



Overseas Development Institute

A framework to analyse linkages between trade policy, poverty reduction and sustainable development.

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Executive Summary

This paper presents a framework of analysis for examining the impact of changes in trade regimes on poverty. It aims to guide research undertaken in case study countries as part of the Africa Trade and Poverty Programme (ATTP).

Underpinning this framework is the belief that policy matters, that trade policy affects trade, and that trade then has effects on both economic growth and poverty. Positive and negative, direct and indirect effects will result from a country opening its markets to a greater volume and range of traded goods and services and in easing restrictions on exports. Impacts will affect segments of the population and sectors of the economy differentially over the short, medium and long term, and these effects may intensify the poverty of one group of people over the short term, while decreasing the poverty of another over the longer term.

In this paper we discuss alternative approaches to the definition and measurement of poverty. Traditional definitions of poverty, which were income and consumption based, are no longer considered to be adequate. More complex understandings of poverty have developed which recognise the importance of risk and vulnerability, multidimensionality, capabilities and freedoms and the involvement of the poor in identifying, defining and analysing poverty through participatory poverty assessments (PPAs).

This paper highlights the importance of having a differentiated understanding of poverty which disaggregates national level poverty data by region and where possible separates out the severely poor from the less poor, and the chronically poor from the seasonally or transitorily poor. It is also useful to have information on concentrations of poor people by social and livelihood groups or economic sectors, as this sharpens the predictive power of any analysis of the likely impact of trade policy change on the poor. The livelihoods in which the poor are concentrated may differ from country to country but are likely to include activities characterised by low barriers to entry (including skills requirements), low wages and high levels of drudgery or risk. These groups will include peasant or smallholder farmers; casual labourers (including the landless); urban industrial workers and some service providers.

Ascribed poverty results from people being poor because of who they are, so in some countries high proportions of ethnic minority groups will be amongst the poorest and most excluded people. Good quality social analysis is therefore vital to our understanding of the determinants and dynamics of poverty. This will enable us to know more about the role of social difference (including gender, age, religion, ethnicity and language, physical and mental impairment) in determining poverty, how family works and how different social groups interact.

A thorough working knowledge of the norms in different parts of the country (or amongst different religious, ethno-linguistic or cultural groups) which govern household decision-making and the access to and control of resources enables us to avoid assuming that aggregate increases in household income will result in unambiguous improvements in well-being and consumption for all household members, or that everyone experiences the same opportunities and constraints arising from changes in trade regimes. The inequalities affecting women, which are based on cultural norms and *de facto* legal barriers, means that such policy changes can distort anticipated supply responses making the overall outcomes of liberalisation

unpredictable. If policy makers do not know this they will miss the chance to improve supply responses or mitigate some of the negative impacts from policy change.

Another important reason for disaggregating poverty figures is that averages may mask the experiences of people living in remote and low potential areas. These areas are only weakly integrated into national and international markets and are likely to contain high numbers of very poor people. Local markets are often thin and poorly functioning due to low levels of effective demand, under-investment in infrastructure, seasonally impassable roads and poor availability of agricultural and/or trade finance. Access to health and education facilities, to the cash economy and to a full range of goods and services is often hampered by poor access to affordable transport, weak infrastructure networks, poor service delivery, low levels of investment and low returns on investment. Poor, or more costly, access to national and international markets by some regions will lead to muted price signals and so dampen supply responses. Without a good understanding of these problems it is impossible for governments to design adequate complementary policies to accompany trade liberalisation, and they are unlikely to achieve what they expected in terms of either economic growth or poverty reduction.

High levels of poverty constrains not only effective demand and so the appearance of markets but also the availability of capital for investment. Levels of income and income distribution within a country will affect the volumes and types of exports and imports.

Numerous studies have been undertaken on the differential consumption preferences of different welfare groups and of women and men. The poor have been found to typically prioritise food purchases and health care expenditure. Other important items include low cost household goods and simple tools and farm equipment. An understanding of the consumption preferences of particular social groupings in a country will enable the design of complementary policies occurring alongside trade liberalisation to ensure that the poor benefit. This may be through phased protection of inferior food and household goods, in order to protect groups identified as likely to experience declining well-being as a result of changes in trade regime.

An examination of how poverty affects trade will need to explore a number of complex relationships, for example:

- How will the spatial differences in levels of well-being and poverty in a country affect domestic and international trade in goods and services?
- Do high geographical concentrations of poor people affect the structure of a country's trade?
- How will concentrations of poverty by gender, socio-cultural group or livelihood activity affect the productivity of capital and labour, differential levels of surplus (and therefore the possibility of saving and investment and the sale of surplus for trade) and differential levels of household consumption and trade?
- How will investments in health and education and professional skill-creation benefit agricultural and industrial productivity, the generation of (high quality) surplus for trade and stimulate domestic demand for traded goods and services?
- Do poverty policies affect the nature and structure of trade, for example social protection (e.g. pensions) or the extension of improved financial services to the poor, through bolstering effective demand, investment and savings?

Moving from poverty to policy analysis, when researching changes in trade policy it is important to consider *why* the policy change was made, as the initial stimulus for change will affect which stakeholders are consulted with and whose interests are to

the fore during the policy design process. This, in turn, will affect whether adequate attention is given to the design and implementation of complementary policies.

When analysing trade-poverty linkages we must examine the difference between *stated* trade policy and the policy *as implemented*. If there is a difference between stated policy goals and what is really happening, do these differences result in less good outcomes for the poor?

Central to policy analysis is a thorough understanding of the political economy of the country. Assumptions are often made that government decision making is rational, linear and focused on achieving poverty reduction, developmental or economic-growth oriented goals. However, a growing body of evidence suggests that neo-patrimonialism is a strong force in sub-Saharan governance and that external policy prescriptions must be grounded in local realities if they are to achieve anything near to their stated goals.

Also, if trade policy is to achieve broad and well distributed long-term benefits (with adequate compensation of the inevitable short-term losers) then policy makers need high quality information on the functioning of the domestic economy (including sectoral linkages and bottlenecks), coupled with the type of policy, poverty and social analysis that this paper suggests. In order to be provided with this information, researchers will need to combine traditional macro-economic analysis (including information on exchange rates, inflation, consumer confidence and patterns of consumption, economic growth rates broken down by sector – with information about multipliers, linkages and fiscal and monetary policy) with micro level information concerning the livelihoods and coping strategies of different wealth groups in different parts of the country. This needs to be contextualised with information on regional and international trade agreements, trend predictions for the global economy, and an analysis of the economy and trade patterns of key trading partners and competitors.

We turn now to some key trade policy instruments, and the issues related to their reform. A government may, unilaterally or as a result of bi-lateral or multi-lateral negotiations, reduce export or import tax. This can have significant impacts on trade and on the government's fiscal balance. Reducing tax and tariff related barriers to trade can make imports more widely available and enable profitable export trade. This may have an immediate effect on consumers and/ or industry and agriculture in that country. Where the domestic price of a good has been artificially maintained at above international market price, poor net consumers will benefit. Net producers may lose out, but these are less likely to come from the poorest groups. Generally, consumers will also benefit from lower price variability. Impacts will also depend on the structure of supply chains; the functioning of domestic regional markets and the sequencing and effectiveness of other economic and developmental programmes and strategies.

Changes in trade-related tax can have a positive, negative or neutral effect on government revenue, depending on the reforms introduced and the particular circumstances of the country. Routes for taxation which have low resource mobilisation costs and high levels of political acceptability (e.g. export taxes on minerals, import taxes on 'luxury' goods) may be reduced and government will either need to identify alternative sources of revenue or cut spending. This is why domestic tax reform often has to be undertaken at the same time as changes in trade policy. If a government fails to increase other, non-trade related taxes, maintaining macroeconomic stability will depend on reducing expenditure. The relative isolation of many groups of poor people and their low levels of successful engagement with

policy processes and budgetary prioritisation may result in pro-poor public expenditures being vulnerable, relative to others.

There are numerous non-tax related costs and barriers associated with trade, for example those associated with regulatory or administrative controls. Removing these will generate both first and second round costs and benefits, the distribution of which will depend on the sector affected and a number of country-specific factors. Changes in the regulatory and tax burden and in opportunities or risks facing traders are not governed solely by domestic trade policies, they are also affected by international agreements and both the policy and *de facto* trading behaviour of trading partners and competitors. Important externally determined changes in trade policy include:

- the country's obligations under the WTO, regional and bilateral trade agreements
- changes in international market conditions arising from:
- changes in third country trade regime e.g. impact of WTO agreements on market access, consequential or autonomous changes in value of preferences under GSP schemes
- the impact of technological change affecting both the countries and third countries production and trading patterns

Linkages between trade and poverty are complex, making systematic empirical investigations difficult. Nevertheless, the linkages may be traced through an examination of:

- economic growth and changes in production patterns, including an examination of impacts on overall prices; changes in the structure of firms and opportunities for labour mobility
- markets, including an examination of the extent to which poor have access to markets for the goods and services they buy and sell; the linkages between such local markets and international markets. We will also discuss the market related constraints faced by the poor, including their ability to influence markets
- the assets of the poor
- livelihoods and work opportunities
- coping with risk, shocks and vulnerability, including the shocks associated with trade reform
- transfer income - remittances and both formal and informal social protection transfers
- consumption patterns

Trade liberalisation can lead to price and market effects which increase resources and offer new livelihood opportunities (e.g. through higher income or the construction or improved functioning of markets) or which result in decreased resources or threaten livelihoods through the reverse. Empirical studies suggest that trade reform has a positive aggregate effect on employment and income for the poor; however there are winners and losers. Impact is mainly determined by the policies that are followed (or not followed) by the national government to redistribute income or assets through taxation, and through investments in infrastructure and other public goods, social protection and health and education.

Changes in trade regime may provide impetus for changes in the national economy and business environment. These changes may attract greater flows of investment, some of which might be FDI. Such investments may span sectors or realms of activity. It can be linked to the development of new enterprises and the growth of existing ones, with positive knock on effects for employment, output and therefore aggregate national income. However, there is considerable debate amongst

economists as to the linkages between trade and growth, *and* about if growth occurs what implications this is likely to have on poverty.

The relationship between trade liberalisation and growth is not straightforward and it depends on a country's initial conditions - the nature of the economy and its bottlenecks and transmission mechanisms. For growth to be pro-poor, there must be effective linkages to poverty reduction (e.g. through effective distributory mechanisms, tightening markets for unskilled and semi-skilled wage labour and increased government and household investments in health and education) and complementary interventions.

If trade does result in economic growth, an issue is whether that growth is evenly distributed or not. Studies from around the world provide considerable evidence that liberalisation can cause greater differentiation in both income and assets between and within countries. Where differentiation is increased, due to the uneven distribution of costs and benefits, it is important to identify the determinants of a particular distribution. If those systematically losing out as a result of policy change are those in remote rural areas, urban slums, the chronically poor or excluded/minority social or ethno-linguistic group then we need to be aware that the domestic political economy of a country is not likely to result in compensatory policies to mitigate any negative effect.

If transmission mechanisms are good and constraints are low (e.g. poor telecommunications, poor road infrastructure, high levels of bureaucracy and corruption) then following trade liberalisation, producers are likely to respond to price signals from international markets. This may result in greater specialisation in an economy, along lines of comparative advantage. Liberalisation can also expose producers to greater levels of price risk, particularly if they were previously protected by pan-territorial and pan-seasonal pricing. They may respond to this through livelihood diversification, despite comparative advantage pushing in the direction of specialisation. In order to reduce risk, most governments want to see a reasonably broad based economy and will implement policies to encourage its development.

Changes in trade policy does not just influence poverty levels through altered opportunities for enterprise, it also affects both the incidence and the severity of poverty through altering the cost of the basket of goods and services consumed by households around the country. Decreased barriers to trade can result in changes in both the amount of trade taking place and the composition of trade. Imports may increase and prices of imported and local (substitution) goods may decrease, affecting the choices that consumers can make and the cost of normal consumer items. This may move some households above the income poverty line (and increased prices move them below it). In general, consumers benefit from trade reform and this includes the poor.

Changes in trade do not only affect economic growth and income poverty. It can also affect the more intangible elements of individual, household or community well-being, including the involvement of groups and individuals in social networks; in their perceived level of social or cultural isolation and/or their inclusion or exclusion from mainstream or sub-cultural society; their political voice and access to decision-making. Culturally important livelihoods may also expand or be eroded as a result of changes in trade flows.

Human capital can be affected by changes in trade through altering household's ability to maintain food security, keep their children in school rather than depending on their labour and invest in health care. Changes in the macro-economy, including the

tax-take may affect the government's social spending, affecting not only quality but also access to public services.

Physical capital may be affected if trade reforms provoke shocks, leading to the sale of physical assets as a form of coping. By monitoring poor segments of the population, researchers should be able to identify whether changes in trade are forcing people into adverse coping. Such information could help governments to implement or improve mitigating and social protection measures. However, those benefiting from trade may see incomes rise. Their investments may result in increased levels of improved physical capital.

Trade can change the way in which people's livelihoods make use of, and invest in, natural capital by changing the profitability of natural resource based enterprises or by encouraging or discouraging polluting activities. So, liberalisation may result in households investing greater time and money in micro-irrigation and mulching processes or in cultivation practices which involve short time horizon 'soil mining'. Local and sectoral conditions need to be better understood if the detrimental effects of trade reforms on natural capital are to be mitigated against.

Trade reforms can also affect financial capital by affecting incomes, profit margins and individual's ability to save and invest.

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Acronyms

AD	Anti-dumping
FDI	Foreign Direct Investment
FGDs	Focus Group Discussions
GATS	General Agreement on Trade and Services
IP	Intellectual Property
MICS	Middle Income Countries
PLWA	People living with AIDS
PRA	Participatory Rural Appraisal
SSA	Sub-Saharan Africa

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1. Introduction.

1.1. The purpose of the paper

This paper presents a framework of analysis for examining the impact of changes in trade regimes on poverty. It aims to guide research undertaken in case study countries as part of the Africa Trade and Poverty Programme (ATTP) and we hope that it will result in the development of a robust and empirically based understanding of

- how reforms and economic events interact and impact on growth, the distribution of such growth and its effects on poverty and well-being;
- what the key impacts on a range of sectors (including agriculture and manufacturing) have been or are likely to be.

One of the premises underpinning this research is that policy matters, that trade policy affects trade, and trade then has effects on poverty, for example through effects on economic activities in which poor people participate, through effects on the prices that they pay for goods and services, and through effects on government taxation and expenditure, which in turn affects their entitlements from government. Sheila Page (2003) points out that there are three views of markets and development which underlie people's views of increasing access to markets:

- It *will* help a country develop and reduce poverty
- It *can* help a country develop and reduce poverty
- Increased access to markets normally will not benefit development, and it has to be modified, by policy or other intervention, to correct the normal negative consequences

Another premise is that it is difficult to mitigate negative effects of changes in trade through administrative targeting and social policy. Therefore analysing the first round effects of trade changes acquires additional importance.

We take as a starting point that opening up a country's markets to a greater volume and range of traded goods and services and easing restrictions on exports will generate both positive and negative direct and indirect effects. We acknowledge that segments of the population and sectors of the economy will be differentially affected over the short, medium and long term. These effects may intensify the poverty of one group of people over the short term, while decreasing the poverty of another over the longer term.

Identifying the direct effects of trade policy on poverty may be possible (a change in tariff affecting a basic good like mosquito nets, for example), but it is complicated by the different magnitude and speed of changes in trade practice and whether they are generated by economic causes or policy changes. Also it is not always clear what the outcomes of a specific policy will be. They depend, in part, on the effectiveness of implementation as policy does not translate automatically or seamlessly and faultlessly into action. Implementation processes can be highly flawed, and it is policy as experienced through *real* changes in action, rather than policy as documented, that we are interested in.

1.2. The structure of paper

The main body of this paper introduces topics which are examined in greater detail through the Checklist (Annex 1) and Matrix (Annex 2). The Checklist and Matrix

provide the ideal range of issues that would be considered in an in-depth trade-poverty linkage study. However, the range of issues and the depth with which researchers examine them will depend on the time and financial resources available, and the availability of studies and data from which they are able to draw their analysis. The starred items in the Checklist (Annex 1) are considered to be priority issues, particularly for examining first round effects.

In Section 2 we present a number of approaches to defining poverty and highlight the importance of a good quality poverty and social analysis. We highlight the importance of differentiating the poor by the severity of their poverty, by their location (e.g. spatial concentrations of poor people in remote rural areas, urban slums, low potential rural areas etc.), by the duration of their poverty (transitory versus chronic) and by their social identity (e.g. ethno-linguistic group, gender, disability). In Section 3 we outline the importance of the nature of poverty in terms of its affect on trade and trade policy.

In Section 4 we present an analysis of trade effects, and outline the possible relationships between a range of trade and macro-economic policy instruments and poverty, e.g. import taxes and tariffs. We then move on, in Section 5, to assessing how changes in trade regimes can affect the poor. This section includes an overview of the debates surrounding trade liberalisation and economic growth, and an examination of whether increased trade flows increase income differentiation. The section also assesses the possible impact of changes in trade on asset levels, livelihood and coping strategies², consumption, well-being and transfers.

Annex 1 presents a checklist of questions that researchers into trade-poverty linkages can use as an *aide memoire* when designing or undertaking research into trade-poverty linkages. Annex 2 is a matrix of issues which link trade and poverty, examples found in the literature and possible research methods for exploring such issues. In Annex 3 we suggest a range of research methods and approaches which may be useful in examining trade-poverty linkages, and in Annex 4 we present an annotated bibliography on poverty and trade issues.

2. Who are the poor?³

In this section we discuss alternative approaches to the definition and measurement of poverty. We introduce factors which may lead to high concentrations of poor people in particular geographical areas, amongst specific livelihood groups or economic sectors and amongst specific social groups (see Annex 1, Q1).

