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978-0-521-74530-7 - Trade and Poverty Reduction in the Asia-Pacific Region: Case Studies and Lessons from Low-Income Communities

Edited by Andrew L. Stoler, Jim Redden and Lee Ann Jackson

Excerpt

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## Introduction

JIM REDDEN\*

### Why this book?

International trade is one of the greatest sources of modern wealth. However, it can be challenging and disruptive, especially to poor people<sup>1</sup> who usually have very few resources and little capacity to cope with changes in the price of what they produce and consume. To share in higher global living standards, the poor must gain access to the benefits that international trade has to offer. But how?

There is a rich vein of academic analysis that deals with this question, much of it from a theoretical perspective. We wanted to contribute to an understanding of the ways in which governments and communities have dealt with trade as a practical challenge, especially in the Asia-Pacific region where approximately two thirds of the world's poor live.

Two years ago, we launched a project that has been jointly supported by the Australian Government's official aid agency, AusAID, and the World Trade Organisation (WTO) to investigate this complex trade-poverty relationship through a series of research papers and case studies. We decided to look beyond ideological debates about free or fair trade, to see what is happening on the ground in low-income communities across a range of Asia-Pacific countries. The accounts collected in this book provide the reader with a rich experience of the successes, the failures and the challenges of trade policy and its ability to contribute to sustainable development.

Although our main interest in this book is to record significant recent experiences and to allow you, the reader, to draw your own conclusions,

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<sup>1</sup> The expression 'poor people' is used in terms of those who are deprived of capital and income, for example people living on less than US\$1 per day. The term does not reflect on the cultural, social or spiritual wealth of those considered 'economically poor'.

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we bring a particular analytical perspective to our work. Economic growth and increased trade are necessary but not sufficient conditions to ensure sustainable development and poverty reduction. Although trade liberalisation, if appropriately harnessed, has the potential to drive wealth creation and cut poverty, many other factors such as appropriate economic policies, functional institutions, well-targeted capacity building and development aid also make an essential contribution, especially to the distribution of wealth.

More open economies and trade-led development in Asia have helped to reduce overall levels of poverty in the region, with some dramatic results. But the problem of uneven growth within and between nations remains a major contemporary issue for national and global policy makers. In 1990, one in three people in China lived on less than US\$1 a day, whereas today it is just one in ten. However, even today, almost one out of every two Chinese still lives on less than US\$2 a day. In India, a booming coastal belt contrasts with an impoverished rural hinterland, where the World Bank estimates that 903 million people are living in poverty.

In less than two decades, countries as diverse as South Korea, Mauritius, Chile and Vietnam have made remarkable progress in finding and developing their competitive advantage and transforming their economies through greater openness to international trade, appropriate domestic reform and capacity-building programmes. But other countries in the Asia-Pacific region, such as the Philippines or Indonesia, that have undertaken some trade liberalisation policies are struggling to achieve the same rates of growth. Most of the Pacific Islands have relatively low formal trade barriers, yet at times some seem to be on the brink of economic collapse. Does this reflect a reluctance to embrace difficult but 'pro-poor' trade reform? Is it more about the barriers they face in vital markets in developed countries, or are there other explanations?

What is certain is that these contrasting experiences call for a better explanation of the reasons for trade-related successes and failures and for differences in growth rates and levels of human development. The studies we have gathered in this book are part of our search for that explanation. Each one attempts to sketch some aspects of the complex links between growth, trade and poverty reduction strategies.

### What is in this book?

Thanks to strong support received from AusAID and the WTO, we were able to work with experienced researchers, policy makers, business people

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and community leaders who collected data, historical records, trade policy information and primary materials in over twenty different economies and several geographical regions from East Africa to the Caribbean. They have contributed thirty-three research papers and case studies with the explicit aim of informing trade policy and trade-related capacity-building priorities of national governments and donor bodies concerned with long-term poverty reduction strategies for low-income communities.

The book opens with an overview paper summarising a wide range of economic literature on the subject of trade and poverty reduction in order to set the stage for the research papers and case studies that follow. The book then divides into five parts comprised of the following:

- (1) transnational corporations, trade and poverty reduction
- (2) trade in agriculture and poverty reduction
- (3) trade in services and poverty reduction
- (4) migration, labour mobility and poverty reduction
- (5) trade and poverty reduction in small and vulnerable economies.

Each section begins with a thematic overview paper that outlines current trade policies relevant to the theme, discusses the key challenges or 'hot issues' facing policy makers and assesses policy priorities for the future. Many of these 'hot issues' then feature in the case studies in that section. Each of the thematic papers offers the perspective of a noted academic analyst or experienced policy maker on trade-related development matters.

