

Liberalization in industrial sector had brought some concerns to developing countries, due the diverged results achieved in this sector.

According to Buffie (2001:190) liberalization in 1990s brought loss of jobs in "formal sector" and had also significantly worsened underemployment in countries like Peru, Nicaragua, Ecuador and Brazil. However, this experience was not only in Latin America, but also in Africa, specifically in Sub-Saharan countries. Senegal had a bad experience with its liberalization process in which a significant part of jobs were lost after a two-stage trade liberalization programme, which decreased the average rate of barriers from 165 percent in 1985 to 90 percent in 1988. By 1990, one-third of manufacturing jobs were extinguished[174].

In Kenya, after the introduction of major liberalization programme in 1993, beverage,

[171]Millennium project (2004), 16

[172]WTO (2002), 2

[173]Laird, Cordoba and Vanzetti (2003) "Market access for non-agricultural products" draft paper

[174] Buffie (2001), 190-191

tobacco, textiles, sugar, leather, cement and glass sectors had problems to survive competition imposed by imports. In the period 1993-97 the growth rate of output fell to 2.6 percent, and employment in manufactures to 2.2 percent[175].

Ghana had experienced positive results of its liberalization n 1983. However, when it was expanded to the consumer imports, employment decreased from 78,700 in 1987 to 28,000 in 1993 (Buffie 2001:191).

In Cote d'Ivoire, the reduction of tariffs by 40 percent in 1986 provoked almost a destruction of chemical, textile, shoe and automobile assembly sector (Buffie 2001: 191).

5.1.4.2 Negotiations for further reductions

Accordingly, Doha negotiations would further tariffs cuts of all types: tariff peaks, tariff escalation, as well as non tariff barriers and quantitative restrictions, in particular on products of export interest to developing countries. However, further elimination of tariffs is raising some concerns for developing countries, such as:

- Further tariffs reduction would reflect negatively in government incomes, (for example between 1999-2001 imported duties generated about 15 percent of government revenues)[176].
- Developing countries are still far from being strong enough to compete with international partners and liberalization would also decrease preferential access margins compared to other developing countries competitors[177]. For example with the end of quotas on textiles and clothes, China will take the command of this sector in the international market, due its low labour costs, low wages, and efficient productivity[178]. Regarding the fear for revenue losses, the way out might be to design adequate policies as to compensate these losses and be able to proceed with public programmes. Compensation can be through taxes on income, profits, capital gains, property, labour, consumption or non-tax revenues[179].

Consensus on the ideal formula for tariffs elimination has to be found as to allow

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[175] Ibid

[176] ICTSD and IISD, (2003) "Market access for non-agricultural products", *ICTSD*, Vol. 1, N.4 of 13 Doha round briefing series

[177] Ibid

[178] Kwa (1998) ,19

[179] Laird, Cordoba and Vanzetti, (2003) "Market access for non-agricultural products", draft paper

further liberalization on non agricultural products. There are great gains to be generated for both -developed and developing countries. From poverty reduction point of view, NAMA market access to developing countries is also very important, especially for areas like clothing and textiles.

To conclude, NAMA market access is still very restricted and faces the same constraints as those encountered in agricultural products.

5.1.5 Exploring the south- south market

It was discussed in this sector (market access) that the resistance from developed countries to remove barriers and open markets is a way of condemning poor people. It was also said that if there is no enlargement on market access, reduction of poverty will not be possible. However, while there is this complaining about prevalence of barriers, developing countries have also very high tariffs and market access among them is much protected, thus constraining eventual gains that would occur from trade liberalization in these countries. As an example, South Asian tariffs on imported goods from developing countries are five times higher than those levied by industrial countries. Furthermore, 70 percent of the tariffs burden carried by developing countries in their exports is imposed by other developing countries[180]. Despite the existence of strong barriers among developing countries, trade among these countries is gradually increasing. One example of this is the exports on manufactured products, which from 58 percent of total exports in 1990 rose to 64 percent in 2001[181]. If developing countries want to collect some benefits under the multilateral system, they should liberalize their own market[182]. Moreover, if the countries are to achieve the MDGs goals in terms of poverty reduction, trade among developing countries should seriously be considered, because exploitation of south-south markets associated with liberalization of their own market can bring considerable gains[183]. The role of market access in poverty reduction is of extreme

[180]Department of Foreign Affairs Australian, (2004), “South-South Trade: Winning from Liberalization”, 4
[181]Ibid
[182]Anderson,(2004) ”Agricultural trade reform and poverty reduction in developing countries”, *WB*, WP3396,3
[183]WB (2004), 76

importance, as shown by the East Asian example, earlier discussed in this chapter. Aryeetey, Weder and others (1998) pointed out that "international economic interaction" is featured by cleavages globalization, i.e., trade is centralized in regional groups. In that sense neighbouring trade should be seen as priority for economic generation and poverty reduction.