2.1. Definition and characterisation of the poor.

If we are to be able to predict how current and potential future changes in trade policy and practice will affect poverty, we need to have a thorough understanding of who the poor are, where they are located, and what the causes and dynamics of their poverty are. Traditional definitions of poverty have been income and consumption based. Measurement has followed the construction of poverty lines, which has allowed analysts to calculate the numbers of individuals or households falling below

² In this paper we use livelihoods to mean the diverse portfolio of activities and enterprises that a household undertakes to maintain income, consumption and well-being.

³ Analysis for this component of ATTP country-study research should be based as far as possible on the existing poverty estimates and analysis in each country. Researchers are not expected to undertake primary research in this area as part of this project.

the thresholds of total consumption and food poverty. These measures are useful for comparison over time and between countries, but have many weaknesses, are incapable of generating a robust and dynamic analysis of poverty, and are no longer considered to be adequate (Kanji and Barrientos, 2002:6). More complex understandings of poverty have developed through the 1980s, 1990s and into the current decade with increased understanding of the importance of risk and vulnerability (Swift, 1989, Chambers, 1989), multidimensionality (Chambers 1983), capabilities and freedoms (Sen, 1999), and the involvement of the poor in identifying, defining and analysing poverty through participatory poverty assessments (PPAs). Good quality analysis is now expected to extend beyond income to assess a range of material and social outcomes, including assets, capabilities and vulnerabilities (Kanji and Barrientos, 2002:6), and a greater understanding of the importance of differentiating the transitorily and seasonally poor from the chronically poor (Hulme and Shepherd, 2003) means that researchers should introduce a time dimension, where possible.

A multi-dimensional understanding of poverty is important as changes in trade might have short-run impacts on one group of people which increases income while leading to an erosion of assets and long term well-being. Researchers need to view short-run changes balanced against any long-run changes, which might include slightly reduced incomes on one hand, but improvements in assets and other aspects of well-being on the other.

The table below provides a quick overview of some of the leading multi-dimensional approaches to understanding poverty, and indicates which elements of poverty it provides insights to.

Table 1: Multi-dimensional approaches to poverty compared ⁴

Theory Poverty Dimension	<i>The deprivation trap</i> Chambers, 1983	<i>Livelihood Framework</i> Carney, 1998	Capability Poverty Measure Sen in HDR, 1996	<i>Human Poverty Index</i> HDR, 1997	III-Being Chambers, HDR, 1997
Income Poverty	poverty	financial capital (?)			
Vulnerability to Risk/ Shocks	Vulnerability	Policies Institutions and Processes (?)			<ul style="list-style-type: none"> • lacking able-bodied family members who can feed the family in a crisis • having to accept low status or demeaning work • no year round food security
Physical Weakness/ Morbidity	physical weakness	human capital	<ul style="list-style-type: none"> • avoiding preventable morbidity • being well-nourished 	<ul style="list-style-type: none"> • access to health services • longevity • safe water (?) • malnourished < 5s 	<ul style="list-style-type: none"> • being disabled
Low Human Capital	physical weakness (?)	human capital		Knowledge	<ul style="list-style-type: none"> • being able to send their children to school • children have to work
Lack of Social Connectedness/ Capital	isolation (?)	social capital	<ul style="list-style-type: none"> • involvement in the life of the community 		<ul style="list-style-type: none"> • able to decently bury dead • being single parents • suffering the effects of bad behaviour (e.g. alcoholism) • being poor in people
Low Political Connectedness/ Capital/ Power	isolation (?), powerlessness	Policies Institutions and Processes (?)	<ul style="list-style-type: none"> • involvement in the life of the community (?) 		
Gender inequity	Powerlessness (?)		<ul style="list-style-type: none"> • involvement in the life of the community (?) 		
Spatial Isolation	isolation (?)				
Lack of Natural Capital		natural capital			<ul style="list-style-type: none"> • lacking land, livestock, farm equipment • being dependent on CPRs
Lack of Physical Capital/ Assets			<ul style="list-style-type: none"> • being adequately clothed (?) 		<ul style="list-style-type: none"> • bad housing
Fear of Physical Violence					

Source: Bird, 2001

⁴ The empty cells in the matrix indicate issues not covered by the methodology in question

Improved understandings of poverty encourages us to view the poor as heterogeneous. This allows us to deepen our analysis of how households and individuals become poor, what keeps them in poverty and what may enable them to escape. For example, while one household might have been recently driven into poverty by the illness of the main breadwinner, another might be chronically poor due to social and political exclusion (e.g. an ethno-linguistic minority group). An individual whose earning and consumption levels fall seasonally to below the national (*total consumption*) poverty line will respond differently to livelihood opportunities and the enabling environment than members of an extended family which is chronically and severely poor, and lives below the *food poverty* line with minimal assets, capitals or capabilities. So, the identification of those most vulnerable to trade-related shocks should go beyond the often weakly expressed 'vulnerable groups' which is often taken to include orphans, abandoned elderly, women headed households, people living with AIDS (etc.) to examine vulnerability to poverty by livelihood group, socio-cultural identity and geographic location.

Such differentiated understanding is necessary if the impact of policy change is to be accurately predicted. However, country-level data limitations may hamper researchers from presenting such well developed pictures of poverty, so it is important that research into trade-poverty linkages expresses clearly which approach to the definition and measurement of poverty is being adopted.

We provide further suggestions on data sources and research methods in Annex 3: *Appropriate research and data analysis methods*.

2.1.1. *Income sources*

Poor people are likely to be concentrated in particular livelihood groups. Their location may differ from country to country but is likely to include activities characterised by low barriers to entry (including skills requirements), low wages and high levels of drudgery or risk. These groups will include peasant⁵ or smallholder farmers; casual labourers (including the landless); urban industrial workers and some service providers.

A knowledge of which livelihood activities and sectors have high concentrations of poor people, combined with an understanding of the dynamics of poverty in a given economy, will provide researchers with an enhanced ability to predict the likely first and second round impacts of particular shifts in trade policy and practice. This analysis will be enhanced by a knowledge of the coping and adaptive strategies of the poor, as this will alert researchers to instances of poor households reacting to (possibly trade-induced) shocks.

2.1.2. *Social factors*

Good quality social analysis is vital to an understanding of poverty. It is important to understand how families work and how different social groups interact. Such an understanding provides the basis for being able to predict whether changes in the economy will benefit (for example) members of a specific ethnic minority group or not. Knowing which aspects of social difference (including gender, age, religion, ethnicity and language, physical and mental impairment) are linked to poverty in a particular society enables researchers to comprehend the distribution of the costs

⁵ Peasants are agricultural producers characterised by their *partial engagement* in *imperfect markets*.

and benefits associated with changes in the rules governing trade, and to predict the supply response generated by such changes (see Annex 2, Q3.1 and Q4.2).

An important element in such social analysis is the development of an understanding of what the norms are within different parts of a country (or amongst different religious, ethno-linguistic or cultural groups) governing household decision-making and the access to and control of resources.

So, social analysis will help researchers understand how changes in the trade environment will impact differentially on different groups and generate particular types of supply response (see Ashley et al, 2002d for a quick overview of approaches to household level analysis and household decision-making, and Fontana and Wood, 2000, and Fontana, 2002 for examples of a CGE model which separately models, for women and men, not only the market economy but also social reproduction and leisure).

Key actors in international trade negotiations tend to argue that trade is gender neutral. However, Kanji and Barrientos (2002) highlight the importance of disaggregating the effects of change in trade regime by gender (see Annex 1, Q2 and Q10). The inequalities affecting women, which are based on cultural norms and *de facto* legal barriers,⁶ need to be considered within the context of a broader social analysis and understanding of intrahousehold differentiation.

Despite country-specific variations, the 'feminisation of the labour force' appears to be associated with market-led growth and global economic changes (Kanji and Menon-Sen, 2001). Whether women benefit from their increased engagement in the wage labour market will depend, in part, on social roles and expectations, command over resources and patterns of discrimination. These include norms concerning the allocation of household productive and reproductive tasks. It may be that they are unable to control the money women earn and their leisure time is squeezed due to male reluctance to take on more household tasks (see Annex 2, Q4.3 and Q4.4).

In many parts of sub-Saharan Africa women are responsible for the food security of the household. The cultivation, storage and processing of certain food crops and types of livestock are their responsibility (typically poultry and sometimes 'small stock' – sheep and goats). They tend to have greater control over any cash returns from the sale of surpluses of these crops than from the sale of 'male cash crops' such as tobacco, sugar cane or coffee. Male heads of household typically allocate women with land for food production. Other land will be under male control, as will large livestock (bullocks, oxen, buffaloes) and household labour.

The supply response to new price incentives for particular crops (through reduced export tax increasing returns, or improved availability of seeds and fertilisers following the reduction in import tax) will depend on whether the crop is a 'male' or a 'female' crop. Women may want to increase or decrease production of 'female' crops, move into production of 'male' crops, or change employment, but may be constrained in doing so (Whitehead, 2001)⁷. Men may have greater freedom to increase or

⁶ Lack of inheritance rights; bars on women holding formal or *de facto* tenure of land; lack of independent access to financial services; gender-based labour market rigidities; paucity of access to education and health services intensified by gender etc.

⁷ These constraints include low levels of ownership and control of the land that they farm; poor access to credit and therefore seasonal inputs and hired labour; and variable access to and control of the returns from their labour and the sale of their agricultural products. Similar constraints are experienced by women entrepreneurs, who may find their husbands reducing

decrease production of certain crops in response to new incentives. For example, the promotion of non-traditional exports in Zambia benefited both women and men, but benefits were distributed according to women's and men's traditional crops. So women benefited from expanded opportunities for trading horticultural crops and groundnuts while men benefited from the promotion of tobacco and coffee (Fontana, 2002). Also, while the reallocation of resources from maize to female-intensive crops made women more productive, it was at the cost of their leisure-time (ibid) (see Annex 2, Q5.1, 5.2 and 5.3).

Changes in enterprise mix may result in a net increase in aggregate household income. However, such a change may have an unpredictable outcome (Çagatay, 2001). Unless income from the sale of these crops is pooled, and unless decision-making⁸ is consensual, it is possible that household food security and expenditures on health and education will decline, affecting in particular the well-being of women, children, the elderly, the disabled and the chronically sick (see Bolt and Bird, 2003, for a method for analysing intrahousehold differentiation).

This illustrates why it is important for trade policy analysts to understand likely patterns of household decision-making and how these lead to differential levels of access to and control of resources within the household (Ellis, 1993; Kabeer, 1994; Bolt and Bird, 2003). Without this understanding, increases in aggregate household income will be assumed to generate benefits for all household members and changes to introduce mitigating measures to dampen the negative impacts on women and children (in particular) of certain changes in trade regime will be missed.

2.1.3. *Geographical location*

People living in remote and low potential areas which are only weakly integrated into national and international markets are more likely to be poor than those living in capital cities (Bird and Shepherd, 2003b). Local markets may be thin and poorly functioning due to low levels of effective demand, under-investment in infrastructure, seasonally impassable roads and poor availability of agricultural and/or trade finance. Access to health and education facilities, to the cash economy and to a full range of goods and services is often hampered by poor access to affordable transport, weak infrastructure networks, poor service delivery, low levels of investment and low returns on investment (ibid).

Poor, or more costly, access to national and international markets by some regions will lead to muted price signals and so dampen supply responses. For such regions, the removal of price control and other forms of government intervention in markets will be less likely to result in an upsurge of private sector engagement than in near-urban rural areas. High transport and transaction costs, coupled with low local demand will often result in the slow development of markets. Low levels of competition between traders may result in low farm gate prices and little choice for producers, who may respond by partial disengagement from markets, prioritising production for own consumption and barter trade. The degree of engagement in markets will affect households' exposure to market-related shocks, so for households with few assets or savings to buffer them, disengagement can be an entirely rational response to risk. A study of the distributional and nutritional impact of devaluation in Rwanda during the 1990s found that changes in relative prices at the border had little

their financing of household consumption in the face of women's increased income and independence (Bird and Jackson, 2002).

⁸ Sheila Page indicates, in her work on trade, climate change and poverty, that changes in trade may result in changes in the balance of power within the household (2001:19)

effect on the predominately rural low-income households because of their isolation from the cash economy (Minot, 1998).

In order to take regional differences into account researchers wishing to analyse the likely distribution of costs and benefits from changes in trade will need to avoid presenting an aggregate picture for a whole country, and instead to assess how different areas, with different resource endowments and levels of integration into the national economy will fare.

3. How does the nature of poverty affect trade and trade policy?

The nature of poverty in a country affects the structure of trade that it is involved in (see Annex 1, Q5). While the focus of this paper is the impact of changes in trade on poverty, it is clear that understanding the nature of poverty in a country is important, due to the impact that it can have on both trade policy and policy outcomes. The structure and distribution of wealth in a country affects the structure of both demand and production.

High levels of poverty constrains not only effective demand and so the appearance of markets but also the availability of capital for investment. Due to high levels of idiosyncratic and covariant risk entrepreneurship (including innovation and investment) is reduced. In poor countries or in parts of a country where high numbers of poor people live, low levels of effective demand and high transactions costs result in weak incentives for traders. This results in weakly integrated markets and thin markets with few actors and low levels of competition. Where markets are poorly integrated the price and availability of goods can fluctuate considerably over time and space. Seasonal variability can affect consumers through changing the cost of a household's normal basket of goods, it can also damage producers as the vital inputs for manufacturing and other enterprises become either unavailable or unaffordable.

These problems create severe bottlenecks in the transmission of the benefits from trade. Opportunities which are apparent in urban areas or near borders, docks or trade depots are less apparent in remoter or poorer areas where concentrations of poor people are high. This dampens supply responses and can affect national levels of growth.

Levels of income and income distribution within a country will affect the volumes and types of exports and imports. A country with low average income, a small wealthy elite and a poor majority will have a profile of imports and exports which will include luxury and 'superior' goods for consumption by the elite, and mass consumption goods aimed at the poor majority. Countries with a high incidence of severe poverty are likely to have low levels of effective demand and thin and poorly functioning domestic markets. They are likely to import a narrow range of goods and services relative to population size, and have a limited number of low value or low skill-intensive exports reflecting the nature of the domestic labour force. A country with a larger middle class will have different consumption and production profiles again.

These are aggregate pictures. Numerous studies have been undertaken on the differential consumption preferences of different welfare groups and of women and men. The poor have been found to typically prioritise food purchases and health care expenditure. Other important items include low cost household goods and simple tools and farm equipment. An understanding of the consumption preferences of particular social groupings in a country will enable the design of complementary

policies occurring alongside trade liberalisation to ensure that the poor benefit. This may be through phased protection of inferior food and household goods, in order to protect groups identified as likely to experience declining well-being as a result of changes in trade regime.

Researchers into trade-poverty linkages should also explore the impacts on the structure of trade of a country having high geographical concentrations of poor people. It is also worth considering whether complementary policies and programmes might improve the transmission of benefits from trade throughout the population, reducing income gradients and increasing engagement in markets. For example, investments in improved infrastructure linking poor regions with transshipment points might stimulate enterprise and increase the availability and affordability of traded goods, increasing the engagement of poor populations in the consumption and production of traded goods.

An examination of how poverty affects trade will need to explore a number of complex relationships, for example:

- How will the spatial differences in levels of well-being and poverty in a country affect domestic and international trade in goods and services?
- How will concentrations of poverty by gender, socio-cultural group or livelihood activity affect the productivity of capital and labour, differential levels of surplus (and therefore the possibility of saving and investment and the sale of surplus for trade) and differential levels of household consumption and trade?
- How will investments in health and education and professional skill-creation benefit agricultural and industrial productivity, the generation of (high quality) surplus for trade and stimulate domestic demand for traded goods and services?

It will also be interesting to explore the impact of poverty policies on trade, for example the impact of social protection (e.g. pensions) or the extension of improved financial services to the poor in bolstering effective demand, investment and savings and so changing the nature and structure of trade.

4. Analysis of trade effects

When researching changes in trade policy it is important to consider *why* the policy change was made (see Annex 1, Q4). Did the government make the changes in order to meet domestic political objectives or international requirements? Is it anticipated that the changes will improve access to international markets and so stimulate domestic agriculture; increase availability and reduce price variability in food grains or increase levels of inward investment? The initial determinant of the policy change will affect stakeholders for that change, and may influence whether complementary policies are successfully designed and implemented or not. If policy makers are to design complementary policies which ensure that benefits are widely spread through the economy and population, and that costs are successfully mitigated against they need to be provided with information that predicts how a given policy change will affect all aspects of the economy and population. In order to provide this information, policy analysts need a rigorous understanding of the functioning of the economy (including sectoral linkages and bottlenecks), and an accurate analysis of the population. Policy makers also need to be provided with a comprehensive toolkit of social or economic policies which will plausibly smooth the implementation of changes in trade policy.

Analysis should include whether the short and long run impacts of trade policy changes on different sectors of the economy and different socio-economic or socio-

cultural groups, has been adequately taken into consideration, and whether complementary policies have been devised which will smooth the transmission of market signals and the distribution of benefits, or mitigate any negative effects.

As we highlighted above, changes to trade may result from macro-economic shifts and can be either beneficial or detrimental, with uneven distribution of the costs and benefits. Variation in exchange rates, for example, may outweigh the impact of trade policy changes, and an awareness of how such shifts in the macro-economy induce changes in trade is important. Policies to ensure that benefits are maximised and widely spread and that costs are mitigated against are also necessary.

In the section below we present some key trade policy instruments and the issues related to their reform.

4.1. Import/ Export Taxes and Tariffs.

A government may, unilaterally or as a result of bi-lateral or multi-lateral negotiations, reduce export or import tax. This can have significant impacts on trade and on the government's fiscal balance (see Annex 1, Q4.15 and Annex 2, Q1.12).