We have gathered the case studies from around the Asia-Pacific region and elsewhere, calling on contributions from authors closely associated with the country or community that is the subject of the study. In some studies, either current trade negotiators or policy makers close to the negotiations are the principal authors, and they offer unique insight into the demanding task of aligning trade policy with economic and social development needs.

Because they are often closely connected to the communities that figure in the case studies, we asked our authors to consult with and, wherever possible, to interview members of the community that figure in their analyses. Consequently, this book features the voices of women potters from Lombok, indigenous Nepalese from the Byas Municipality and young people in Asia's newest nation, Timor-Leste, expressing their hopes, concerns and views about the future.

Although the focus of the book is on the Asia-Pacific region, we also draw specific lessons from other regions, including an intriguing study

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on the transformation of Grenada from an economy based mainly on its banana industry to a more robust services-based economy. In Chapter 3 (on trade in services), we highlight the success of a strategic approach to trade liberalisation that has enabled Uganda to begin developing a competitive and 'pro-poor' information and communications technology industry.

The case studies fill in details not supplied by the thematic overview papers. They frequently reflect on the impact of trade policies at the level of households and firms, with special attention in a number of studies to the impact on women. The lessons for the reader, for students of trade and for trade policy makers are diverse. Some communities experience an income boost from trade-related labour market policies, for example, while others seem trapped in industries that struggle to stay profitable in new and perilously competitive conditions.

For ease of comparison, most of the case studies and the overview papers are structured in the same way. They begin by providing a context-setting introduction, followed by a description of the key trade and development challenges facing the economy or community in question. The results of surveys or consultations are set out, and the analysis concludes with a final section articulating suggestions and recommendations as to how that region, country or community might successfully move forward to deal with the challenges it faces.

Our final request to our authors was that they should try to identify constructive proposals that arose from, or could be adopted by, the low-income communities and developing countries they studied. We have no interest in covering up or minimising the difficult challenges confronting those who, to date, have not benefited from more open trade and economic integration. But we want this book to help improve trade policies and to assist with the identification of strategies to deliver concrete poverty reduction outcomes.

### The emerging themes

Many of the concerns and solutions identified are specific to the context of the individual case study, but considering the variety of countries and regions discussed in this book, that is both inevitable and desirable, according to Euan MacMillan's overview of the literature on trade and development.

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MacMillan points out that the effects of trade on the poor are often highly context-specific. He acknowledges that trade influences product prices, wages, employment, government revenue and therefore inequality. But he argues that because many of these factors pertain to country-specific characteristics, disaggregated analysis of the kind provided by these case studies is the best way to ascertain the specific effects of trade liberalisation on poverty. He concludes, nevertheless, that there are a number of common approaches, such as the development of strong institutions to regulate the nature and timing of liberalisation, which can create a conducive environment for trade-related poverty reduction.

These case studies reinforce this conclusion. Obviously, context-specific conditions mean different trade strategies are required. Trade strategies for larger developing countries such as Bangladesh and Nepal will clearly differ from those that would work for Vanuatu or Grenada. But even between two island economies of similar size such as Vanuatu and Grenada, our case studies reveal that there are historical and geographical differences that require different approaches to the liberalisation and regulation of education markets or foreign investment laws.

MacMillan's second finding, that there are several common factors and approaches in cases of successful trade-related poverty reduction, is also borne out by the thematic papers and the case studies in this book. Five key elements emerge as fundamental pre-requisites for developing a positive trade and poverty reduction relationship. The book shows that:

- (1) Increased openness to international trade can have a positive impact on poverty reduction. Some of the most obvious examples can be seen in the sections on services liberalisation, where countries such as Uganda and Grenada have secured a macro-level boost for the entire economy by opening up their services markets, or in the section on labour market liberalisation, where specific groups in Tonga and Indonesia have been able to successfully raise incomes at the household level and reduce poverty. These and other studies exemplify the potential for low-income economies to benefit from well-designed, more open and transparent international trade policies.
- (2) Openness alone is insufficient. There must also be a strong and consistent commitment to domestic policy reform on two fronts: (i) policies to regulate and protect vulnerable groups from trade liberalisation; and (ii) policies to increase productivity and competitiveness and capture the gains of trade. The thematic chapter on small and

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vulnerable economies cites economist Jeffrey Sachs, who asserts in relation to developing nations that:

Openness is not sufficient unto itself – much depends on the way a country opens up, the sequence that is followed, the speed and the internal capacity to manage the process. Improvements in productivity and competitiveness through trade liberalisation require a comprehensive policy for human resource and infrastructure development, education, technology, a policy that includes small and medium size enterprises, a strategy to raise the productivity of subsistence farmers and other measures.<sup>2</sup>

Sachs' argument in favour of a strategy to raise productivity is reprised in the chapter on trade and poverty reduction for small and vulnerable economies. Strategic liberalisation policies acknowledge the benefits of liberalisation but seek to ease transition costs and address inequalities. However, strategic liberalisation policies also recognise that liberalisation is very incomplete on a global basis, and so therefore takes a pragmatic view of the need to consult, inform and involve low-income communities in decisions about domestic trade reform and related development priorities.

- (3) The engine room of reform must be the private sector. While governments should do all they can to create the environment for increased productivity and competitiveness, ultimately it is the private sector that will drive economic growth. Support for the development of small and medium enterprises is therefore seen as crucial, as is the need for transnational companies and foreign direct investment (FDI) to create productive employment and sustainable poverty reduction. However, the benefits from transnational companies (TNCs) will depend firstly on the right regulatory and legal environments being in place, and secondly on TNCs being clearly responsible to the environment and the communities in which they operate.
- (4) International trade reform must be led by Organisation for Economic Cooperation and Development (OECD) countries, along with the larger developing countries. Time and again, case studies refer to the need for greater market access, 'policy space' for sequencing reform and flexible timeframes and capacity-building support from multi-lateral institutions and from developed-country trading partners in order to sustain domestic trade reform and poverty reduction. The

<sup>2</sup> Sachs, J. (2007), 'Breaking the Poverty Trap', *Scientific American* September.

future of Cambodia’s textile and clothing industry depends not only on its own ability to survive in a highly competitive world, but also on its ability to meet US preferences on core labour standards, making it vulnerable to any change in the policy stance of the US on Cambodian imports. There are well-known concerns expressed by African farmers about the slow pace of reform in agricultural trade related to subsidies and other trade barriers that exist primarily in developed nations. Trade-related poverty reduction strategies therefore require commitment from developed countries to market access, flexibility in trade negotiations and agreements, support for reasonable special and differential treatment and support for the financing of technology transfer and capacity building. It is observed that some developed-country trade negotiators are consumed by a somewhat narrow version of ‘the national interest’ undermining the broader, global interest of a healthy multilateral trading system.

- (5) Finally, we conclude that because openness and unilateral reform alone are insufficient, the deficit of political will needs to be addressed at the multilateral and regional trade levels as well as the local level. This fifth key factor in the case studies follows on from the first four. Without strong cooperation between local, national, regional and multilateral levels of government, many of the benefits of reform can be lost. Various studies highlight a deficit of ‘political will’. This deficit may be due to developed country disengagement or the disengagement of elites in developing countries, or it may be due to the resistance of private-sector interests fearful of losing preferential treatment. To fully embrace and finance the support and reform needed to include the ‘poor’ in trade and arrest the widening global gap between rich and poor requires reform and cooperation across the board.

In summary, the case studies in this book suggest that a national and international economic environment in which trade will contribute to the reduction of poverty is most likely to be characterised by:

- (1) openness and commitment to international trade
- (2) a firm commitment to domestic reform
- (3) the development of a robust and responsible private sector
- (4) a firm commitment from developed countries to trade reform, technology transfer and capacity building in developing countries

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- (5) political will and strong cooperation across national, regional, local and multilateral levels.

### Highlights and insights

#### *Transnational corporations and the global supply chain*

The thematic paper that opens Part I of the book asks whether the 60,000 to 80,000 TNCs that play an important role in the global economy, everywhere from Singapore to Samoa, have contributed to poverty reduction. The answer is a conditional ‘yes’. The thematic paper suggests that, with the right regulatory environment and an equitable legal environment, national governments can set the stage for attracting TNC investment that will contribute to poverty reduction in a sustainable fashion.

The individual case studies shed light on a number of examples of the role of TNCs, their global supply chains and their impact on individual firms and particular communities.

Peter Van Diermen describes in his case study the struggle of the Cambodian garment industry to overcome challenges posed by impending competition from China and elsewhere. The sector employs more than 300,000 women, mostly from rural areas. These women, who earn above-average wages, remit about 60 per cent of their pay to their families in home villages, contributing directly to higher living standards and to poverty reduction. Although the Cambodian industry serves a niche market that exploits its adherence to internationally recognised core labour standards, its viability is imperilled by the coming end of safeguard measures limiting Chinese imports and by other factors that contribute to Cambodia’s high cost of doing business.