5.1.6 The significance of reciprocity in market access

The principle of WTO for market access negotiation is based on the reciprocity principle. The meaning of this is that a country will get access to a market of a certain country, by giving in exchange also market access in its country. The question in that case is that countries negotiations are based on their economic interest, i.e., they will give access to their market if they have something to gain from another country. In this concern, small economies, specifically LDC's might not be able to attract other trade negotiators[184]. Mattoo and Subramanian's (2004:20) suggestion is that due to the size of the countries it is difficult for them to influence the removal of barriers and enlarge market access beyond the offers from larger countries. Furthermore, the issue of a cotton subsidy between US and West African Countries is a clear evidence of unbalanced WTO system of negotiations. It was impossible for West African Countries to offer more concessions, which would satisfy US and make them to decrease subsidies. In that sense countries with "small markets" may be handicapped in reciprocity principle, due to the economic capacity to attract other trade negotiators[185]. If one considers this argument, one might first conclude that the way to get market access for small economies will be through non-reciprocity base, i.e., preference arrangements. But, as indicated in this chapter, preferences are not producing the expected results. And countries can not rely only on the GSP, because this is an exception to MFN and is not supposed to last forever. Secondly, among developing countries, only those countries, which are economically powerful, with diversity of products or products of developed countries interest might be the ones entitled to negotiate based on reciprocity principle. In that case, the issue of imbalance in WTO system comes up again.

[184]Mattoo and Subramanian, (2004) "The WTO and the poorest countries: the stark reality", *IMF*, Working Paper 04/81, 10

[185]Mattoo and Subramanian (2004), 10

5.1.7 The way out

The majority of developing countries are faced with high levels of extreme poverty and therefore, many strategical programmes have been designed to lift the lives of poor people. On the other hand, trade liberalization has been propagated as a powerful tool for economic growth and poverty alleviation. Under the multilateral framework, WTO members have committed themselves to expand market access for each other, particularly access to industrial markets for developing countries exports.

Free trade is not only based on domestic reforms, and the idea of opening unilaterally without reciprocity from other countries, in that case industrial countries, diminish the initiatives of poverty reduction. Conversely, it is not enough to recognize the needs of developing countries, its necessary pursue the promises made under Doha ministerial conference. Without market access, developing countries will not be able to export products that can generate income and welfare to the poor. Exports in agriculture for example, had not increased significantly, on the contrary they had decreased from almost half in 1965 to over 10 percent in 1995 and the expectations is that by 2005 will be falling further[186].

As of today, exports from developing countries faces barriers in "sensitive" products. Eg tariffs on manufactured products from these countries are higher (five times) comparatively to the tariffs on manufactured products from other industrialized countries[187]. Least developed countries still count on agriculture and labour-intensive manufactures, which is in total about 70 percent of their exports. As well known most of LDC's (33 0f 49) are located in Africa, and this part of the world is reported with negative performance in terms of contribution in the world economy in manufacture sector, being 24.6 percent of the total[188].

The multilateral framework is meant to harmonize international trade, but the application of same regulations for asymmetric countries is a way of worsening the liaison among trade partners and crushes their possibilities for direct development

[186]Hertel, Anderson, Francois and Martin (2000) "Agriculture and non-agriculture liberalization in the millennium round", *Centre for Economics Studies*, Discussion paper 0016, 2

[187]WB (2004), 64

[188]North-South Institute-editor (2004)*The Reality of Trade: the WTO and Developing Countries*, 8

issues[189] .

The change of the path of these policies would enable the poor nations to see the light at the end of the tunnel[190]. From a poverty alleviation angle, it is crucial that developing countries have augmented market access, which ideally would be better in reciprocity bases[191]. Furthermore, improvement of market access is crucial for developing countries to enable them to achieve levels of development on which they "can compete on an equal footing"[192]. Furthermore, market access for agricultural products has a direct effect on poverty alleviation because; the poor live mainly in rural areas and they are economically dependent on agriculture[193].