4.1.1. Impacts on trade

Reducing tax and tariff related barriers to trade can make imports more widely available and enable profitable export trade. However the distribution and intensity of first round impacts on poverty will depend on a number of issues, for example whether the poor are:

- working for wages in a sector which is now able to increase production and profitability due to improved access to international markets;
- net producers of crops which obtain a higher and more stable farm-gate price, due to their being freely traded on international markets;
- net consumers of a crop for which the government has removed export controls, leading to an increase in price (see Annex 2, Q1.2)

Most developing country producers are 'price takers' but, for those with a significant market share, such changes may influence the (domestic) price of exportables, international market price, or the price of the good in trading partner countries. In the longer run reducing barriers to trade may lead to a country following more closely its comparative advantage, leading to greater specialisation and increased efficiency - lowering prices, increasing competitiveness and perhaps market share (see Section 5.3 on specialisation). This may have an immediate effect on consumers and/ or industry and agriculture in that country.

Where the domestic price of a good has been artificially maintained at above international market price, poor net consumers will benefit. Net producers may lose out, but these are less likely to come from the poorest groups. Generally, consumers will also benefit from lower price variability. However, this may not be the case for products exported by few countries onto international markets, where producers form a price cartel or face similar climatic or other shocks. For example, Malawi's position as a food deficit country makes it politically vulnerable in its relationships with white maize trading partners South Africa, Zimbabwe and Mozambique. Its landlocked position makes it unable to bypass its neighbours in order to access international markets. As few countries export white maize, regional food insecurity in Southern Africa can lead to absolute shortages and substantial price rises.

Impacts will also depend on the structure of supply chains; the functioning of domestic regional markets and the sequencing and effectiveness of other economic and developmental programmes and strategies. So, the impact of the removal of import controls on maize, for example, may be predicted to have a net positive first round impact on the poor of a southern African country, where maize is a staple food. However, the simultaneous reduction in the holdings of the national strategic grain reserve, coupled with the removal of subsidies on maize meal from hammer mills and the suspension of pan-territorial pricing for purchases of maize by parastatal grain trading bodies would be likely to result in severe short run costs to the poor who, vulnerable to such shocks would be driven into food insecurity. However, the opening up of grain markets in southern Africa would be likely to have strong beneficial impacts on household food security and poverty if they are sequenced, and supported by investments in rural infrastructure and financial services, with mitigating social protection for the vulnerable (Bird et al., 2003).

4.1.2. Impacts on fiscal balance

Changes in trade-related tax can have a positive, negative or neutral effect on government revenue, depending on the reforms introduced and the particular circumstances of the country (Bannister and Thugge, 2001a). Changes in trade may reduce routes for taxation which have low resource mobilisation costs⁹ and high levels of political acceptability (e.g. export taxes on minerals, import taxes on 'luxury' goods), so the government will either need to identify alternative sources of revenue or cut spending. This is why domestic tax reform often has to be undertaken at the same time as changes in trade policy (McKay et al, 2000).

Reduced *import tariffs* will normally bring the price of imports and import substitutes down to nearer the international market price and reduce *total tariff revenues*, because in many poor countries tariffs generate a significant proportion of tax take. So, the lost revenue may have a significant impact on fiscal balance (Page, 2001, Bannister and Thugge, 2001a). However, changes in tariffs will not necessarily damage tax take, and the simultaneous reduction of tariff rates and the removal of tariff exceptions will actually increase revenue¹⁰. Where changes will result in a reduction, tariff revenue is conventionally replaced by value added or sales taxes. However, calculating the necessary rates and administering them can be difficult (Page, 2001). Also, progressive forms of taxation may damage vested interests, e.g. the formally employed urban middle class, resulting instead in the development of regressive tax regimes.

Identifying alternative sources of government revenue is particularly important where trade-associated tax-take is significant¹¹. If a government fails to increase other, non-trade related taxes, its attempts to maintain macroeconomic stability will depend on reducing expenditure at just a time when income differentiation is likely to increase and greater demands are placed on government budgets (McKay et al, 2000; Page, 2001). Where cuts in expenditure are unavoidable, the country's political economy and donor strategies¹² will determine which sectors and population groups bear the

⁹ Tariff revenue is administratively one of the easiest to collect (Page, 2001:18).

¹⁰ This is because items which had been exempted from tariffs will no longer be.

¹¹ McKay et al, 2000 (in Page 2001:18) indicate that for 36 least developed countries trade-related taxes generate nearly one third of total tax revenue or around 5% of GDP.

¹² Donors may argue for particular policies, and use conditionality to lever government compliance. Historically this has included vetoing and/or refusing to support social protection measures (Andrew Shepherd, pers comm).

losses, but the investment and developmental components of government budgets typically form a small portion of overall budgets. Recurrent costs are largely composed of salary expenditure, leaving governments with limited room for short-term adjustment.

The relative isolation of many groups of poor people and their low levels of successful engagement with policy processes and budgetary prioritisation may result in pro-poor public expenditures being vulnerable, relative to others. When regressive reductions in public expenditure take place it can negatively affect both quality of and access to essential services. Provision of such services is partially transferred to households with particularly negative effects for poor people. The non-poor are more able to absorb such increased costs than the poor, for whom public services perform a vital social protection function (Bannister and Thugge, 2001a). However, where such damage to the poor occurs as a result of either new taxes or reduced expenditure it is as the result of a political calculation. It is not the inevitable outcome, despite the constraints that developing country governments function under (Winters, no date). This is illustrated by an examination of the reactions of some East Asian countries which protected pro-poor expenditures in the face of far greater shocks, following the crisis of the late 1990s than any trade reform would produce (ibid).

4.2. Non-tariff barriers.

There are numerous non-tax related costs and barriers associated with trade, for instance those associated with regulatory or administrative controls. In Malawi, for example, maize exporters are required to obtain licences. These are only granted once the Ministry of Agriculture has determined that the country has produced a sufficient domestic surplus. Thresholds are set, and licences are granted up to this amount. Although licences are free, the process is centralised in Lilongwe and the bureaucracy and uncertainty is likely to dissuade potential traders (Bird et al., 2003).

The removal of non-tax barriers to trade will generate both first and second round costs and benefits, the distribution of which will depend on the sector affected and a number of country-specific factors.

Examples of the administrative and other barriers to trade include:

- Anti-dumping and other trade remedies
- Regulation of services and other trade related rules
- Safeguards
- Non-tariff barriers
- Export subsidies
- Other trade related institutions
 - Customs clearance
 - Export finance
 - Product standards
- Intellectual property

The table below summarises the potential impacts of these barriers to trade.

Table 2: The potential impact of administrative and other barriers to trade.

Form of barrier	Impact on trade	Potential impact on the poor (domestically & in trading partner countries)
Anti-dumping measures	<ul style="list-style-type: none"> • Anti-dumping measures are likely to restrict trade. 	<ul style="list-style-type: none"> • developed countries have been the main users (or abusers) of anti-dumping measures (“ordinary protection with great PR”), use of which has exploded since the late 1980s. A number of developing countries (e.g. India) have been significantly affected (by the attempted imposition of anti-dumping measures by trading partners). At the same time, developing countries have often suffered from dumping of subsidised European or North American agricultural products, undercutting developing world producers. Whether use of anti-dumping measures by a given developing country increases or decreases poverty obviously depends upon balance between net producers and net consumers of the good in question (notably in the case of staple foods) – but on balance seems likely to be anti-poor, or ineffective, more often than it is pro-poor
Regulation of services and other trade related rules	<ul style="list-style-type: none"> • Liberalisation of Mode 4 of trade in services (i.e. of temporary migration) would likely lead to rapid expansion in “export” of these services by developing countries. • GATS rules place limits on the use of government regulation of services as a barrier to the entry of non-national service providers: moving towards these principles is likely to open up trade in services (mainly from North to South, but potentially from MICs to poorer neighbours) 	<ul style="list-style-type: none"> • Mode 4 liberalisation (e.g. through a “GATS visa”) would potentially result in significant increase in incomes which, repatriated or remitted, could contribute to poverty reduction. Against this must be balanced possible negative effects on service delivery or economic growth from (even temporary) out-migration of nurses or labourers. • Also potential for developing countries to gain employment, incomes and access to technology and training through out-sourcing of backoffice functions or call centres: although benefits to the poor are admittedly indirect • Fears that GATS rules constrain the ability of government to regulate services (and specifically to ensure access to services for the poor) are often overblown: more typically, increased competition from foreign providers helps lower prices to poor consumers. Capacity of government to design appropriate laws and regulatory institutions is critical to making the most of service liberalisation
Safeguards	Is likely to restrict trade in the short-run, until developing country producers can adopt new technology	Applying rigorous new standards may dampen economic growth in the short to medium term. May lead to consolidation away from small enterprise and artisanal producers and to larger companies more able to adopt new technology and invest in training. Negative impacts are likely to disproportionately affect the poor
Non-tariff barriers	Likely to reduce trade flows	Will, in general, have a negative impact on poor consumers, but the impact on poor producers depends on the product and its importance in their livelihood portfolio
Export subsidies	Likely to increase trade flows from the subsidising country. May undermine producers in other countries.	Food subsidies may benefit poor consumers but damage the livelihoods of poor producers. Subsidies of non-food commodities (e.g. cotton) are likely to damage developing country producers and up and downstream industries.

<p>Other trade related institutions</p> <ul style="list-style-type: none"> • Customs clearance • Export finance • Product standards 	<ul style="list-style-type: none"> • Customs clearance – red tape around customs is likely to damage trade • Export finance – is likely to enable export companies and to stimulate trade • Product standards – is likely to damage the trading opportunities of poorer less technically advanced enterprises, but increase trust/ consumer confidence in importing countries, stimulating trade 	<ul style="list-style-type: none"> • High levels of administration around customs clearance and product standards are likely to act as a barrier to entry to small firms run by poorer people, they might also tighten profit margins and may reduce firm's ability to expand employment – benefiting poor people, but increased consumer confidence may increase opportunities, particularly for larger firms with potential for employment growth • Export finance – is likely to have a positive impact on growth, whether this is pro-poor or not depends on the nature of the enterprise and its backwards and forwards linkages.
<p>Intellectual property</p>	<p>International agreements on intellectual property may increase trade. Slowing technical transfer to poor countries may mean that they must continue to import high tech and manufactured products.</p>	<p>International agreements on intellectual property extend copyright and patent protection, and place restrictions on low-cost technology transfer, penalising poor countries and poor producers.</p>

In this section we use product standards and intellectual property rights as examples of some of the important issues raised by these barriers to trade.

4.2.1. Phytosanitary Regulations

Phytosanitary regulations may be categorised as 'other trade-related institutions', under product standards.

The 1994 WTO agreement specified international standards on sanitary and phytosanitary standards for agricultural and fisheries products (Page, 2001:21). The regulations may lead a country to introduce higher standards than they would for the national market at this stage in its socio-economic and political development, and it appears that restrictive agricultural trade policies and agreements negatively affect food security (IFPRI, 2003).

The costs of any dampening of development caused by applying rigorous new standards will be met disproportionately by the poor (ibid) (e.g. when EU enforcement of regulations resulted in Ugandan, Kenyan and Tanzanian fresh water fish exports being blocked during the late 1990s, devastating lake-based fishing economies. The lack of access to export markets can, however, have differentiated impacts on men and women. Men gain income from selling fish to factories processing for the export market but women do not. They tend to be engaged in small-scale fish processing and see their incomes decline if there is a shortage of fish for them to process for local markets).

There is heated conflict currently between the USA and EU on food safety issues, which has become politicised. Much of this is due to differing policies on the genetic modification of foods. IFPRI suggests that such a conflict diverts attention away from the problem of food insecurity in the developing world (IFPRI, 2003).

4.2.2. Voluntary Certification Schemes

Organic and other forms of certification are another form of product standard, and are becoming increasingly important in terms of proportion of trade flows and market share, although still relatively small. There is a growing transnational movement concerned with global issues of poverty, environment and human rights. An example of a campaign that it has run concerns the issue of child labour in the carpet industry in India. This campaign has resulted in the creation of Rugmark, a label that certifies child-labour-free carpets and provides services for the rehabilitation and education of children involved in the carpet industry (Chowdhury and Beeman, 2001). Demand for organic, fair trade and other ethically produced and traded goods has increased significantly in European markets during the last decade - whether this is the child-free manufacture of carpets; the production of timber from managed forests; fish from sustainable fisheries with 'marine certification'; the 'fair' cultivation and purchase of coffee, or the production of meat products without growth hormones, or the cultivation and sale of organic cotton. Meeting the rigorous standards necessary for certification may increase costs and complexity of production, however, producers who become eligible for labelling under one of these schemes can sell at premium prices. Those able to meet 'ethical' or 'fair trade' requirements are likely to also benefit from longer-term contractual arrangements which provide certainty of reaching markets and reduce price risk several production seasons ahead.

However, demands for high production standards are not necessarily unambiguously beneficial. Importer countries making demands for high environmental and other production standards may use them as a form of protectionist non-tariff barrier. For example, trade unions in OECD countries have lobbied for international employment standards, supposedly in the spirit of comradeship, but actually in an attempt to protect the salaries and jobs of their own members. So, the integration of producer countries into international regulatory systems can damage poor producers in developing countries and effectively protect producers in richer countries (see Page, 1999).

4.2.3. Intellectual property.

Technological change or transfer of technology may affect production and/ or trade patterns and lead to the emergence or disappearance of new or existing suppliers of commodities. This, in turn, changes returns to different types of labour (e.g. those with specialist skills for working in a particular sector vs. semi-skilled generalists) and may influence incentives for acquiring education or for making other sorts of investment (Page, 2001:20).

International agreements on intellectual property (IP) have extended copyright and patent protection, placing restrictions on low-cost technology transfer (see Annex 2, Q2.1). This has generally penalised poor countries and poor producers, as while trade liberalisation tends to favour the abundant factor of production, the protection of intellectual property improves the returns to innovation¹³, and protects returns to property, potentially giving developed countries oligopolist advantages while increasing the costs to those using the technology (Page, 2001:21). For low income countries, conforming to intellectual property regulation can place strains on the public sector and impose costs on the economy as a whole. This has been noted in recent debates with reference to the costs being faced by health sectors, particularly in SSA (e.g. through purchasing anti-retrovirals for the treatment of HIV/AIDS rather than manufacturing local generics) (Page, 2001). Some 'user countries' have argued that such measures could constitute a trade barrier (contrary to TRIPS) and there is currently renewed negotiation in this area.

With agreements on IP in place, technology transfers may still take place through foreign investment (see Section 5.2, below) or market purchase (Page, 2001:20).

4.3. Changes in international trade rules

Changes in the regulatory and tax burden and in opportunities or risks facing traders are not governed solely by domestic trade policies, they are also affected by international agreements and both the policy and *de facto* trading behaviour of trading partners and competitors. These changes may be unilateral, bilateral (including preferences), regional or multilateral, and they may involve any of the trade policy changes mentioned in the section above. Changes induced by economic growth, increases or declines in levels of poverty or other factors in trading-partner or competitor countries are dealt with elsewhere in this report (see Section 5, below).

Some of the key changes in the external trade policy environment are likely to include:

- a competitor or trade partner's obligations under the WTO; regional and bilateral trade agreements; consequential or autonomous changes in value of preferences under GSP schemes
- changes in international market conditions
- the impact of technological change affecting both the countries and third countries production and trading patterns

Researchers focusing on the trade-poverty linkages in a particular country may find it useful to use secondary data to compile an inventory of significant changes in the external trade environment. This can be used as the basis for a SWOT type analysis (strengths, weaknesses, opportunities, threats) which can be used to identify the factors in the external environment most likely to impact on trade in a way that will affect economic growth and poverty.

4.4. The impact of economic changes on trade

The macro-economic environment, both domestically and in trading partner and competitor countries, can have a significant impact on trade, through impacts on different segments of domestic and international consumer demand and through the transmission of changed production costs and risk

¹³ There has been limited analysis and registration of the intellectual property assets of the poor (e.g. indigenous knowledge registers, farmers' rights and benefit-sharing legislation) (Adrian Wells, pers comm).

signals to producers. Macro-economic shifts can also have a direct impact on both small and large traders, through, for example, access to and cost of investment and working capital and shifts in the relative value of currencies. So, factors in the domestic and the international macro-economy which can have a considerable influence on trade include:

- exchange rates;
- inflation;
- perception of risk to enterprise from government behaviour or civil conflict;
- impact of conflict (civil or regional) on patterns of investment, production and demand;
- consumer confidence and patterns of consumption;
- price smoothing through commodity and forex markets vs. the potential volatility of global markets;
- public expenditure and enterprise/ trade;
- regulation, taxation, subsidy;
- economic growth rates – growth in specific sectors (multipliers, linkages);
- growth and altered levels and structure of demand;
- variability of demand and
- domino effects.

We do not have the space here to trace through the impact that each element of the macro-economy has on trade. In this section we therefore focus on the impact that shifts in the exchange rate can have on trade.

The table below summarises the impact that key changes in the macro-economy – at the country and international level - can have on trade. The impact that these changes may then have on the poor is explored in Section 5, below.

5. How does trade affect the poor?

In this section we examine the impact that changes in trade policy, and real changes in trade regimes through the effective implementation of such policies, has or might be predicted to have on the poor. As part of this analysis we must examine the difference between *stated* trade policy and the policy as *implemented*. If there is a difference between stated policy goals and what is really happening, do these differences result in less good outcomes for the poor? The World Bank promotes the idea that liberalising markets results in poverty reduction. The Bank points out that poor countries, with combined populations of around 3 billion people, have broken into the global market for manufactures and services, and suggests that these “new globalisers” have experienced large-scale poverty reduction as a result (World Bank, 2002). However, linkages between trade and poverty are complex, making systematic empirical investigations difficult. Nevertheless, we attempt to trace the linkages through an examination of:

- economic growth and changes in production patterns, including an examination of impacts on overall prices; changes in the structure of firms and opportunities for labour mobility (Section 5.1);
- foreign direct investment (Section 5.2)
- increased specialisation (Section 5.3)
- changes in income and differentiation (Section 5.4)
- consumption patterns (Section 5.5)
- changes in well-being (Section 5.6)
- markets, including an examination of the extent to which poor have access to markets for the goods and services they buy and sell; the linkages between such local markets and international markets. We will also discuss the market related constraints faced by the poor, including their ability to influence markets (Section 5.7);
- the assets of the poor (Section 4.8)
- livelihoods and work opportunities (Section 4.9)
- coping with risk, shocks and vulnerability, including the shocks associated with trade reform (Section 4.10.)
- transfer income - remittances and both formal and informal social protection transfers (Section 5.11)

Trade liberalisation can lead to price and market effects which increase resources and offer new livelihood opportunities (e.g. through higher income or the construction or improved functioning of markets) or which result in decrease resources or threaten livelihoods through the reverse. Empirical studies suggest that trade reform has a positive aggregate effect on employment and income for the poor; however there are winners and losers (Bannister and Thugge, 2001b). Impact is mainly determined by the policies that are followed (or not followed) by the national government to redistribute income or assets through taxation, and through investments in infrastructure and other public goods, social protection and health and education (Page, 2001:19). If the short-run costs of trade liberalisation fall disproportionately on the poor, policies can be designed to mitigate these effects. These might include making reforms as broad based as possible, sequencing and phasing them to allow for adjustment, and implementing social safety nets and other reforms (Bannister and Thugge, 2001b).