In her compelling account of how the Yazaki company came to be one of the most important employers in Samoa, Margaret Malua details the successful history of this TNC’s automobile electric-harness factory in the South Pacific, currently employing approximately 1,500 workers, the majority of whom are female. Over the years, the company’s operations have made a substantial contribution to poverty reduction and to the employment of women, who tend to spend large amounts of their pay cheques on improving the lot of their families. Now, a change in the way Australia implements the SPARTECA (South Pacific Regional Trade and Economic Cooperation Agreement) trade scheme may call into question Yazaki’s continued operation in Samoa, with serious consequences for the local community.



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In a dramatic case that illustrates the importance of the textile and clothing sector for employment in developing countries, Omas Bulan Samosir surveys the views of workers in Indonesia on their working conditions, and describes the challenges facing the industry in a country where it directly and indirectly employs more than 5.5 million people. If the industry is to survive, it has to deal with problems relating to very old manufacturing equipment and tough competition from China in export markets, while trying to obtain credit from local banks that seem already to have written off the sector as a high risk ‘sunset industry’.

A colleague of Omas Samosir (also at the University of Indonesia), Beta Yulianita Laksono, contributes a case study of the sports footwear sector in the country. In this most labour-intensive of manufacturing sectors, multinational companies based in China and Vietnam are increasingly investing in Indonesia to produce sports footwear under contract to Nike, Reebok and other branded shoe retailers. The sector has a big impact on poverty reduction because experienced workers are paid considerably more than local minimum wages, and a strong multiplier effect has been observed in communities where footwear production facilities are located. The author describes the challenges facing the industry where its competitive position is threatened by high transportation costs and infrastructure bottlenecks.

A case study by Safdar Sohail discusses the impact on the incomes of rural families in the region of Sialkot, Pakistan, with Nike’s decision to terminate a contract with a local producer of hand-stitched footballs. Half of the football stitchers came from landless families, and a further third from small farms with less than two hectares of property. When the local producer lost the contract for failing to abide by the labour standards set by Nike, the consequences for the incomes of poor people were enormous.

The final case study in this part of the book discusses the evolution of the electronics sector in Vietnam and its role in helping to lift local people out of poverty. Andrew Stoler and Phan Van Sam show how the Vietnamese Government’s acceptance of the need for a stable investment climate and good governance has encouraged Intel Corporation and others to make billions of dollars worth of investment in the country, employing thousands of people in good jobs with important side benefits for the workers and their families.

The themes that run throughout all of these real-life accounts are that foreign-owned transnational companies and the employment they provide to local, often rural, populations can be a substantial factor in achieving poverty reduction goals, but that the continuing viability of the

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companies' operations (or of the locally-owned firms contracting for these TNCs) often depends critically on the national and global trade-policy environment. The studies reinforce the need for a well-regulated legal environment and accountable corporate behaviour in order to maximise poverty reduction outcomes.

### *Trade in agriculture*

Agriculture is at the forefront of the trade and development debate in the Doha Round. In her thematic paper, Lee Ann Jackson suggests that developing countries need to make strong investments in their agricultural sectors, but she expects the impact of these policy interventions on levels of poverty to vary, due to country-specific characteristics. Jackson notes that economic growth in South Asia will lead to increases of nearly 100 per cent in the output of meat, eggs and fish, while at the same time the resource base upon which agriculture is built will shrink due to resource degradation, climate change and competition from urban expansion. She argues that one policy approach will definitely not fit all countries – a view that is borne out in the case studies in this section of the book.

The study by John Finn on food aid shows the importance of international and national coordination and cooperation. The case study makes compelling reading for those interested in recent food shortages, rising food prices and the challenges of efficiently delivering food aid free of market distortions. Finn acknowledges that the formal role of the WTO in food aid is limited to trade-related issues such as commercial displacement. However, he points out that compliance with WTO rules on trade liberalisation and regulatory transparency can help ensure the delivery of aid that does not distort markets or hurt local production or prices in developing countries. He concludes with an important warning: if food aid levels continue to drop due to rising food prices and related factors, it will put a number of vulnerable communities at serious risk and will undermine stated global commitments to the Millennium Development Goals.

In the case study of Nepal's indigenous people and the impact of agricultural trade liberalisation, Purushottam Ojha relates an interesting story of cautious optimism as farmers such as Lal Bahadur Bote manage the transition from a traditional agricultural community to a more prosperous market-based community. The case study demonstrates the importance of allowing time for adjustments to take place and the crucial role of investment in the diversification of farm productivity, in off-farm