While some developing countries, specifically LDC's are still relying on agriculture and intensive labour, the other group of developing countries, i.e., the middle-income ones, have redirected their exports to another step, processed food, as a way to penetrate in industrialized markets and skip all complicated sps requirements[194]. Most of the developing countries with good performance in exports are those that moved from primary commodities to processed goods.

In conclusion, market access is still far from the ideal with several barriers that constrain the flow of trade. In spite of access through preferential schemes, in general, market access is still poor. In this whole scenario not only developing countries are deprived from benefits that would occur for expanding market access in High-income countries. With the removal of all impediments including trade distortions, developed countries would gain around $63 billion a year only for agricultural distortions (WB 2000/2001).

5.2 Trade Reform

[189]UNDP (2003) *Making Global Trade Work for People,* 69

[190]FAO (2003) *Trade Reforms and Food Security; Conceptualizing the Linkages,* 42

[191]Hoekman (2002)"Developing countries and the political economy of the trading system", UNU*/WIDER*, discussion paper N.126, 3

[192]UNDP (2003), 69

[193] McCulloch, Winters and Cirera (2001), Trade *Liberalization and Poverty: A Handbook*, 12

[194]Hertel, Anderson, Francois and Martin (2000)

Protectionism has been seen as necessary to protect infant industry, allowing companies, time to develop and stabilize them, before entering in competition[195].
Most developing economies are seen as very protective, due to the stage of their industries. However, protectionism is not a developing countries phenomenon only; historically rich countries were protective of their industry until they became strong enough to compete with foreign companies. For example, USA from 1930 until the end of the Second World War had the highest customs duties on imported industrial products, as well as in Britain where the tariffs were prohibitive on imported finished products[196]. While these countries were in a very early stage of their industry, their economies were also closed. These countries have developed behind closed doors and the "doors were only open" (removal of barriers), when they had a strong and well stabilized industry (UNDP 2003:29). The argument used by developing countries is not different from the one defended by rich countries, when these were in early stage of development, i.e. mainly the protection of manufacturing industries[197] and the collection of tax revenue through customs.

Liberalising trade will provoke the loss of developing countries revenues sources and exposure of their national industry. The fears of developing countries are due to their economic and industrial vulnerability. The loss of financial source will require adequate and punctual policies, to minimise this loss and be able to continue with domestic issues.

Apart of these two aspects that could be seen as positive by governments, protectionism has also a negative side, firstly the allocation of excess resources into inefficient manufacturing; secondly it deprives consumers from choosing the products, based on variety, quantity and price[198].
Trade liberalisation can not be managed without reforming the policies as to facilitate trade and create an atmosphere of reliability for new business and investments[199] to the extent that policies are relevant elements to stimulate international

[195]FAO (2003)*Trade Reforms and Food Security; Conceptualizing the Linkages,* 16

[196]ATPC (2004) "Trade liberalization and development: lessons for Africa", *Economic Commission for Africa*, Work in Progress N.6, 31

[197]FAO (2003), 16

[198]Ibid

[199]Winters, (2002) "Trade policies for poverty alleviation", *WB,* 28 at 37,35

competitiveness (FAT - Australia1999:7).

Domestic policy enactment is important to create dynamism and develop markets. In many developing countries, the rules for establishing a new business are very cumbersome and it takes months for the papers to be processed, for example in Angola it takes 14 days to regularize a firm and it costs more than 8 times the per capita income"[200], and in Turkey, Romania and Mozambique, the administrative costs can go up to US$ 5,000[201]. Bureaucracy like this is a big hindrance in a business environment because, instead of encouraging private sector investments into new business it acts as an impediment. The complexity of this regulations and lack of transparency also stimulates bribery and corruption. Corruption can negatively affect trade, due the uncertainty on the benefits resulting from economic activities (WTO 2004:17).

The issue of land ownership is another constraint for business and investments stimulation not only for foreign investment, but likewise for national farmers who would wish to use land as collateral to improve their business. In some developing countries, land is still state property. Moreover, to liberalize trade in an atmosphere completely surrounded by weak infrastructure, high costs of transport and cumbersome system of logistical services can not be expected to produce positive results[202]. In Uganda the cost of transport is equivalent to 24 percent of value added of coffee exports[203].