However, suggesting that tax and investment policies will be adjusted to allow government to systematically compensate the losers from reform suggests that we expect governments to follow benign pro-poor and pro-development agendas. Analysis of the functioning of the neo-patrimonial state indicates that ruling elites may not act with either poverty reduction or ‘rational developmental objectives’ in mind (Bird et al, 2003). The political economy of a country may result in a failure to recognise the needs and rights of particular poor and excluded groups. The distribution of costs to one group may be discounted because of the accrual of benefits to another.

5.1. Changes in trade and economic growth.

There is considerable debate amongst economists as to the linkages between trade, growth and poverty, even if we assume for the time being that increases in trade flows result unambiguously in growth¹⁴. This section highlights some of the arguments in this debate.

Since 1980 trade has increased substantially and tariffs have decreased (Dollar and Kraay, 2001). Increased trade flows can reduce aggregate poverty levels, largely through stimulating economic growth, but also through reduced consumer prices. Changes in trade can also have distributional impacts, as sectors expand or decline or elements in the value chain gain or lose. The poor can lose or benefit as a result of these changes. Dollar and Kraay have identified a group of developing countries with high levels of participation in international trade (e.g. India, China) which have seen economic growth rates accelerate through the 1970s, '80s and '90s while other countries in both the developing and developed world have seen growth rates decline. The 'globalisers' have begun to 'catch up' with the developed world while other developing countries have fallen further behind (ibid). Having analysed the distribution of income rate changes amongst different income groups in several 'globalising' developing countries, Dollar and Kraay (2001) conclude that there is little systematic evidence of a relationship between changes in trade volumes (or any other globalisation¹⁵ measure that they consider) and changes in the income share of the poorest. Increased globalisation led to increased economic growth, the growth is 'distribution neutral' – in other words, the poorest benefit as much as the rich – and so poverty reduction occurs but in absolute rather than relative terms.

Dollar and Kraay recognise that liberalisation creates short-run winners and losers, but argue that the losers do not come disproportionately from the poor (ibid). Ianchovichina et al (2001) do state that trade reform will have a positive effect on all income groups¹⁶. However, other researchers use empirical evidence to support their argument that the relationship between trade liberalisation and growth is not straightforward and that it depends on a number of external and country specific factors (Rodriguez and Rodrik, 1999a, in Kanji and Barrientos, 2002:10) including the existence of complementary and consistent macroeconomic and structural policies to foster adjustment and growth (Harrison and Hanson, 1999; and Rodriguez and Rodrik, 1999b). McKay et al (2000) agree that complementary interventions are important, as are a country's initial conditions and the way in which it implements trade reform. White and Anderson (2000, in Kanji and Barrientos, 2002:10) show that as far as the poor are concerned there may be a trade-off between growth and distribution, and that a focus on distribution might benefit them more (ibid).

Reviewing the debate, Ravallion suggests that those taking a positive view of the linkages between trade, growth and poverty reduction support their argument with average figures instead of examining evidence of initial inequalities and how they change over time. By aggregating income changes, the differentiated outcomes of different groups is masked. Those with a more negative view highlight inequality, and show the negative impact on the poor of high or rising inequality (2000, in Kanji and Barrientos, 2002:11).

Where economic growth has effective linkages to poverty reduction (e.g. through effective distributory mechanisms, tightening markets for un- and semi-skilled wage labour and increased government and household investments in health and education) one might expect this economic growth to generate reductions in both the incidence and the severity of poverty. Though whether this occurs or not depends on the nature of the economy and its bottlenecks and transmission mechanisms (see Figure 1, below, for an illustration of direct and indirect effects, backward and forward linkages, multipliers and so on). Also, whether these improvements reach the chronically poor as well as the transitorily poor and extend into every sector, region and social group is a matter for local level analysis and policy design. Where they do not, it is up to the government to design appropriate redistributive

¹⁴ McKay et al (2000) suggest that the basis for long-run growth is created by liberalisation leading to improvements in productivity, technology adoption and investment.

¹⁵ In this paper, globalisation is taken to mean the increasing movement of material, information and people across borders.

¹⁶ An assumption of homothetic preference results in larger welfare gains, while non-homothetic assumptions results in the poor gaining the most (Ianchovichina et al, 2001)

mechanisms and to invest in public services and social protection. As we have mentioned above, whether they do or not depends on the political economy and the nature of democracy in the country.

5.2. Foreign Direct Investment

As we showed in Section 4, changes in trade regime may provide impetus for changes in the national economy and business environment. These changes may attract greater flows of investment, some of which might be FDI (foreign direct investment)¹⁷ (see Annex 2, Q2.2). However, not all countries are seen as attractive. Investors want to be able to predict high profits. A skilled and healthy workforce (completion of primary education is seen as a minimum requirement for unskilled labour) and good physical infrastructure are important determinants of investment location (Page, 2001:18). The policy environment is secondary (Sheila Page, pers comm), but investors prefer to see a positive relationship between business and government; high levels of transparency and predictability of action; low levels of rent-seeking, and low levels of macro-economic risk.

Where increases in FDI result in a net increase in levels of national investment there will be a direct increase in potential output and therefore aggregate national income. In countries with a shortage of investment capital, such new investments can have a particularly strong positive impact (Page, 2001:20). FDI can extend to investments in manufacturing, trade, distribution and services and a study of Bangladesh, Uganda, Morocco, Jamaica and Vietnam shows that TNCs are becoming increasingly important employers in many developing countries, particularly in certain parts of the service sector (Joekes, 1995). Investments can span sectors or realms of activity, for instance Nestlé's involvement in the Ivorian coffee sector, where they not only buy a portion of the coffee crop but process and export it (Andrew Shepherd, pers comm). FDI in trade and distribution can have a substantial impact through increasing producer access to agricultural extension advice and seasonal credit through market interlocking, and the development of outgrower schemes, and by increasing trader activity and competition through improved trader access to credit (Dorward et al, 1998). Trade liberalisation in Ghana led to a number of international trading houses increasing their interest in the Ghanaian market, again with positive trade finance and new market benefits (Andrew Shepherd, pers comm). Cargill's involvement in the post-privatisation cotton market in Zimbabwe made prices for semi-arid small holder producers more regular, market access more certain and production more attractive to even quite poor households (Bird and Shepherd, 2003a). Also, FDI can help to stabilise demand, which is important to poor entrepreneurs and agricultural producers (Andrew Shepherd, pers comm).

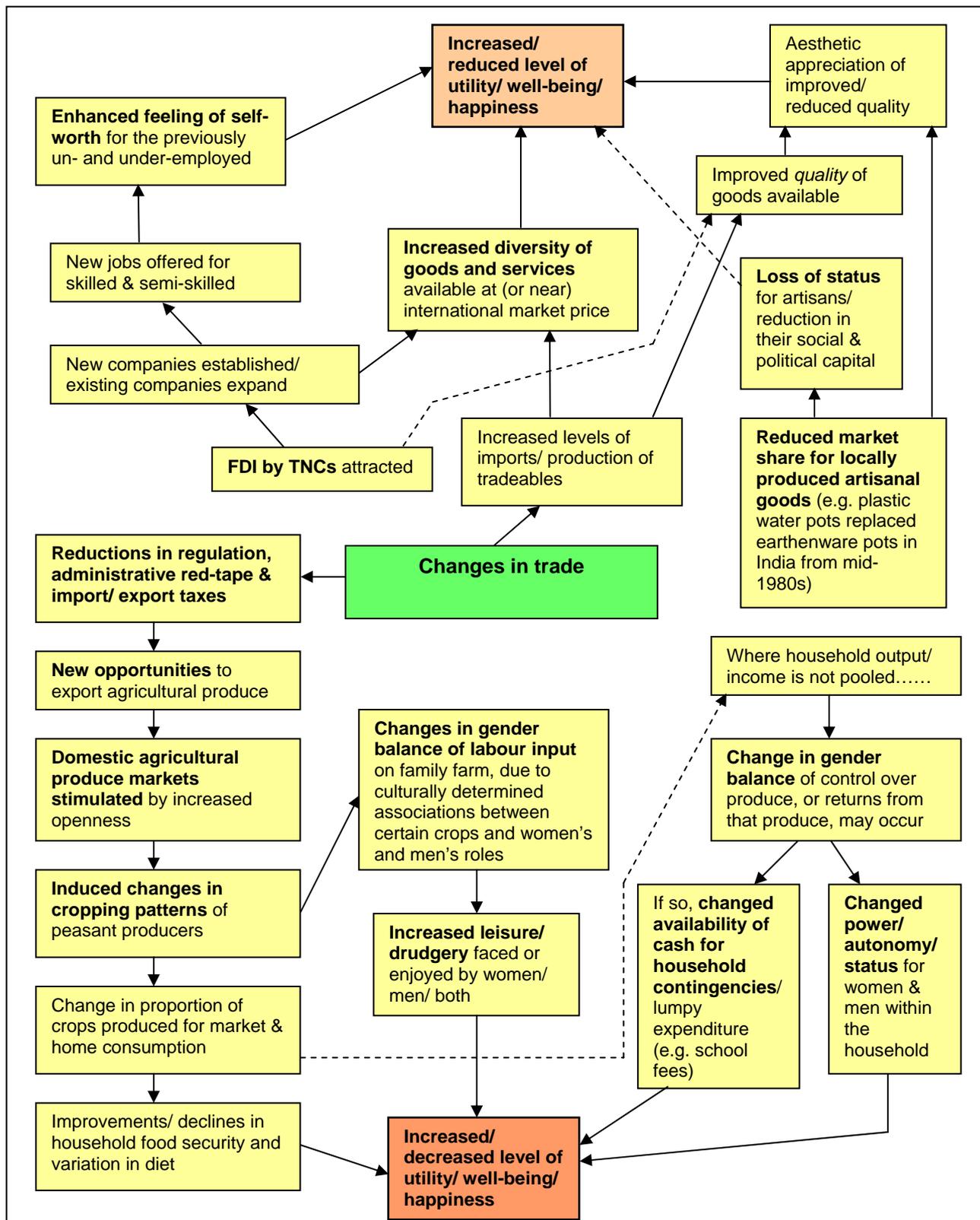
Figure 1 shows that FDI can be linked to the development of new enterprises and the growth of existing ones, with positive knock on effects for employment. However, the net impact on employment within the sector will depend on the impact of such expansion on competitors. FDI is argued to lead to long-term improvements in efficiency and competitiveness, due to skills transfer raising local standards to international levels. If this is true, such capacity building in the national workforce can have positive multipliers. FDI is also one of the most efficient mechanisms for transmitting new technologies. This can have important multipliers, as workers with enhanced skills are more capable of establishing their own enterprise either in the same sector, or where skills are transferable, in another. This indigenising of entrepreneurialism can have considerable benefits on the economy as a whole. Where enterprises draw in semi-skilled staff, the distribution of first round benefits is likely to be more pro-poor (see Figure 1, below – which can support the tracing of the possible impacts of any of the changes associated with modifications to trade regimes).

The net impact of attracting FDI (or the location of TNC operations) to an economy will depend on how strongly the new enterprise or expanded sector is linked in with the rest of the economy through backwards and forward linkages and on the nature of its workforce. Where foreign investment is geared towards production for local markets a portion of the benefit from increased production will accrue in the form of profits to investors and the balance to the local labour force and through up and downstream linkages to suppliers and other manufacturers. The more integrated production is with the

¹⁷ Foreign investment is often made with borrowed or part local capital, so 'foreign' is something of a misnomer (Page, 2001:20).

rest of the economy, the bigger the local share (Page, 2001:19). Impact will also depend on the robustness of local competition. It may be that the short-term impact of such investments results in declining market share or profitability for local firms. However, the medium- to long-term impacts of such investment may be positive. The ultimate outcome will depend on the nature of the investment and on local variables, including the skills and adaptability of local labour and entrepreneurship and it is impossible to know *a priori* what share will go to local labour and local entrepreneurs (ibid).

Figure 1: Examples of changes in trade's possible influence on the intangible components of well-being.



5.3. Increased specialisation

An empirical question that needs to be asked at the country level is whether increases or decreases in liberalisation affect the degree of specialisation in the economy (see Annex 1, Q6 and Annex 2, Q1.3)). Theory suggests that as trade distortions are removed (e.g. tariffs, quotas, subsidies), inward and outward trade is likely to increase, resulting in long-run increases in national level specialisation along lines of comparative advantage. This is rarely in a predominant export, as most dominant exports already have good (or even preferred) access into markets (Sheila Page, pers comm). However, such shifts might be expected to result in more efficient resource allocation and production within the economy as the economy focuses on areas in which the country has comparative advantage¹⁸ and production shifts to the cheapest location (Page, 1999), resulting in enhanced economic growth¹⁹ (Kanji and Barrientos, 2002:17).

The liberalisation of international, regional or bilateral trading arrangements can be highly negative for countries with highly specialised economies dependent on one or a few exports. They are exposed to considerable risk of changes in the price of that good or in the supply conditions for inputs. So, although the specialisation of an economy in line with comparative and competitive advantage is theoretically advantageous, there are risks attached. Diversification (as opposed to specialisation) has been shown to be the rational response of poor agricultural producers to high levels of risk and vulnerability (Ellis, 2000, Scoones, 1996) and most governments want to see a reasonably broad based economy. As a result they have strong policies directed to diversification, for example the promotion of non-traditional exports²⁰. Incentives generated by their policies, or resulting from their investments in education or in regional development²¹, and by the enabling or disabling environment created by regional or international treaties may generate countervailing signals, dampening the impulse to specialise. So, research must explore what actually happens.

If specialisation occurs, the direct and indirect effect that it has on poverty will depend on the characteristics of the sector that specialisation is occurring in, the ability of producers and entrepreneurs to adapt rapidly to new incentives (Kanji and Barrientos, 2002:15), and whether specialisation at the national level results in regional and household level specialisation. If the expanding sector produces goods which are used in-country or is low-skill labour intensive, the poor may benefit through the increased availability of the product at lower prices, through being employed, or by increased demands for low-skill labour leading to a tightening of the labour market and increased wages (see Annex 2, Q4.1). If the product is mainly for export or is highly resource or capital intensive, the direct effects will be on profits or rents, and poverty reduction will depend on second round policies. If the sector is geographically concentrated (e.g. the Zambian copper belt), the costs and benefits may be regionally concentrated. Households in the specialised area may narrow their livelihood portfolio, allowing them to maximise the benefits they gain from the sector while it is in its ascendancy, but increasing their vulnerability to shocks. If this strategy of household specialisation is widespread covariant risk will increase, exposing whole communities to shocks. Following a shock, traditional safety nets may be unable to cope, and a whole region may slip into poverty.

A review of experience around the world indicates that specialisation in simple manufactures or small-producer agriculture has more immediately favourable effects on the poor than specialisation in

¹⁸ Kanji and Barrientos (2002:15) suggest that much of the liberalisation of trade during the 1990s was based on the logic that the dismantling of protectionism (tariff barriers, quotas) will allow countries to follow comparative advantage, increase access to domestic and international markets, increase producer prices and remove the urban bias generated by controlled prices. Freer trade is also expected to increase global demand for developing country exports, often produced with large inputs of unskilled labour, increasing employment, raising wages and reducing income poverty.

¹⁹ However, the view that trade liberalisation promotes growth, which leads to poverty reduction is largely based on assessments of aggregate income and consumption measures of poverty (Kanji and Barrientos, 2002:6).

²⁰ The effectiveness of such policies varies, with Côte d'Ivoire successfully diversifying during the 1990s but neighbouring Ghana seeing little change (Andrew Shepherd, pers comm).

²¹ The benefits/ loses arising from specialisation are in part dependant on physical infrastructure, distance, levels of accessibility/ isolation to markets and inputs, transport costs and other real barriers to trade.

mineral exports. However, mineral exploitation can be attractive to governments as it provides them with a politically acceptable tax base. Governments with a developmental or pro-poor focus can then prioritise redistribution, and so benefit the most vulnerable citizens.

5.4. Changes in income and differentiation

In the section above we showed that increased trade flows can result in economic growth. The World Bank also regards global integration (globalisation) to be a powerful force for poverty reduction (World Bank 2002). However, there is a range of views as to the truth of this. McKay et al (2000) suggest that although trade liberalisation *cannot* be considered to be a poverty reduction strategy in its own right, it can have substantial indirect effects (positive and negative, short-term and long-term) on poverty.

If trade does result in economic growth, an issue is whether that growth is evenly distributed or not. Where differentiation is increased, due to the uneven distribution of costs and benefits, it is important to identify the determinants of a particular distribution. If those systematically losing out as a result of policy change are those in remote rural areas, urban slums, the chronically poor or excluded or minority social or ethno-linguistic group then we need to be aware that the domestic political economy of a country is not likely to result in compensatory policies to mitigate any negative effect.