As a matter of fact, one of the WTO conditions is the harmonization of institutions and regulations which should be consistent with trade liberalisation. Many developing countries, due to the WTO requirements from World Bank or IMF had, under adjustments programmes, undergone deep reforms, aiming to boost growth and reduce poverty.[204]

Article XVIII of GATT 4(a)"...a contracting party, the economy of which can only

[200]Millennium project (2004) ,5

[201]Morisset and LumengaNeso, (2002)"Administrative barriers to foreign investment in developing countries", *WB*, Working Paper N.2848, 12

[202]ATPC (2004), 14

[203]FAO (2003), 48

[204]Oxfam (1999), 8

support low standards of living and is in early stages of development, shall be free to deviate temporarily from the previsions of the other articles of this agreement, as provided in section A,B and C of this article[205]." This allows for the use of safeguards measures to protect the so-called infant industry, if any negative impact is foreseen as to harm national industry, mainly those in a very early stage of growth, in due process of liberalization.

This provision has been criticized by economists with the argument that protection may induce to unproductive "rent-seeking behaviour" related to field for lobbies and corruption (WB 2004:220) Furthermore, problems of moral peril might be brought up, because the award of an industry in good progression is the elimination of protection.

Despite the reforms for free trade undertaken by many countries, protectionism is still high in both industrialized and less developed countries and this is not only on tariffs of ad valorem base, but also in the form non-tariffs barriers, quotas, specific duties and anti dumping duties[206]. While countries make efforts to reduce tariffs, measures related to barriers like quotas, anti dumping and other less transparent measures are increasingly used, mainly for labour-intensive products from developing countries[207]. Ironically, anti dumping cautions were foreseen to compensate anticompetitive behaviours, but it's becoming a trade constraint.

5.2.1 Reform at national level

Apart of measures related to the process of lowering tariffs barriers, developing countries might need to go very far in domestic reforms, as to benefit from trade liberalization. As previously discussed, in most developing economies the environment for free trade is not yet propitious, due *inter alia*, aspects related to weak infrastructure, rules and laws for business establishment and governance.

UNCTAD (2004:75) says one of the reasons why developing countries, in particular LDCs did not manage to integrate in world economy is, apart of the ceaseless

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[205]See WTO legal texts

[206]WB (2004), 64

[207]WB (2004), 64

market access barriers to the key exports products from developing countries; the lack of adequate governance institutional system and the absence of "productive capacities" to immediately counter to export opportunities.

To make liberalisation process effective, national development policies should be in articulation with global processes and disciplines, on the other hand it is also important to articulate policies in different sectors of the global economy, which might have an impact on the development process of developing countries[208].

Domestically, reforms should cover approval of prudential and competition laws; build up national capacity that is able to define trade policies; update customs services and institutions to facilitate trade[209]. Reforms should also include "redistributive reforms to national poverty reduction strategy". This means, land allocation, prioritizing public expenditure accordingly, take measures that help to reduce gender issues in local markets, put in place mechanisms for more transparency in the system, by overcoming corruption (Oxfam 2002:17).

Since liberalization is made under multilateral framework, the reforms to be carried out has to be in coherence with policies of other country members, i.e., country's economic policy should be in harmony with WTO policies, which include transparency in the laws and procedures related to trade- property rights-, non discrimination in the laws regarding industrial rules[210]. Reforms should also be extensive to customs valuation, sanitary and phytosanitary, as to comply with WTO requirements.
With liberalization, issues related to competition between domestic and foreign investors might arise, thus legal instruments should also be in place to guarantee sound competition. Competition law is defined as the rules and disciplines that control competition and the abuse of any firm that intend to hold dominant position[211].

As indicated by Nordström, trade reform might bring high costs to a country, due to

[208]UNCTAD (2004), 76

[209]Hoekman (2002), 3

[210]Rodrik, (2000) "Trade policy reform as institutional reform", *Harvard University,* 14

[211] Hoekman and Holmes (1999) "Competition policy, developing countries and the WTO, *WB*, 2

losses that might occur in due process of liberalization. Furthermore, during this course, poverty might be aggravated temporarily or in a longer time perspective. In this respect governments should have adequate policies in place which would help to correct the situation.

Furthermore, countries should also improve or build up safety nets to respond to crisis, if any. According to Bacchetta and Jansen (2003:34) most developing countries, if they have safety nets there are very inefficient. Macroeconomic crisis in Latin America and East Asia has proven these inadequacies.