Reforms may increase overall poverty at the same time that they are increasing incomes in total (McCulloch et al, 2001). Studies from around the world provide considerable evidence that liberalisation can cause greater differentiation in both income and assets between and within countries (Kanji and Menon-Sen, 2001). Yang and Huang (1997) show that in China economic growth over the last few years has resulted in poverty reduction, but also in increased income differentiation, and in Latin America unskilled labour lost more than other workers as a result of trade reform (McKay et al, 2000). In fact most trade reform affects income distributions, pushing some into (or deeper into) poverty, while benefiting others. Harisson et al (2000) suggests that trade liberalisation *does* result in some groups of the rural and urban poor being worse off – in the absence of compensatory transfers. Devarajan and Mensbrugghe (2000) show that in the South African context impact of removing tariffs will be differentiated by ethnicity. Average welfare for white households will be reduced, but the average welfare of black households will be improved. *Within* ethnic groups, richer black and poorer white households are likely to benefit.

A study of the impacts of trade reform on the poor in Morocco, using rural-urban GE analysis, suggests that trade liberalisation in agriculture will result in gains for the country as a whole, but that the poor will lose out. Mitigating measures to compensate the rural poor will be necessary if the reform is to be pursued without causing hardship (Lögfren, 1999). Another study, focusing on Indonesia, found that few or no households were made *worse off* by increased openness to trade, but that gains from liberalisation were skewed towards the urban rather than rural populations and the wealthy rather than the poor, increasing differentiation (Friedman, 2000).

In order to trace the impact of changes in trade through to the local level we might wish to examine the transmission of effects to local markets and so through to local livelihoods. These issues are examined in the Checklist (Annex 1) and Matrix (Annex 2).

5.5. Consumption patterns

One of the prime ways in which trade liberalisation affects the poor is through the change of prices of liberalised goods, their substitutes and goods for which they form substantial inputs (McCulloch et al, 2001)

Decreased barriers to trade can result in changes in the aggregate levels of trade and the composition of trade. There may be increased levels of imports across one or a number of sectors and decreased prices of imported and local (substitution) goods. This affects the choices that consumers can make regarding goods and services and may result in moving some households above or below the income

poverty line. In general consumers benefit from trade reform and this includes the poor (McKay et al, 2000). The distribution of costs and benefits from these changes will depend on who produces the local (substitution) goods; whether the sector is labour intensive, attracting an unskilled or semi-skilled poor workforce; whether there is a gender, ethnic or other social dimension to the workforce, and whether the good is produced in household based micro-enterprises or is mass-produced. Another important factor is who currently captures the 'rents' derived from barriers to trade, as this will influence which group will be most affected by a reduction in market share and/ or profitability of the good.

Whether the opening to imports will have short or long-term implications for the individuals and households affected will depend, in part, on which group within the population makes up the majority of consumers for the (now cheaper and more widely available) import or substitute good. If they are the poor, it is possible that despite possible increases in unemployment and declines in wages there will be a net benefit to the poor as a whole. However, it may be that the costs accrue to one group of poor people and the benefits to another, or that the costs for one group outweigh the benefits they receive. In such cases policies to mitigate short term declines in income and well-being may well be needed. If the typical consumers of the good are non-poor²², and the labour force involved in the manufacture of the now uncompetitive and declining domestic industry are poor, then the short-run impact of the change is likely to be regressive.

There is also a whole realm of less obvious impacts which are generated by altering the incentives faced by individuals, households, communities, enterprises and sectors. For instance, the enterprise mix of a peasant farmer may shift because she is now able to access imported fertiliser at an affordable price. She may increase the acreage of maize, decrease the acreage of pearl millet and groundnuts and benefit not only from greater income but increased leisure (cultivation and post-harvest processing of millets is highly labour intensive, processing groundnuts – for those without access to mills – is also slow and laborious). However, her exposure to rain-failure risk will increase and unless the markets start functioning better than they do at present (e.g. in rural Uganda and semi-arid Zimbabwe), she might find buying protein to replace the groundnuts difficult and so household food security may be compromised. The decision to reduce millet production is likely to have been replicated by other women farmers in the region and though beneficial in terms of reduced drudgery, will have reduced access to millet for beer brewing, an important source of female-controlled cash income for contingencies and 'lumpy' expenditures (e.g. school or medical fees), and an important input into communal events and payment for communal labour (Bird and Shepherd, 2003b).

5.6. Changes in well-being

Changes in trade can also affect the more intangible side of an individual's, household's or community's well-being (see Annex 1, Q7.9).

Changes in levels of social and political capital may result indirectly from changes in trade. The mechanisms by which changes in trading environment can generate alterations in the involvement of groups and individuals in social networks; in their perceived level of social or cultural isolation and/or their inclusion or exclusion from mainstream or sub-cultural society; their political voice and access to decision-making are explored in greater depth in below.

The distribution of positive and negative changes in social and political capital and levels of inclusion or exclusion as a result of changes in trading environment will be differentiated. Social identity, location and livelihood grouping or occupation (etc.) may help to determine the distribution of these changes.

²² The key consumer group may not be even throughout the country (perhaps due to religious or cultural preferences), leading to a regionally differentiated impact.

5.7. Changes in trade and market access.

Changes in domestic trade regime, the domestic macro-economy, the trade regimes of trade partners of competitors and global economic factors can all affect the opportunities and risks for traders. Transmission mechanisms route these changes through the economy as a whole, but how changes in any one aspect of the domestic or international trade context will affect traders themselves, actual trade flows and how markets function will depend on local contextual issues.

5.8. The impact of trade on household and community assets.

In this section we present approaches for examining the likely impact of changes in trade regime (and associated policies) on community and household assets (see Annex 1, Q7 and Annex 2, Q1.1b, Q1.4). Building an approach based on DFID's sustainable livelihood framework (see Carney, 1998) may help researchers to systematically include rather more intangible (social capital, political capital) as well as tangible types of asset (natural capital, physical capital, financial capital and human capital). Contextualising change by use of the livelihoods framework should ensure that the role of institutions and governance processes and the vulnerability context of the poor (vulnerability, shocks, trends and seasonality) are given proper attention (see Annex 2, Q1.5). Use of the framework should ensure that these changes are thought through in terms of their implications for individual livelihood activities, household livelihood portfolios and well-being. However, it can be difficult to combine this kind of grass-roots analysis with macro-level policy analysis. This is something that we attempt to overcome in this paper (for methods combining macro and micro analysis see Annex 3 on *Appropriate research and data analysis methods* and Ashley et al, 2002a,b and c).

5.8.1 Trade and the human capital of poor people

In this section we examine the impact that changes in trade may have on the human capital of the poor (see Annex 1, Q7.3). People's human capital or capabilities are affected by their health and skills or level of education. Health is obviously affected by genetic factors, food security and nutrition, environmental factors and exposure to infection.

Trade liberalisation may affect levels of human capital directly, through altering the costs and nature of inputs for health care and education (e.g. through insurance markets, in the long term). However, many of the impacts are likely to be indirect through changes in the amount of money available (within the household) to finance expenditures on education and health and to maintain food security, due to:

- changes in the (pooled) aggregate household income available for contingencies and lumpy expenditures
- changes in the amount of cash-income and/or easily liquifiable assets held by whoever is responsible for expenditures on health and education (e.g. through access to new and more highly paid employment or through changes to the cropping patterns and the livelihood portfolio of the household).

Where household income is pooled and household decision-making is joint or consensual, an aggregate increase in household income can be presumed to be an accurate proxy for an increase in well-being for all household members (*ceterus paribus*). However, as we show in Section 2.1.2 above, norms regarding the pooling of income and the making of household decisions differ and separation within the household is frequently maintained in terms of income and responsibilities. This makes the outcomes of changes in trade less predictable. So, changes to trade which provide new employment opportunities or increased wages may:

- increase disposable income, making it possible to enrol children in school or keep them in school for longer; to pay for more/ better/ earlier health care interventions; to afford a more varied and nutritious diet; to improve living conditions and therefore both mental and physical health and well-being

- increase the disposable income of one individual, but not improve the level of consumption or well-being of the household as a whole
- increase disposable income, but reduce the time available for leisure and reproductive tasks. This 'time-squeeze' may lead to 'self-exploitation' (Ellis, 1993) and declines in both tangible health measures and intangible well-being, or to the withdrawal of children from school to take over some reproductive tasks (Page, 2001:19)
- increase the disposable income available to support food security and investments in health and education, improving both immediate and long-term well-being for the household

Changes in trade may also lead to short-run declines in employment or increase risks or reduce returns to the livelihoods of the poor. It is important to that these are distinguished from normal fluctuations and also from changes resulting from other policies or household-level events. We explore causality in Annex 4: *Appropriate research and data analysis methods*.

A shock or series of shocks is likely to induce coping. As we show below in Section 5.9, *Coping with risks, shocks and vulnerability*, households will sequence the way that they draw down on their assets in order to preserve those that they value highly. The poor depend heavily on their own labour in order to develop a livelihood. They may view education as a long-term investment (school fees and equipment, opportunity cost of time) which will raise the returns to (their children's) labour. If this is the case, it is not inevitable that reductions in either aggregate household income or in the disposable income (and liquifiable assets) of those responsible for maintaining household food security and human capital investments will result in children being withdrawn from school. However, sharp declines may eventually mean that children must find work paid in cash or kind (possibly coupled with their withdrawal from school), or take on reproductive tasks, to enable their mother or older siblings to engage more fully in productive tasks or paid employment.

Changes in trade regime can have important direct consequences for the working poor through increasing returns to educated or healthy labour. This may be because a more open economy has attracted foreign investments (see Section 5.2, *Foreign Direct Investment*), new jobs are available and the labour market has tightened, driving up wages, or it may be that reduced trade barriers has led to increased levels of export, increasing the profits accruing to a sector and the surplus that micro-entrepreneurs can extract for household consumption. Although increases are possible, decreases are also possible, and the movement of change and distribution of such changes will depend on local conditions. Indirect impacts on returns to labour (both positive and negative) can also occur through changes in levels of taxation and government expenditure.

Where returns to educated labour increase, and to skilled labour in particular, this can have a set of beneficial impacts – other than the immediate impact on increased disposable income. The value that poor households place on education may increase, as they see tangible evidence of returns on the investment improve (see Page, 2001:19). There might be a gender dimension to this, if there are gender-based rigidities in the labour market, and as we have shown increasing returns to labour may, in fact, result in children being withdrawn from school to replace adult household labour.

The distribution of benefits from increased returns to labour will depend on whether

- the increase is confined to a small, geographically confined and poorly connected sector, or a large sector with high levels of employment and strong up- and downstream linkages into the national economy
- whether the labour market within the country functions efficiently, or whether recruitment is strongly influenced ethno-linguistic identity, gender, nepotism and rent seeking. Inefficient labour markets may fail to transmit improved returns in one location, in one sector, to other parts of the country and other sectors.

Increased returns to skilled and healthy labour may be highly beneficial to those individuals, their families and the broader economy. However, the benefits of such improvements may accrue largely to the non-poor and to the well-connected urban and peri-urban parts of the country. The chronically poor are likely be largely excluded from such opportunities because of their inferior education and skills and their poorer health. Older people, the chronically ill and child-headed households - often the

poorest in any society – will not benefit directly from such improvements in the economy, although they may do through intra- or inter-household transfers of formal social protection (see Section 5.11). Without such transfers, one might anticipate widening differentiation within society. The political economy of a country will determine the level of differentiation that is acceptable, and the likelihood of implementing mitigating measures through taxation and social protection.

5.8.1.1. Child labour.

As pressure increases on governments to implement policies connected with international agreements on the rights of the child more attention has been centred on the widespread use of child labour. Lobby groups have focused on child workers in export industries, however the employment of child workers in export industries, such as textile, clothing, carpets and footwear are relatively limited in comparison with those employed in activities geared towards domestic consumption (ILO, 1996 in Page 2001:19). Probably less than 5% of child labourers are employed in the export or mining sectors, and only 1 to 2% in export oriented agriculture.²³

Sheila Page suggests that limiting trade with countries that use child labour may reduce these country's economic growth opportunities and ultimately aggravate both poverty and levels of child engagement in the labour market (Page, 2001:19). Perhaps the most effect way of reducing children's involvement in onerous employment is to find ways to stimulate pro-poor economic growth which will generate higher return employment opportunities for poor adults, reducing their household's dependence on children's wages.

5.8.1.2. Impact of increased labour mobility.

GATS is likely to increase international labour mobility, increasing both opportunities and competition for poor workers (see Annex 1, Q8 and Annex 2, Q1.11). Increased migration, particularly of less skilled workers, has huge potential for poverty reduction (McCulloch et al, 2001). Migration raises the income of those who migrate (who are not generally the poorest) and their remittances can raise the immediate incomes of the poor and provide capital for investment. However, 'sending areas' that are net losers in terms of 'skill/ labour' drains can be damaged, and it is necessary to assess whether remittances are adequate 'compensation' for this. There can also be heated political resistance to migration in 'receiving areas' as local labour is displaced and cultures clash. McCulloch et al (2001) suggest that in order to maximise benefit from increased labour mobility, resolving any political and practical difficulties should be prioritised.

5.8.1.3. Food security.

As we have shown elsewhere in this paper (see Section 2.1.2) changes in total household income, or in the income of certain members of the family, can lead to either improvements or declines in nutrition, diet variation and food security (see Annex 2, Q1.6). We have also shown that changes in cropping pattern can lead to a similar range of results.

Important positive or negative changes in household food security can occur as a result of modifications in trade regime due to:

- shifts in relative prices in the economy (e.g. terms of trade for agricultural vs. manufactured goods), making the income/ production-in-kind of the poor either go further or less far.
 - If relative prices of food increase, net consumers (i.e. those purchasing more from food markets than they sell) may find it difficult to maintain food security.

²³ This may be an under-estimate of the true number of children employed in export-related agriculture. Many child agricultural workers are informally employed in working part or full-time in household agriculture, and therefore have low levels of visibility. The surpluses from (peasant) household agriculture may be sold onto local markets, and eventually find themselves traded internationally.

- If changes create incentives to increase production of non-food commercial crops and decrease production of food crops, household food security of producers may suffer if local markets or household decision-making processes mean that the shortfall in household food is not compensated for
- if it generates incentives to change the balance of food crops produced (e.g. to monocrop rice, rather than grow rice and pulses) resulting in reduced local access to a wide range of staple crops, vegetables and pulses
- real reductions/ increases in the local market price for food staples or in 'inferior' (often non-traded) non-food items which make up a significant portion of the 'consumption basket' of the poor
- real reductions/ increases in the local market price for inputs for the productive enterprises of the poor (e.g. agriculture: fertilisers, hybrid seeds, pesticides, labour; bicycle repair: oil, spare parts, labour)
- changes in levels of competitiveness of domestic industries leading to job losses or increased recruitment

Changes in food security can be monitored through measures of child stunting and wasting and through physical evidence of macro- and micro-nutrient shortages. Poor nutrition can be a sensitive indicator that the poor are failing to cope, and can be useful trigger for public sector social protection measures.

5.8.2. Trade and the social capital of poor people

Social capital is made up of the kinship, friendship, religious, community-based, professional and other networks to which people belong²⁴ (see Annex 1, Q7.4). Being socially excluded is regarded as a powerful indicator of relative poverty and individuals and households with low levels of social capital are likely to have limited access to informal safety nets and certain livelihood activities. Social capital can be an important enabler, and can be a significant component of an individual's cultural identity, however, it can also represent regressive forces (e.g. criminal gangs; anti-integration ethnic movements - neo-fascist youth may club together to victimise a migrant worker; village elders may fine a low caste individual for breaking local taboos).

In much of the development literature social capital is assumed to have purely positive attributes, however, we would encourage researchers to be aware of social capital's potential for negative impacts.

Robust social capital networks, which function vertically as well as horizontally, are an important precondition for redistributive traditional safety nets. Without such networks, poor households must attempt to cope with adversity alone. However, establishing and maintaining such networks may involve humiliating or asymmetric relationship (e.g. a poor man 'befriending' a wealthy man by giving him regular gifts).

Community cohesion may be damaged as a result of changes in trade if:

- shocks to livelihoods result in the widespread adoption of coping mechanisms which draw down on social capital to generate flows of transfers (traditional safety nets) or destroy social capital through begging from neighbours, theft or prostitution etc.
- opportunities are created for some but not others, resulting in increased income differentiation
- traditional livelihood activities are destroyed. This can damage social capital, where the activity was an important focus around which other activities were organised

Entry into trade-related livelihoods may be affected by social capital. For example, households in semi-arid communal Zimbabwe with urban-based kin were able to trade peanut butter and other processed goods in the cities. Without an urban linkage they had to try to sell their surplus products locally and less profitably (Bird and Shepherd, 2003a). Similarly, individuals wishing to become involved in international trading may find it easier to do so if they have good networks in business and

²⁴ Some understandings of social capital include access to information (e.g. news).

government circles. Their contacts may explain complex regulations, facilitate access to credit, provide them with introductions to trading partners and draw them into cartels. People without membership of these networks may experience very high barriers to involvement in trade-related enterprise. Ethnicity, gender, religion and other forms of social identity may be strongly associated with membership or exclusion from networks, resulting in trade having a particular social structure. This may result in a dominant group (based on ethnicity, gender, location etc.) being able (perhaps through monopoly or oligopoly power) to control prices or extract rents. It may also be able to prevent border price increases or reductions from being transmitted down the production chain to the poor. An issue for research at the country level is to assess whether this is the case, and to examine whether changes in trade policy and associated changes will affect the social structure of trade and therefore the transmission and distribution of costs and benefits.

5.8.3. Trade and the physical capital of poor people

The physical capital of poor households is usually limited to their house, household utensils, farm implements or other artisan tools and perhaps a bicycle or radio (see Annex 1, Q7.6). Changes to trade may affect these assets if shocks result in coping strategies which require their sale, or if improvements allow accumulation to occur. Monitoring changes in asset levels can be important in smoothing out short-term fluctuations in income and can indicate important patterns of negative coping and impoverishment or positive accumulation and poverty reduction.

5.8.4 Trade and the natural capital of poor people

Changes in policy and regulation may increase or decrease the profitability of particular enterprises. In turn, this may affect the way that enterprises use natural resources as inputs and discharge wastes into the environment resulting in altered levels of environmental damage (see Annex 1, Q7.7). This damage can be to private goods (e.g. privately owned land); common property resources (e.g. grazing land, water resources) or public goods (e.g. air quality), as the actions of individuals or groups may create positive or negative externalities which affect others.

The type of environmental impact that follows from changes in trade will depend on the particular policy change, its transmission through the economy, and any local, national or international environmental regulations. The impact of trade liberalisation on the environment can be difficult to predict. It tends to magnify cases of good and bad natural resource governance, with implications for poverty reduction (Adrian Wells, pers comm.). For example, reducing barriers to cheap imported timber will reduce the profitability of lower quality timber for the domestic market. Where social capital is limited and transactions costs high, this exacerbates illegal logging, especially in remote areas with weak law enforcement. But where social capital and market access is sufficient, trade liberalisation increases opportunities to tap into high-end markets e.g. for certified timber (Adrian Wells, pers comm.).

Another example is where reduced import taxes for nitrogenous fertiliser increases its availability and affordability and encourage its more widespread application. This may result in increased outputs improving local food availability, increasing profits for some farmers, and greater demand for casual labour, resulting in quite significant poverty reduction. However, misapplication of the fertiliser could, for example, result in the pollution of both groundwater and streams, poisoning household water supplies and damaging local fish stocks, causing long term harm to the livelihoods of migrant fisherfolk. Conversely, the removal of import taxes on nitrogenous fertiliser could result in the collapse of an uncompetitive domestic manufacturer. Local availability of fertiliser could become more variable resulting 'fertility mining' as farmers continue to attempt to produce the same yields while reducing fertiliser applications.

These different possible outcomes illustrates the importance of understanding local conditions, and developing high quality sectoral understandings.

5.8.5 Trade and the financial capital of poor people

The financial capital of poor individuals is affected by their ability to generate cash income, their ability to save in cash or in easily liquefiable forms, their ability to access credit and their access to insurance mechanisms (see Annex 2, Q3.5). Changes in trade may affect the financial capital of individuals and households most directly through increasing or reducing their income or by increasing or decreasing the cost of household consumption (see Annex 1, Q7.8). In the sections above we have traced through how this might occur by directly affecting the profitability of enterprises or by altering terms of trade or the cost of a normal basket of goods. We have also discussed how trade may affect income and income distribution through stimulating economic growth.

These impacts may be compounded by the effect of complementary policies implemented simultaneously to trade reform. These can include taxation and public expenditure policies and other macro-economic reforms. For example, trade liberalisation often occurs alongside reforms to the financial sector. Where banks are privatised, the removal of the state can be beneficial to the independence and robustness of the sector as a whole. Increased competition can help improve the availability and quality of financial services in urban areas. However, reform has resulted in the rationalisation of many rural banking networks in Sub-Saharan African countries where transactions costs are high and the effective demand for banking services are low. Much of the rural branch network has been closed, making access to financial services more difficult for the rural poor. Where financial services markets are poorly developed or in decline, access to investment finance or working capital can be difficult. This limits the launch and expansion of new trade-related enterprises, limiting both opportunities and competition. This can affect the distribution of benefits from an increasingly liberalised trade regime.

Another cause of reduced money supply in rural areas is that trade-related shocks can result in the further withdrawal of peasant producers from markets, shrinking the local cash economy, and reducing the cash available for investment and consumption.

The poor often access credit, particularly seasonal credit for agriculture, through interlocked market relationships with traders and processors. Where changes in trade result in changes in financial markets these traders and processors may find it more difficult to access credit themselves. These constraints may be passed down the line, and the poor may be constrained in producing marketed surplus, leading to increased poverty and asset erosion.

5.8.6 Livelihoods and employment.

As we have shown in the section above, trade and changes in trade, can have a significant impact on the assets of individuals, households and communities. People use their capabilities to make the most of their assets and develop livelihood and coping strategies to maximise (or optimise) income and well-being (see Annex 2, Q1.1b). There is a trend across SSA for rural households to increasingly diversify their livelihoods and sources of income (Ellis, 2000). This is a risk spreading response to lower and variable per capita agricultural sector returns, but it dampens innovation reducing further the growth potential of the whole economy (Kanji and Barrientos, 2002:15).

Responses to risk are also partly to blame for the weak supply response in SSA. Aggregate exports from all SSA countries are growing at less than half the rate of other developing countries and its share of total world exports declining. Critics of liberalisation argue that this is partly because liberal trade damages peasant producers, as they are not well-placed to react to either new threats or new opportunities (Kanji and Barrientos, 2002:16). Their limited access to land, technologies and market information makes it difficult to meet quality specifications. Poor infrastructure, high transport costs, limited access to financial services and high and variable input costs makes it difficult for them to compete (ibid) and socio-cultural norms (e.g. around gender-based roles, attitudes to the successful, fears of witchcraft etc.) can act as a further disincentive. This muted supply response is unlikely to be

reversed without sequenced investments to redress high risk and vulnerability, low productivity and low assets.

Whether this negative picture is true or not depends on local conditions prior to and following liberalisation as illustrated with two examples from Zimbabwe. Prior to liberalisation in Zimbabwe the government was a monopsony buyer of cotton from farmers. It kept farm-gate prices low in order to supply cotton at below international market price to the textile industry. Larger commercial farmers responded to the poor prices by diversifying into other crops such as horticulture and tobacco, but smaller and poor farmers found such diversification difficult and suffered. The elimination of price controls and privatisation of the cotton marketing board resulted in higher farm-gate prices and greater competition amongst the three principal buyers who competed on price and through the supply of extension advice and other input services to small farmers. As a result poorer farmers benefited from increased market opportunities, higher prices, and the improved availability of extension and input services. Such changes across the agricultural sector led to a substantial rise in agricultural employment (of 40% from 1988 to 1997) and increased production of both traditional and non-traditional (horticultural) agricultural products (Winters, 2000). However, peasant producers are heterogeneous and only a minority of peasant producers in Zimbabwe's semi-arid communal lands produce cotton. Only the less poor can afford purchased inputs, so although these reforms benefited relatively poor producers, benefits did not extend to the poorest (Bird and Shepherd, 2003). Smaller, poorer maize producers, especially those further from markets have been negatively affected by the rationalisation of the GMB's (Grain Marketing Board's) network of grain depots. They responded by retreating further into subsistence and barter-based marketing (Bird et al, 2003)..

A final example illustrates that involvement in international trade can generate benefits for the poor. A study of the Kenyan export horticulture shows that smallholder households who shifted into producing horticultural crops for export experienced a reduction in poverty (McCulloch, Ota and Humphrey, 2003). The study did not examine changes in income variability, non-income effects or intrahousehold distribution, however, it showed that access to international markets could result in improvements in *aggregate* household income.

Increased engagement with international markets can also affect livelihood choices indirectly through making inputs for some enterprises more readily available, at lower cost; by increasing demands for unskilled and semi-skilled labour, tightening the labour market and driving up wages. This will benefit some poor groups, but may damage emergent micro-entrepreneurs by increasing labour-related production costs and opening markets to competitive imports.

Pursuing the issue of wages, Robbins (1996) provides a synthesis of findings from studies which examine the impact of trade on wages in nine developing countries²⁵. He found that liberalisation resulted in rising demands for labour and increases in relative wages and average incomes.

5.9. Coping with risk, shocks and vulnerability.

Households and individuals spread risk and respond to an adverse event (or set of events) by changing their livelihood activities or consumption habits. These events or shocks may be internal to the household (e.g. illness of a household member) or external (e.g. collapse of coffee prices). The coping strategies adopted are likely to involve household members in a range of activities spread over time and space. The impact that these strategies have on income, consumption, assets or well-being will depend on the starting point of the individual or household, their experience of coping with adversity and the severity and duration of the shock (see Annex 1, Q7.4, Q7.10, Q7.13 and Annex 2, Q1.5).

The poor have been shown to design and sequence their coping strategies through experience of previous shocks to exploit or cash in their assets (e.g. their skills and labour, their access to common

²⁵ The countries are: Argentina, Uruguay, Chile, Costa Rica, Colombia, Mexico, the Philippines, Malaysia, and Chinese Taipei.

property resources, their social capital) to generate the highest short term returns while preserving the assets they value highly for as long as possible (Corbett, 1988; Chambers, 1989; Swift, 1989; and Scoones, 1992, 1996). However, for some coping may result in drawing down on assets in a way which leads to a downward spiral of well-being, increasing vulnerability and undermining productive assets. The asset endowments and capabilities of individuals and households are powerful determinants of whether they are able to adjust to the short and medium term costs of changes in trade (see Annex 2, Q1.8). Those who have a single livelihood activity which is based on highly specialised skills and a cluster of specific assets may find adaptation difficult. However, if their skills are transferable and they have a high degree mobility the short-run costs of change may be low. The poor, with few assets, are usually amongst the most vulnerable. However, a non-poor individual with low mobility, highly specified and non-transferable skills and assets will be vulnerable to shocks and may experience a significant loss of welfare which drives them and their household to attempt various coping strategies and ultimately into poverty following changes in trade. For example, workers in established industries may be older and less adaptable than those who will participate in new sectors. Also, craftsmen and artisans can have significant barriers to exit, based on their human and physical capital.

It is important that sub-sectors and livelihood groups who are likely to have a high degree of vulnerability are identified during the policy design process, in order that appropriate complementary policies can be designed and implemented.

By monitoring poor segments of the population, researchers should be able to identify whether changes in trade are forcing people into adverse coping. For example, increased returns to agriculture may result in the *de facto* privatisation of common lands or the felling of forests, reducing scope for the collection of wild foods or non-timber forest products; removal of import taxes may reduce the price of manufactured goods to international levels making some domestic industries uncompetitive and resulting in job losses which force households to adopt a range of coping strategies. Where these responses can be predicted (e.g. through analysis of normal elasticities or response to economic incentives) the government should put in place interventions to mitigate negative impacts. Where negative impacts were not predicted or where compensatory policies have not been designed and implemented, evidence of adverse coping should trigger government to implement social protection and other mechanisms.

5.10. Transfer income

As we have shown in the section above, trade reform creates winners and losers, and the losers are likely to respond to transitory short term adjustment costs by devising coping strategies. These are likely to include households and individuals claiming their entitlements to both formal and informal transfers in cash or kind (see Annex 2, Q1.9). Even if well targeted formal social protection systems are in place, they work best when responding to a severe crises. Government administrative systems do not tend to be alerted to unless certain thresholds are reached. Thresholds may be set high, and response may only be triggered by – for example – a certain number of proven hunger-related deaths. Interventions at this stage may be too late to preserve households' assets and moving household out of destitution often requires more complex and long-term interventions than preventing destitution in the first place. Informal or traditional systems may support people (for example through remittances of urban workers to their rural relatives), but they work best during peak seasons. It is therefore important to avoid the assumption that poor people will find a way of coping. Such assumptions can result in lazy policy making which relies on the ingenuity and resilience of the poor. The declining well-being of the poor may have low visibility and low political currency, so, unless changes from trade create problems which can either be accommodated by traditional systems or are severe enough to register as a crisis, poor households may find that they are left unsupported.

Evidence from Turkey indicates that direct compensation mechanisms work well where sections of the population need to be protected from the negative impacts of trade liberalisation, even when accounting for the costs of raising revenue to cover the additional government expenditure (Harrison et al, 2000). However, in Kenya, although transfers were found to reduce the poverty of the target

group, the programme had a negative impact on non-recipients because of the way that the programme was financed (Levin, 2000).

Researchers investigating the impact of changes in trade on the poor will need to review existing national social protection programmes. Such an assessment would need to combine an examination of evidence of negative coping amongst different groups of poor people with an evaluation of the effectiveness of existing social protection programmes. In assessing social protection systems, researchers need to review evidence of effectiveness²⁶ (is targeting too loose or too tight?, are declines in well-being prevented?) and efficiency (can the administration cope? are costs manageable?). Gupta et al (2000) suggest that well designed social protection systems might incorporate (1) targeted subsidies; (2) cash transfers (e.g. child allowances, fee waivers for basic services) – though these are rare in low income countries; (3) severance pay and retraining for retrenched workers in companies that can no longer compete (though such payments are unlikely to be available to workers in micro-enterprises and other informal sector firms), and (4) employment through public works, with appropriately set wages to ensure targeting of the truly needy.

6. Recommendations for how to take account of trade/ poverty interactions.

In the concluding section of this paper we consider the implications for government policy of the likely impact on the poor of changes in trade.

State capacity determines the ability to design and implement complementary policies independently. The identification of linkages between trade and poverty is a relatively new area. It is therefore reasonable to assume that skills in identifying and implementing good policy needs further development. This will involve some evolution in the policy formation and implementation process (Page, 2001). Successful complementary policies, combined with the quality of leadership, determine how skilfully a regime is able to negotiate and build consensus around its responses to globalisation (Tsikata, 2000).

Governments wishing to stimulate market development and production for trade will need to invest heavily in physical infrastructure and identify policies supportive of the development of rural financial markets.

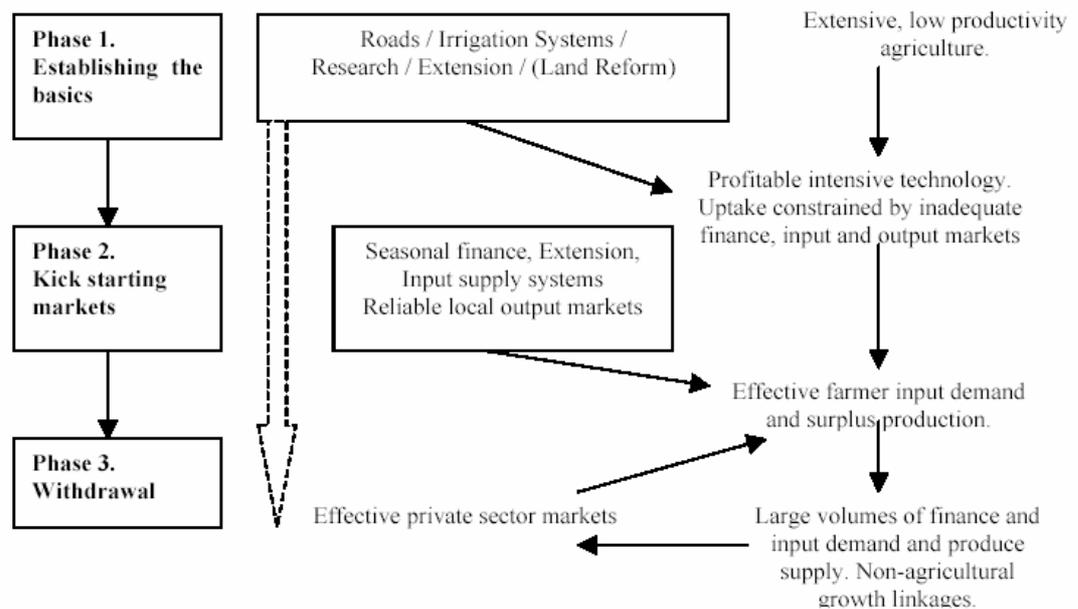
6.1 The sequencing of trade policy

In many parts of Africa, governments are still substantially involved in the productive economy, either through parastatal involvement in the agricultural sector or through the maintenance of high tariff and administrative barriers to trade. Dorward (2004) suggests that in order to withdraw leaving a vibrant economy, the government should first 'establish the basics', including effective roads networks (see Figure 2, below). He also argues that without access to appropriate technology and effective credit and both input and output markets the withdrawal of the state will leave agricultural production in a state of collapse. This highlights the need for the careful sequencing of policy change.

Turning to the sequencing of liberalisation, there are debates as to whether the current account and the capital account should be liberalised simultaneously (see Falvey and Kim, 1992; Edwards, 1986; and Razin and Rose, 1992 in McCulloch et al, 2001). McCulloch et al conclude that full capital account liberalisation can put a country at risk, due to the high speed and large volume of capital movements (e.g. the Asian crisis of 1997-98). They therefore state that the consensus advice, particularly for poor countries, is to liberalise the current account first and then to cautiously liberalise the capital account.

²⁶ Note: some types of alternative income or employment schemes may have been designed for particular needs (by age or family structure) and may assume an even distribution across the economy. Trade-induced shocks may be concentrated on particular sectors and localities.

Figure 2: Phases of support for agricultural transformation in favoured areas



Source: Dorward, 2004.

6.2 Including trade more effectively in PRSPs

The extent and depth of trade coverage in completed PRSPs is limited (Hewitt and Gillson, 2003). Issues like employment and wages are given attention, but the important linkages between these and production/ trade issues have been underplayed (ibid). Where PRSPs do contain a discussion on trade, few discuss anything more than simple export promotion measures and there is limited analysis to link trade and changes in poverty. There is an absence of *ex-ante* analysis, so the likely impact on the poor is unknown. Poverty analysis tends to be weak and does not disaggregate trade impacts on different groups of poor people. Non-income aspects of poverty including risk and insecurity, access to services and empowerment are almost completely ignored.

Donors need to encourage countries revising their PRSPs to include more on trade, and to assess the likely impact of trade-policy changes on poverty. The framework presented in this paper should support in this process.

6.3 Mutually supportive trade and macro-economic policy

Research on Latin America has shown there to be a strong link between macroeconomic downturns and rising poverty. Every percentage point decline in growth results in a two percent increase in poverty. This is partly because of the irreversible impact that macroeconomic shocks can have on the human capital of the poor by damaging opportunities for investment in education, nutrition and health (Lustig, 2000). An awareness of this danger needs to be built into government macroeconomic and social protection policy while opening the economy to trade. Likewise, changes in trade policy can have significant impacts on the macro-economic performance of a country. As discussed above, trade reforms can have significant impacts on a country's fiscal balance. Substantial changes in income can also trigger either inflation or recession, if not managed carefully. Clearly, governments need to use the policy instruments available to them to ensure that the economy grows without dangerous levels of inflation and that macroeconomic policies are implemented to promote trade and growth.