For developing countries to be able to take any advantages of trade liberalization, reforms should include a complexity of policies covering sectors like infrastructure, transport, communications, market facilitation, good governance, social safety nets, among others[212].

5.2.2 Tariffs and Non-Tariffs Barriers (NTBs)

A tariff "is a tax placed on imported goods. These may be a percentage of the product's value or a set monetary amount known as specific tariff. It increases the price of imported good on the domestic market"[213]. Tariffs have three main functions:

1- It's the source of revenues to the governments;
2- They are used to protect national industry;
3- And they can be used as a remedy to overcome trade distortions created by firms or other trade partners, which result in injuring national industry[214].

The agreement on technical barriers to trade indicates that technical regulations should not be more restricted to trade than necessary to accomplish a legitimate goal. National security requirements; protection of human health or safety, among others are the legitimate objectives.

The ideal of multilateral framework is to have trade flowing between country members, without any kind of barriers. Despite the commitment in tariffs reduction, based on bound rates, made by countries, in the Uruguay Round, tariffs are still a

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[212] McCulloch, Winters and Cirera (2001), 11

[213] www.wikipedia.org/wiki/tariff

[214] WTO Major Trading Partners (2004), 236

strong barrier to international trade and a distortion component for free competition in economies of most WTO member countries[215]. For the good of development, and particularly for poverty reduction, countries should remove all impediments to trade. While tariff barriers tend to reduce gradually, non-tariff barriers, including quantitative restrictions, seasonal import restrictions, and rules of origin are increasing as protective measures, especially against developing countries exports (Oxfam 2002). In the Uruguay Round of negotiations, countries compromised to transform non-tariffs barriers into "tarrification" and at the same time to reduce tariff levels on average of 36 percent between 1995-2000 periods (North-South Institute –editor, 2004: 42).

In this regard, countries that still have high tariffs should prioritize the reduction of those barriers in order to facilitate trade. Furthermore, the simplification and transformation of NTBs in tariffs would help the trade process to become more transparent, besides making it easier for customs services. This in the end brings more gains, less corruption and less tariffs evasion[216].

Additionally, other constraints like quantitative restrictions on imports should not be used to avoid competition between imported foreign products and domestic products in the market. In principle, under WTO framework, quantitative restrictions should not be used, unless the problems of balance of payments arise. GATT Article XII states: "…any contracting party, in order to safeguard its external financial positions and its balance of payments, may restrict the quantity or value of merchandise permitted to be imported…" In addition the GATT Article XIII deals with non-discriminatory administration of quantitative restrictions as the legal basis for restricting imports to overcome the mentioned balance of payments problem.

Quantitative restrictions when used to give advantage the national products on the market creates more distortions in the trade flow and has a greater protective effect than tariffs barriers (WTO Major Trading Partners 2004:226). Furthermore, countries tend to use more quotas as protection than tariffs. But quotas can bring high costs, because it encourages private sector to use resources unwisely in competing for the

[215] Kwa (1998) , 5

[216] Hoekman, Michalopoulos, Schiff and Tarr (2001), 7

rents awarded by licence imports; and it permit companies in a certain industry to enlist in “oligopolistic prices”[217].

Nonetheless, despite the compromises, countries like United States have a large number of quotas which restrict developing countries access to textiles and clothing (the end of quotas is foreseen for 2005). Furthermore, anti-dumping duties are also another measure used as a barrier to trade. According to North-South Institute, the way the trade remedies are applied by US, for example, confer them protectionist constituent, apart of the motive defended on economic base. In the meanwhile about 234 cases of anti dumping have been undertaken against developing countries, since 1995 (Oxfam 2002.105).

5.2.3 OECD countries policy

Under the multilateral system, EU and US had made promises to improve their policies, by eliminating protectionism barriers, mainly in agriculture products. Reforms in agriculture will alleviate poverty in developing countries, particularly in rural areas, due the comparative advantage these countries have in this sector and the relevance of this sector on poor people income generation[218].

Despite the promises at Doha ministerial conference, the reforms carried out by industrial countries, were very modest and have not yielded significant impact on developing countries' farmers[219]. Most exports from developing countries are heavily protected in the OECD countries, through policies that allow use of subsidies. For instance, 60 to 80 percent of exports from Zimbabwe, Benin, Burkina Faso, Burundi, Uganda, Tanzania Rwanda and Chad comprehend products subsidised by industrial partners[220]. Furthermore, if there is a will in favour of pro-poor reforms then, rich countries should also reform their own policies through removal of distortion's subsidies, especially those related to commodities of significance for poor countries,

[217]Buffie, (2001)*Trade Policy in Developing Countries*, 32-33
[218]IBRD/WB, (2005), 3
[219]ATPC (2004) , 32
[220]Messerlin, (2004) “Forging a deal on agricultural trade reform: scenario paper”, Oxford, 3

such as sugar, cotton, rice, dairy products[221].

Protection in OECD market is creating huge costs for developing countries, due the size of the market, eg subsidies given by EU and US were about $ 4.4 billion in a market of $ 20 billion[222]. In US, agro-food sector is one of the biggest beneficiaries of subsidies. In year 2000 farmers in this sector received as direct assistance, about US$28 billion[223].

The EU sugar case (reference DS265, Ds283 and DS266) involving EU and Brazil is a good illustration of the subsidies regime used by developed countries. In this case, Brazil backed by Australia complained at WTO Dispute Settlement Body, with argument that EU subsidies were putting down world prices, by allowing high cost European sugar producers to “out -compete” more effectively than Brazilian and Australian producers. This resulting in loses for Brazilian industry, which were estimated to be around USD 900 million per annum[224]. Accordingly, the subsidies given to those farmers were far more than what EU committed in WTO, thus violating WTO rules, specifically, agriculture agreement. In fact the panel's finding was the existence “in prima facie” of payments provided by the government to the Europeans producers, in form of export subsidies, since 1995. And that the subsidies were not in consistency line with what they committed themselves under Articles 3.3 and 8 of the Agriculture Agreement[225].
The system of tariffs in OECD countries gives an indication of substantial tariff escalation, which in this regard the restrictions for market access for processed products (in more than one step) are heavier than for products in the first stage of processing. In Japan tariffs for finished processed goods face an average of 65 percent of MFN tariff and in EU of 24 percent[226]. In Canada for example, tariffs escalation for full processed food products is 12 times higher comparatively to the products in the first level of processing[227]. Tariff escalation happen when there is an increase of tariffs as the level of process of a certain product increases. In other

[221]WB (2004),17
[222]IBRD/WB, IBRD/WB, (2005), 3
[223]North-South Institute-editor (2004), 56
[224]ICTSD, (2003) “EU sugar”, *Trade News Digest*, vol.7, N. 26
[225]See www.wto.org/english/tratop-e/dispu-e/265-266-283 and ICRSD Trade News, Vol.7 N.26
[226]Hoekman (2002), 3
[227]WB (2000/2001) WDR

words developing countries pay for trying to improve the process level of their products as to avoid exporting them raw[228]. This type of tariffs can be very demoralizing for industries in developing countries[229].

UNCTAD XI (2004) says the argument that subsidies are to save farmers in developed countries is not producing the desirable results, because these subsidies are not helping poor peasants from the North and are damaging those from the South. Moreover, this protection is making poverty worse as well as affecting directly poverty reduction perspectives.

Significant reforms from OECD countries would create a positive dynamic in poor nations, especially regarding rural poverty[230] and would supplement the efforts made by developing countries in poverty alleviation. If no reforms are undertaken, poor people will be destined to live in poverty. This causes poor people to become poorer and threaten the employment rates of about 50 to 70 percent, in the less developed countries, since the majority of poor people have agriculture as the main income source (40 percent of LDCs GDP)[231].

5.3 Conclusion

Access to an international market is a "win-win situation" where both developing and industrial countries can collect gains. Developing countries should find ways to impose their participation in global economy, without creating a negative impact on their domestic economy and their balance of payments.

Chapter VI

[228] McCulloch, Winters and Cirera (2001), 178

[229] Ibid

[230] IBRD/WB (2005), 52

[231] Musserlin (2004) "Forging a deal on agricultural trade reform: scenario paper", *Oxford*, 1

Conclusions and recommendations

6.1 Lessons from successful liberalizations

As discussed in this paper not all countries that entered into the liberalization process have gained the expected benefits. African developing countries have been unsuccessful in the liberalization process. Among other reasons, inappropriate domestic policy regimes are seen as the key for the failure. And beyond the success cases of liberalization lay strategic policy reforms. In this section some key issues will be highlighted.