6.4 Complementary policies for other sectors

Complementary policies will often include investments in infrastructure health, education and social protection, in addition to reforms that will stimulate and enable the private sector in the agriculture, power, telecoms and financial sectors and more widely across the economy. Such reforms will enable production to reach its potential and will allow a robust supply response to the price signals sent by international markets.

Poor producers are likely to see their livelihoods in inefficient sectors disappear. Unless transitional arrangements and social protection measures are put in place poverty incidence and severity will increase still further. Investments are necessary to support individuals to find more reliable sources of livelihood. These are likely to include transitional training and advisory services, and incentives for the location of the private sector.

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Annex 1: Checklist of trade-poverty linkages

Questions ²⁷		Possible Methods/ sources of information
Q1*	Who are the poor?	
Q1.1	Are there parts of the country with large numbers of households/ individuals below the poverty line (geographical concentrations)? Is poverty (in terms of the headcount index - numbers of people with incomes/ consumption below the national poverty line or \$1/day if there is no NPL) equally distributed throughout the country?	Use existing data (e.g. the national household survey results, panel data analyses, participatory poverty assessment(s), demographic surveys, employment surveys, health surveys, education surveys, livelihood analyses, small studies with findings which might have findings of wider significance etc.), plus key informant interviews to explore under-investigated areas/ causality more thoroughly
Q1.2	Is poverty (headcount) concentrated in rural/ urban areas?	
Q1.3	Is poverty (headcount) concentrated in some rural/ urban areas (e.g. remote rural areas/ less favoured/ poorly integrated areas; areas associated with a livelihood strategy in decline; areas associated with conflict or high levels of insecurity and crime; small tertiary-level urban areas; slum/ squatter/ high density areas) but not in others?	
Q1.4	Is the gini index (level of inequality) different in different parts of the country? If so, how can this be explained? Does it have economic or political implications?	
Q1.5	What proportion of the poor are seasonally or transiently poor, and how does this differ spatially? What proportion are chronically or long term poor?	
Q1.6	What is the income distribution of the population, nationally and by region (i.e. what proportion of the population is above the poverty line, below the total poverty line and the below the food poverty line) (Can be presented by income quartiles or quintiles or in terms of proportion of the population severely poor, moderately poor, border-line non-poor and non-poor.)	
Q1.7	Does low income poverty correlate highly with low levels of food security, low levels of human, physical, financial, natural, social and political capital? If not, can this be explained?	
Q1.8	Are levels of human, physical, financial, natural, social and political capital different in different parts of the country? If so, how can it be explained?	
Q1.9	What livelihood activities (sectors and sub-sectors) are poor individuals concentrated in (sectoral concentrations)	
Q1.10	Why are more poor people concentrated in some activities rather than others? ◊ Could policy, including trade-related policy alter these concentrations?	
Q1.11	What groups are more likely to experience poverty?	
Q1.12	Are 'disadvantaged groups' clustered in specific livelihood groups/ regions/ rural or urban areas (cross-referencing with the question above)? If so, why?	
Q2	Do levels of well-being differ within the household?	
Q2.1	What is the range of cultural norms concerning differentiated access to and control of productive resources and returns on those resources within the household?	◊ Existing gender and anthropological studies, where available. ◊ In-depth interviews with women and men selected using a stratified random sample, designed to capture experiences across all wealth groupings, regions, ethno-linguistic groups etc.
Q2.2	What is the range of norms of intrahousehold decision-making ?	
Q2.3	Is there evidence that decision-making norms have a detrimental impacts on certain categories of people?	◊ As above, plus information on education and health outcomes from household survey data and health and education sector sources
Q2.4	What are the legal (<i>de facto</i> and <i>de jure</i>), political, social and economic factors which maintain these individuals (and their households) in poverty?	◊ As above, plus correlations with findings from household surveys
Q2.5*	Are constraints to livelihood activities (entry/ success/ growth) differentially experienced by different categories of individual?	◊ Existing studies of constraints to enterprise/ livelihoods, where available.

²⁷ For relevance to poverty and examples see Annex 2: Matrix identifying trade-poverty linkages

	Q2.6	What effect do employment and wage effects have on household leisure and reproduction and care responsibilities of women/ men?	<ul style="list-style-type: none"> ◇ Review studies of gender effects of employment change ◇ Apply gender analysis to inform <ul style="list-style-type: none"> - surveys - FGDs - PRA work ◇ Review social indicators trends with respect to policy changes (but NB complexities of attribution) Key informant interviews
	Q2.7	To what extent does paid/ unpaid labour for household reproductive tasks change due to the employment effects of trade liberalisation?	<ul style="list-style-type: none"> ◇ Re-analysis of household surveys ◇ Review employment statistics ◇ Review gender studies
	Q2.8	To what extent do intra-household relations (in particular incomplete pooling of household resources; obligations to produce traditional food crops, and household reproductive obligations), lead to (1) weak incentives to increase production; (2) allocative inefficiencies and (3) difficulties [for women] to respond to new productive opportunities?	<ul style="list-style-type: none"> ◇ Review studies in microfinance ◇ Re-analysis of household income and expenditure surveys with a specific sensitivity to gender analysis ◇ Analyse gender differentiated participation in new opportunities
	Q2.9*	To what extent do gender (and other) disparities affect access to capital (e.g. land, credit, labour, inputs) and access to labour and agricultural goods markets? How important are these in people's ability to respond to (1) higher producer prices and (2) better employment opportunities that might result from trade liberalisation?	<ul style="list-style-type: none"> ◇ Review studies in microfinance, land, input, labour and agricultural goods markets ◇ Analyse gender differentiated access to capital ◇ Examine factors that lead higher producer prices and improve employment opportunities
	Q2.10	To what extent are different members of the same household able to exploit new opportunities (supply response)? Are they all equally able to enjoy the returns on investment from new opportunities?	<ul style="list-style-type: none"> ◇ Analysis of household members' contribution to total household income and access to household resources ◇ Analysis of the distribution of returns to investment between household members
Q3*	What impact does government policy have on poverty reduction		
	Q3.1	Is there a coherent government poverty policy ? Policy goal? Target? Who is affected?	<ul style="list-style-type: none"> ◇ PRSPs/ trade analysis of PRSP, Growth Strategy and other relevant policy documents ◇ Presidential speeches
	Q3.2	Do government poverty policies take account of trade-poverty linkages ?	<ul style="list-style-type: none"> ◇ Policy monitoring information, household and poverty surveys (including PPAs)
	Q3.3	What targets will be more or less easy to meet because of the impact of changes in domestic/ regional/ international trade policy? ◇ How? Why?	Policy analysis
	Q3.4	Will meeting any of the country's poverty reduction targets affect trade? ◇ Sectoral pattern of trade? ◇ Price dynamics? ◇ Regional patterns?	
	Q3.5	Which are the trade and other stakeholders who seek to influence trade policy? ◇ Who is influential? ◇ How are they organised? ◇ How do they get their case across? ◇ What patterns of benefits and cost would this suggest?	<ul style="list-style-type: none"> ◇ Principle agent theory should be useful in understanding the hierarchies of trading networks
	Q3.6	Is there evidence of government regulation and control of domestic and international markets being driven by political and social expediency rather than by an attempt to reduce/ ameliorate market imperfections?	
Q4	What impact do changes in trade rules have?		
	Q4.1	What is the origin of the main changes in trading conditions? ◇ Past changes? ◇ Proposed/ anticipated changes?	
	Q4.2*	Will recent (and likely future) changes in policies governing trade at the international, regional, bilateral or domestic level affect different social groups, geographical locations or sectors differently?	
	Q4.3*	Have changes in domestic policy resulted in altered trading conditions?	
	Q4.4*	Is the economy becoming more open/ closed?	

	Q4.5	What are the implication for the increasing/ decreasing the openness of the economy on taxation and government expenditure ?	
	Q4.6*	What are the trends in trade (international, regional, domestic), by sector, origin (within the country) and contribution to the economy?	Contribution to GDP? Disaggregated data by sector/ sub-sector
	Q4.7	What are the likely second round impacts of current or anticipated changes in trade rules (e.g. positive or negative multipliers, environmental or social externalities)?	
	Q4.8*	Have changes in the external environment resulted in altered trading conditions? (the external environment might be broken down to: economic changes in the rest of the world; domestic, unilateral policy changes; negotiated policy changes (bilateral, regional, and multilateral), and changes in preferences) <ul style="list-style-type: none"> ◇ New competitors for key export markets (e.g. Vietnam's entry into the coffee market has detrimentally affected a number of SSA coffee exporters) ◇ Bilateral, unilateral and multilateral changes in domestic subsidy/ taxation regimes and trade rules/ preferences in competitor countries and trading partner countries 	
	Q4.9*	Which groups or individuals benefit or lose as a result of changes in trade (changes in tariff barriers, non-tariff barriers, anti-dumping, export taxes, export subsidies and other trade-related remedies and institutions)? <ul style="list-style-type: none"> ◇ For each group, track the impact from policy change to its impact on trade, and from the change in trade to the impact on poverty ◇ Do changes in trade policy increase or decrease the trading opportunities of different types of traders (e.g. private sector vs. state controlled or semi-state controlled; informal 'shuttle traders'; small-scale agro-traders; medium sized formal sector traders; large scale multi-national trade)? <ul style="list-style-type: none"> ◇ Are changes influenced by social identity (gender, ethnicity, disability etc.)? ◇ Are changes in wage levels differentiated by education/ skill categories or sectors? 	<ul style="list-style-type: none"> ◇ Analysis of exports to determine which are/might become vulnerable ◇ Analysis of how sectors adjust to changes in demand ◇ Analysis of profit and wage shares by sector ◇ Analysis of composition of labour force by sector, including gender composition ◇ Comparison of formal and informal sectors.
	Q4.10*	What domestic government policies/ activities prevent the transmission of (international commodity) prices to the farm-gate/ small producer? (e.g. Government controlled monopoly, regulation)	
	Q4.11	Do/ might changes in levels and types of trade (as a result of changes in trade policy) result in increased or decreased levels of productivity (in a range of sectors)?	
	Q4.12	What are the (positive/ negative) impacts of trade on resources ?	<ul style="list-style-type: none"> ◇ Analysis of consumption patterns and production conditions ◇ Analysis of changes in relative prices ◇ Analysis of existing national and local household surveys against timing of reforms ◇ Case studies of liberalised sectors ◇ Review qualitative work on social capital ◇ New field studies: surveys, FGDs, PRA etc ◇ Analysis of services which are currently non-traded
	Q4.13	Do changes in trade rules result in more/less efficient resource allocation ? <ul style="list-style-type: none"> ◇ Can these changes be traced to reduction/ increase in levels and intensity of poverty? (changes in resource allocation might result in increased/ decreased growth and productivity and though price and market effects (e.g. higher/ lower income, the construction/ destruction of markets) poverty reduction/ increase) 	<ul style="list-style-type: none"> ◇ Analysis of structural changes ◇ Analysis of market structure

	Q4.14*	What is the distribution of costs and benefits (to individuals/ households/ groups) from changes in trade rules?	<ul style="list-style-type: none"> ◇ Analysis of consumption patterns and production conditions ◇ Analysis of changes in relative prices ◇ Analysis of existing national and local household surveys against timing of reforms ◇ Case studies of liberalised sectors ◇ Review qualitative work on social capital ◇ New field studies: surveys, FGDs, PRA etc ◇ Analysis of services which are currently non-traded
	Q4.15*	Do changes in trade rules lead to increased/ reduced fiscal revenue ? <ul style="list-style-type: none"> ◇ If increased, does this translate into a reduced tax burden for the poor or increased pro-poor expenditure ◇ If reduced, does this translate into either an increased tax burden for the poor or reduced pro-poor expenditure? 	<ul style="list-style-type: none"> ◇ Analysis of tax revenue, structure and value ◇ Analysis of public expenditure ◇ Policy analysis of key government documents linking <ul style="list-style-type: none"> - trade reforms - revenue - pro-poor expenditure (basic social sector services, safety nets)
	Q4.16	What factors determine access to credit ? What effect does differential access to credit have on individuals/ households/ enterprises ability to engage in trade?	<ul style="list-style-type: none"> ◇ Review studies of microfinance ◇ Review impact of financial sector regulation on people without adequate collateral ◇ Review loan repayment periods with respect to trading cycles ◇ Review microfinance and bank lending policies on different categories of traders ◇ Review impact of financial sector regulation on the depth and spread of financial markets
	Q4.17	What effect do changes in trade rules have on formal and informal financial services markets/ sectors? <ul style="list-style-type: none"> ◇ How strong is the link between changes in trade rules and changes in financial services markets/ sectors? ◇ Do changes in trade rules strengthen/ weaken the link between finance (credit/ savings/ insurance) and trade markets (e.g. interlocked markets)? Who are the winners and losers of any change? ◇ Do changes in financial markets caused by changes in trade rules alter the perceived credit worthiness of the poor? 	<ul style="list-style-type: none"> ◇ Analysis of price data ◇ Key informant interviewing on aspects of interlocking (producers, traders, wholesalers, input suppliers, storage facility owners)
	Q4.18	Do changes in trade rules at different levels (multilateral, regional, bilateral, unilateral) have different effects on poverty? (they will result in different comparative advantages and therefore stimulate the growth or decline of different sectors)	<ul style="list-style-type: none"> ◇ Analysis of the production, cost and demand structures of the region or other group ◇ Analysis of the net effects on production and distribution of output of any liberalisation by the country itself and its trading partners
	Q4.19	Does/ will the liberalisation of the movement of people under GATS lead to poverty reduction? (cross reference with questions above on migration) <ul style="list-style-type: none"> ◇ If so, by what mechanisms? 	<ul style="list-style-type: none"> ◇ Analysis of structure of labour markets and demand for labour (in-country and in trading partner countries) ◇ Analysis of wage determination
Q5	What is the impact of poverty on trade?		
	Q5.1*	Do high numbers of poor people in an economy stifle both inward and outward movements of goods and services?	Set existing poverty data (explored in Q1) against trade data
	Q5.2	What is the impact of Poverty Reduction Strategies (e.g. social protection, micro-finance etc.) on trade?	
	Q5.3	The incidence and severity of poverty appears to affect the ability of the population to trade. Does a reduction in the numbers of poor people, or in the depth of their poverty, stimulate inward and outward movements of goods and services?	
	Q5.4*	Do high levels of differentiation amongst the poor make any difference to trade?	

Q5.5*	<p>Is there evidence of a dampened 'supply response' due to limited access to labour due to:</p> <ul style="list-style-type: none"> ◊ Limited household labour <ul style="list-style-type: none"> ◊ HIV/AIDS ◊ Household dependency ratios/ stage of household in life-cycle (mental/ physical impairment, children at school, cultural norms controlling female involvement in labour market and female ability to control household labour) ◊ Communal labour <ul style="list-style-type: none"> ◊ Poor get less access (due to poor social capital, limited accumulated grain/ livestock to feed labourers, need to work for cash on days when communal labour takes place) ◊ Hired labour <ul style="list-style-type: none"> ◊ poor functioning of the cash economy, low levels of savings, constraints on borrowing ◊ cultural norms may prevent women and child-headed households hiring labour 	
Q5.6*	Does it make any difference to trade if the poor are concentrated in particular parts of the country, sectors of the economy (or livelihood groups) or particular ethno-linguistic or social groups (e.g. single parent families)?	
Q6* What is the impact of trade changes on the specialisation of the economy, and its impact on the poor?		
Q6.1	<p>Is there a high degree of specialisation in the country's economy (i.e. a large proportion of the workforce occupied in mining, a large proportion of the country's earnings derived from one sector)?²⁸</p> <ul style="list-style-type: none"> ◊ How does specialisation influence employment, including the level and nature of jobs, labour productivity and returns to labour ◊ If highly specialised, what impact have changes in trade policy made on this sector? ◊ Who are the winners and losers? (Provide a regionally and socially differentiated picture) ◊ Is there evidence that specialisation has led to – or is likely to lead to – increases in efficiency and therefore lower priced goods (for sale domestically and for export)? 	<ul style="list-style-type: none"> ○ Analysis of the income distribution of revenue from exports or import substitutes ○ Analysis of available means of income distribution, effectiveness and political acceptability
Q6.2	Is there a relationship between the degree of openness of an economy and the level of diversification within that economy?	
Q6.3	Is there a relationship between the degree of openness of an economy and the percentage of processed goods in the market?	
Q7 What is the impact of trade on assets, livelihoods, coping and well-being?		
Q7.1*	What types of trade have direct impacts on livelihood activities (e.g. through affecting access to different types of resource)	
Q7.2*	How are households and communities affected by the short term/ first round impact of liberalisation (e.g. the disappearance of traditional enterprises/ crafts)? Are the medium to long term and second round impacts different?	
Q7.3	What is the impact of changes in trade on human capital at the individual household and community level?	

²⁸ Note 1: the characteristics of the sector will be important in determining the relative importance of direct and indirect effects on poverty. Note 2: if policy changes result in the expansion of the sector and the output of this sector is used in-country or is low-skill-labour intensive, there may be direct increases in incomes of the poor. If the product is mainly for export or is highly resource or capital intensive, the direct effects will be on profits or rents, and poverty reduction will depend on second round policies. If the sector is geographically concentrated, the level of covariant risk may be higher exposing whole communities to shocks. Traditional safety nets may be unable to cope making individual households more vulnerable. Household livelihoods may also be more specialised increasing their vulnerability to shocks.