The Asian crisis brought up some relevant questions related to trade liberalization and its meaning for developing countries, particularly on how quickly they should liberalize their economies[232]. Asian countries that opted to quickly liberalize their economies became vulnerable, because they were not prepared to handle the risks that came together with openness (social welfare systems covering unemployment insurance and other services were not yet well developed) (Wintersteen 1999). Vulnerability arises when economies are not strong enough to compete on an open market and end up closing domestic industries with people losing their jobs. Therefore, the question is which of the models of openness to use: quick or gradual liberalization.

Khor (1999) says one of the reasons why trade liberalization did not bring positive results is the *modus operandi* of trade. Rapid trade liberalization contributed to enlarging the trade deficit in developing countries. Due to this quick liberalization, exports were significantly decreased and imports were increased.

Contrarily, gradual liberalization is indicated as being more acceptable, because it allows a paced and less costly adjustment process[233]. It can diminish the risk of reversing policies to avoid or minimize these costs. In order to avoid that, some countries entered into gradual and paced policy reforms process. Israel for example, carried out its liberalization in a much paced process, over a period of 25 years, due

[232]Wintersteen (1999) “Poverty, trade and development and the WTO”, *Washington university*

[233]Bachetta and Jansen (2003) “Adjusting to trade liberalization: the role of policy, institutions and WTO disciplines, *WTO*, 37

to concerns of adverse effects of reduction of tariffs on employment. India had the same worries, which is the reason why it also entered into a slow process (Buffie 2001:190). China and other East Asian countries are other examples already indicated in chapter IV.
In this sense, trade liberalization should be done carefully. Sequence, pace and phasing are aspects of extreme relevance, which should be taken into account, when designing a credible and sustainable trade reform[234].

In this gradual openness, as experiences have shown, countries should advance or prioritise export liberalization and import liberalization should be considered as a long period liberalization process. Here the hand of government might be needed to stimulate exports and spur inward investment. Integration entails several aspects of trade, investment, capital flows and technology. In that sense the “optimal” openness is not the same for each aspect of trade, which depends on the level of development of each specific market[235].

It is recognized that strengthening of Institutions is a *sine quo non* requirement for outward growth. Therefore, domestic institutional reform (updating/upgrading) plays an important role for trade liberalization success. Institutions, meaning not only physical infrastructure, but also rules and laws governing the behaviour of economic agents, politicians and bureaucrats should be more effective, transparent and beneficial for all[236].

Participation in the global economy is important, because as previously pointed out, no country has developed completely isolated, behind closed doors. However, integration brings risks to economies, especially small and fragile economies; and it can end with serious problems for a country. From the East Asian example, high risks of liberalization are specifically related to capital accounts, because of the huge size and “fluctuating nature of financial flows”[237].

6.2 Conclusions

[234]Aryeetey, Weder and others (1998) “Strengthening Africa's participation in the global economy, *UNU*
[235]Ibid
[236]Krueger (2005) “Tis not late to seek a new world: what globalization offers the poor” *IMF*
[237]Aryeetey, Weder and others (1998), “Strengthening Africa's participation in the global economy, *UNU*

It's difficult to reach a clear conclusion of the linkage between trade liberalization and poverty alleviation, due to the complexity of the process as pointed out by different researchers.
While some countries managed to significantly reduce poverty by opening their economies and reforming policies, other countries did not experience the same positive results and there are cases where poor people turn out becoming poorer. Reasons like internal infrastructure, logistics policies and governance are indicated as some of the impediments.

This gives hope that some gains might be possible to obtain from trade liberalization and that poor people to some extent might benefit from the process. However, it will be useful for countries to identify a priori strategic policies, which can allow poor people to benefit from liberalization and reduce vulnerability, because in the process of liberalization both losers and winners will arise.

In principal WTO as an institution recognize the existence of economic differences among its member countries. And because of these differences, in its objectives, WTO calls for attention to particular demands for developing countries. Despite the recognition of the particular need for developing countries to enable them to integrate in the global economy, issues of poverty alleviation are not yet handled in an appropriate way. Even if the linkage between trade and poverty reduction might be dubious, there is a belief that if adequate policies are in place and full access is granted to international markets for developing countries exports, poor people would greatly benefit and consequently poverty would be reduced.

WTO is meant to be a forum for equilibrium, therefore asymmetries should not be used to influence the system in favour of the strongest, and it should on the contrary be a reason for defining adequate policies that might help to reduce these asymmetries, which end up benefiting reduction of poverty.

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