		Q7.3.1	Do changes in trade affect the likelihood of children attending school ? If so, why? Do different types of trade, in different types of goods and services have different impacts?	<ul style="list-style-type: none"> ◇ Findings should be differentiated by region, sector, sub-sector and social group where possible ◇ Analysis of the structure of employment in different sectors ◇ Analysis of household structure (including extended households)
		Q7.3.2*	What impact do changes in trade policy have on the demand for and supply of skills (technical, specialist etc.) and thus the returns to labour?	
		Q7.3.3*	Do changes in trade increase/ decrease availability and affordability of a balanced diet (food security) for all members of the household and community?. If so, why?	
		Q7.3.4*	Have changes in trade contributed to increased/ reduced levels of differentiation within the community, in turn leading to higher/ lower levels of food insecurity or malnutrition (measure by stunting, wasting and macro/micro nutrient shortages)? If so, why?	
		Q7.3.5	Do changes in trade increase/ decrease the likelihood of using health preventative measures (e.g. treated bed nets against malaria) or seeking timely curative care? If so, why?	
		Q7.3.6	How do changes in human capital affect individual's, household's and community's livelihoods ?	
		Q7.3.7	What is the impact of changes in human capital on 1) disposable income , 2) access to and quality of non-monetary goods and services ?	
	Q7.4	What is the impact of trade policy on social capital at the individual, household and community level?		
		Q7.4.1*	Do trade policies influence labour mobility ? If so, is household and community level social capital damaged or enhanced by increased/ decreased incentives to migrate ?	
		Q7.4.2	Is household and community level social capital damaged or enhanced by the appearance of new enterprises/ crafts (i.e. as might follow liberalisation)?	
		Q7.4.3	Do changes in trade result in new settlers coming to parts of the country (i.e. as might happen after a resource in an area becomes more profitable following policy change)? ◇ If so, does this damage or enhance household and community level social capital?	
		Q7.4.4	Do changes in trade result in changes to social capital ? ◇ If so, what impact do these changes have (e.g. on livelihoods)? ◇ Are changes in social capital connected with specific changes in trade more pronounced? ◇ Do these changes affect some groups in society more than others (by region, ethnic group etc.)	
		Q7.4.5*	What is the impact of being included/ excluded on 1) disposable income, 2) access to and quality of non-monetary goods and services? Do (1) and (2) change in response to changes in trade ? If so, track the changes?	
		Q7.4.6*	What determines who participates in trade?	
		Q7.4.7*	What is the influence of cultural norms/ roles on the participation of different social groups in trade?	
		Q7.4.8	How does the ownership/ circulation of capital influence who is able to participate in trade?	
		Q7.4.9	How do traders' associations adapt to liberalisation?	

	Q7.5*	Is the ability to trade affected by social identity (e.g. gender, ethnicity, disability etc.)? If so: <ul style="list-style-type: none"> ◇ does this contribute to inequality? ◇ do these barriers to entry prevent full response to policy change? 	<ul style="list-style-type: none"> ◇ Review sociological studies of traders ◇ Talk to key informants <ul style="list-style-type: none"> - Wholesalers - Retailers - Informal financiers - Producers ◇ Relate findings to household survey findings
	Q7.5.1	To what extent to changes in trade rules affect the social structure of trade ? What does this depend on?	<ul style="list-style-type: none"> ◇ Studies of trading groups ◇ Key informant interview with traders (formal and informal of different turnovers and in different sectors), producers, trade officials, market administrators ◇ Analysis of market records ◇ Key informant interviews as above to establish impact of specific trade liberalisation measures
	Q7.5.2	What adaptations do social groups included in trade make to deal with liberalisation? <ul style="list-style-type: none"> ◇ Are there losers? ◇ Who are the 'decisive agents'? 	Need to distinguish short term from long term impacts
	Q7.5.3	To what extent does the social structure of trade determine the transmission of changes in border prices to the poor?	
	Q7.6	What is the impact of trade policy on physical capital at the individual, household and community level?	
	Q7.6.1	Does increased/ decreased profitability of particular enterprises, following policy change, lead to investments in physical capital or declines in physical capital?	
	Q7.6.2	Do changes in trade result in changes to the physical capital of individual and households? <ul style="list-style-type: none"> ◇ If so, what aspects of physical capital are affected? ◇ Are the changes differentiated by region, sector, social grouping? ◇ How do these changes in physical capital affect livelihoods? 	
	Q7.6.3	What is the impact of reduced/ increased physical capital on 1) disposable income , 2) access to and quality of non-monetary goods and services ?	
	Q7.7	What is the impact of trade policy on natural capital at the household and community level?	
	Q7.7.1	Have changes in trade had positive or negative impacts on natural capital (or is it likely to be)? <ul style="list-style-type: none"> ◇ Can specific changes in trade be linked to specific changes in natural capital? ◇ How do such changes in natural capital affect the livelihoods of poor individuals/ households/ communities? 	
	Q7.7.2	What is the impact of improvements/ declines in natural capital on 1) disposable income , 2) access to and quality of non-monetary goods and services ? <ul style="list-style-type: none"> ◇ Can specific changes be traced to particular changes in trade? 	
	Q7.7.3	Does increased/ decreased profitability of particular enterprises, following policy change, lead to increased/ decreased levels of environmental damage?	
	Q7.7.4	Has the country been (or is it likely to be) affected by strengthened/ weakened environmental regulations ? <ul style="list-style-type: none"> ◇ If so, how have they affected natural capital and therefore the livelihoods of the poor (and poverty)? 	

	Q7.8	What increases/ decreases in the profitability of enterprises are expected as a result of changes to trade (and so access to financial capital)? (Different results by size of enterprise - micro to multi-national, and across all sectors and regions of the country) <ul style="list-style-type: none"> ◇ Are there faults in the transmission mechanism whereby changes in trade affect the profitability of enterprises? 	◇
	Q7.8.1	Are there examples of where removing trade regulations/ control does or might affect wages and employment levels ? (and so access to financial capital) <ul style="list-style-type: none"> ◇ Are changes influenced by social identity (gender, ethnicity, disability etc.)? ◇ Are changes in employment/ unemployment levels differentiated by education/ skill categories or sectors? ◇ How are/ might job losses (if any) be distributed by sex, ethnicity, HIV status, disability, sector, education and skills following the removal of trade regulations/ control? 	<ul style="list-style-type: none"> ◇ Review studies of adjustment, retrenchment and distribution of costs of adjustment ◇ Analysis of price and wage patterns ◇ Cross check with consumption surveys ◇ Employment statistics ◇ Re-analysis of household and census surveys over time ◇ Grey/published literature ◇ Key informant interviews
	Q7.8.2	What effect does reduced agricultural sector protection have on agricultural employment, wages and food security ?	◇ As above, plus analysis of production patterns
	Q7.9	Do specific changes in trade (actual or likely) result in changes in the well-being of the poor (differentiate the results by sector/ livelihood activity, region and social group)?	researchers will need to decide what they mean by well-being, and develop some proxy measures
	Q7.10	Do formal/ informal safety nets exist to support those most adversely affected by the price and market effects of trade liberalisation? If so: <ul style="list-style-type: none"> ◇ how effective are they? ◇ how equitable is access? 	<ul style="list-style-type: none"> ◇ CWIQ/Household living standards analysis ◇ Review studies of social protection/social policy ◇ Develop case studies of responses to income changes
	Q7.11	How have/ might changes in trade influence the scale, scope and effectiveness of government social protection programmes ?	
	Q7.12	How have/ might changes in trade influence the scale, scope and effectiveness of traditional safety nets ?	
	Q7.13	How have/ might changes in trade influence the risks/ constraints/ opportunities affecting the livelihoods of the poor?	<ul style="list-style-type: none"> ○ Identify shocks in key markets pre- and post-liberalisation, classified by origin (domestic/foreign, demand-side/supply-side). ○ Compare overall variability of demand and supply pre- and post-liberalisation ○ Analyse nature of variability and compare to incomes and expenditure of the poor
	Q7.13.1	Will (or have) trade policies led to increased/ reduced market risk and volatility ?	
	Q7.13.2	Will (or have) trade policies increased/ reduced market access ? <ul style="list-style-type: none"> ◇ for crops generally produced by smallholder farmers? ◇ for labour intensive manufactured products? 	◇
	Q7.13.3	How do new regulations or costs for intellectual property rights affect poverty?	<ul style="list-style-type: none"> ◇ Analysis of major types of IP directly and indirectly used by poor ◇ Survey of access to IP. ◇ Analysis of IP assets of the poor
	Q7.13.4	How could changes in competition rules (or the introduction of regulation to control monopolists) affect poverty (e.g. would introducing competition in grain trading result in generally lower/ higher prices and seasonal price smoothing/ increased volatility)?	
	Q7.13.5	How do the increased requirements of international standards (e.g. phytosanitary regulations for foodstuffs; international labour standards) affect small producers and labourers? <ul style="list-style-type: none"> ◇ Are the new standards implemented? ◇ What are the direct effects of such a change? ◇ What are the indirect effects (e.g. through raising production and costs and product price) 	<ul style="list-style-type: none"> ◇ Analysis of the principal traded sectors to see how relevant international standards are or are likely to be ◇ Study of the potential costs of meeting and of not meeting standards ◇ Analysis of current legal and customary standards ◇ Analysis of relative incomes of employed and unemployed.

		Q7.13.6	How do specialist market standards affect small producers and labourers? (e.g. for fair/ ethically traded products, organic, no child labour, sustainable forestry etc.)	<ul style="list-style-type: none"> ◇ Analysis of impact of price increments/ reduced price variability/ confirmed contracts on poor households ◇ Analysis of impact of exclusion of children from labour markets on poor households
		Q7.13.7	Are the effects of the changed risk environment experienced differently by people according to their social identity, livelihood activity or level of skills and education?	<ul style="list-style-type: none"> ◇ Analysis of household surveys and livelihood studies, and other relevant studies ◇ Participatory vulnerability ranking of different groups pre- and post- liberalisation/ policy change
	Q7.14	In what way do changes in trade affect the coping strategies of the poor?		
Q8*		In what way do trade policies influence labour mobility ?		
Q9*		How do/ might government interventions influence the distribution of trade related costs and benefits? (e.g. the impact of different tax regimes, the impact of different levels of investment on health and education services, infrastructure, safety nets)		
Q10*		To what extent do intra-household relations , in particular incomplete pooling of household resources; obligations to produce traditional food crops, and household reproductive obligations, lead to weak incentives to increase production; allocative inefficiencies, and difficulties (for women) to respond to new productive opportunities?		
	Q10.1	To what extent do gender disparities affect access to capital (e.g. land, credit, inputs) and access to labour and agricultural goods markets? <ul style="list-style-type: none"> ◇ How important are these disparities in influencing women's and men's abilities to respond to the higher producer prices and better employment opportunities that might result from trade liberalisation? 		
	Q10.2	To what extent are individuals within households able to exploit new opportunities? (i.e. are there constraints based on gender, age, relationship to household head, disability etc.) Is control of returns to resources differentiated within the household?		
Q11		How equitable is access to new opportunities between different households and social groups within a community? How are different groups of people constrained in responding new opportunities?		<ul style="list-style-type: none"> ◇ Examination of participants in new opportunities ◇ Analysis of individuals/households/ groups who do/can <u>not</u> partake new opportunities

Annex 2: Matrix identifying trade-poverty linkages

Issue	Relevance to Poverty	Example	Research Method ²⁹
Section 1: Economic Impact of Trade Liberalisation (Goods and Services)			
<p>1.1. What are the implications for the welfare of individuals/households/groups (e.g. ethnic) for whom trade liberalisation (a) leads to price and market effects which <i>increase resources</i> e.g. through higher income or the construction of markets or (b) leads to price and market effects that result in <i>decrease resources</i> or threaten their livelihoods, for example the destruction of markets through replacement.?</p>	<ul style="list-style-type: none"> • Reducing taxes on imports or exports, reducing other formal barriers, and/or lowering other costs of trade, including administrative costs, can lower the price of imports and import substitutes and raise the price of exports and exportables. • Long run: greater specialisation may increase efficiency and therefore lower prices of exports, increase competitiveness and perhaps market share • Effects on incomes of the poor: depends on whether they are net consumers or producers of each class of good. This in turn can have effects on <ul style="list-style-type: none"> - vulnerability and poverty - ability to participate in social capital. Being included/excluded on (1) disposable income, (2) access to and quality of non-monetary goods and services, (3) livelihoods 	<ul style="list-style-type: none"> ▪ Liberalisation of food markets may lower the cost to non-farmer consumers (unless liberalisation implies removal of food subsidies). ▪ It may lower or raise the revenue received by farmers, depending on the structure of supply chains and the types of intervention previously in place 	<ul style="list-style-type: none"> ○ Analysis of consumption patterns and production conditions ○ Analysis of changes in relative prices ○ Analysis of existing national and local household surveys against timing of reforms ○ Case studies of sectors liberalised ○ Review qualitative work on social capital ○ New field studies: surveys, FGDs, PRA etc ○ Analysis of currently non-traded services
<p>1.2. Which groups/individuals benefit/lose from different trade effects?</p>	<ul style="list-style-type: none"> • Depends on distribution of trade effects among sectors • Depends on the distribution of income between high and low earners, between profits and wages, and among sectors 	<ul style="list-style-type: none"> ▪ If a country's comparative advantage in exports is in products using low-skill labour intensively, liberalisation which promotes this may be pro-poor. ▪ The labour which gains, although low skilled and poor by world standards, may not be the lowest skill level and poorest by national standards ▪ "Bangladesh's liberalisation since the mid-eighties led to a huge boom in ready-made garments, which primarily employs women, at the same time as the traditionally male-dominated jute sector has declined. This twist has implications for the profile of poverty in Bangladesh" (Winters 1999) ▪ "One aspect of factor intensity is the tendency for some booming export sectors to require labour that is relatively skilled by developing country standards e.g. Mexico. This has meant that liberalisation has relatively little effect on poverty, which is concentrated among unskilled worker's families (Winters 1999) 	<ul style="list-style-type: none"> ○ Analysis of profit and wage shares by sector ○ Analysis of composition of labour force by sector, including gender composition ○ Comparison of formal and informal sectors.
<p>1.3. How does the degree of specialisation influence the effects on poverty?</p>	<ul style="list-style-type: none"> • Increased specialisation makes the characteristics of the sector in which specialisation occurs an important determinant of the relative importance of direct and indirect effects on poverty. • If the product is used in the country or if it is low-skill-labour intensive, there may be direct 	<ul style="list-style-type: none"> ▪ Specialisation in simple manufactures or small-producer agriculture has more immediately favourable effects than in mineral exports, but these mineral exploitation can give the government an accessible tax base which permits redistribution ▪ The benefits/ loses arising from specialisation are in part dependant on physical infrastructure, distance, 	<ul style="list-style-type: none"> ○ Analysis of the income distribution of revenue from exports or import substitutes ○ Analysis of available means of income distribution, effectiveness and political acceptability

²⁹ See also Annex 3 for a discussion of suitable methods.

	<p>increases in income of the poor.</p> <ul style="list-style-type: none"> • If it is mainly for export or highly resource or capital intensive, the direct effects will be on profits or rents, and poverty reduction will depend on second round policies • If the sector is geographically concentrated, individual households may be more specialised and therefore more vulnerable to shocks 	<p>levels of accessibility/ isolation to markets and inputs, transport costs and other real barriers to trade</p>	
<p>1.4. What effect does trade liberalisation have on non-monetary benefits/losses to producers and consumers and to what extent are these mediated by increased/decreased inclusion/exclusion following trade liberalisation?</p>	<ul style="list-style-type: none"> • Trade liberalisation could affect these directly, through altering the costs of inputs or the return to educated or healthy labour, or indirectly through changes in levels of taxation or government spending • Non monetary benefits/losses may relieve/exert additional pressure on [household] resources • Social identity/location/occupation etc may help determine whether individuals/households/groups are more included or excluded following trade liberalisation and in which ways/sectors 	<ul style="list-style-type: none"> ▪ More demand for semi-skilled labour raises the return to education. ▪ More demand for labour raises the return to being able to work ▪ Harmonisation of tariffs may remove special privileges or special protection for medicines or other inputs to services 	<ul style="list-style-type: none"> ○ Policy analysis <ul style="list-style-type: none"> - timeline - field study of effects of sequence/combinat ion of reforms (national/local)
<p>1.5. To what extent does trade liberalisation lead to changed market risk and volatility as markets become (1) more exposed to global forces, but (2) less vulnerable to domestic shocks, and how does this relate to the poor?</p>	<ul style="list-style-type: none"> • Understanding the effects of trade liberalisation on risks and uncertainty is important for identifying the most vulnerable groups and for designing and targeting interventions to support them • A country highly dependent on one or a few exports will be at risk of changes in their price or supply conditions 	<ul style="list-style-type: none"> ▪ Exposure to world markets can compensate for domestic supply shocks, including food shortages, but it increases the number and the relative importance of external shocks ▪ “Sometimes openness will increase risk either because effective official stabilisation schemes are undermined or because residents switch completely from one activity to another that offers higher average rewards but greater variability” (Winters, no date) ▪ “One important feature of poverty is that the ability to bear risk is very low, because an adverse event has such dire consequences. Under these circumstances, the poor may forego opportunities to raise average incomes precisely because they cannot bear the higher risk of failure that goes with them. Thus they might suffer the adverse effects of a reform, e.g. higher consumption prices, without the compensating benefits of higher average earnings and hence be losers overall” (Winters, no date) ▪ Often, external shocks are covariant as in the case of the East Asian Crisis 	<ul style="list-style-type: none"> ○ Identify shocks in key markets pre- and post-liberalisation, classified by origin (domestic/foreign, demand-side/supply-side). ○ Compare overall variability of demand and supply pre- and post-liberalisation ○ Analyse nature of variability and compare to incomes and expenditure of the poor
<p>1.6. What effect does reduced agricultural sector protection have on agricultural employment, wages and food security?</p>	<ul style="list-style-type: none"> • In many countries, most poor are in rural areas and many depend on agriculture • Important for understanding the effect of trade liberalisation on the domestic agricultural sector and on prices, access to and availability of food resources 	<ul style="list-style-type: none"> ▪ Subsidy supported food imports compete favourably with domestic production making it more difficult for domestic producers to compete ▪ Local rice producers may lose market share and have to shift to other crops when tariffs on imported rice are reduced 	<ul style="list-style-type: none"> ○ Analysis of price and wage patterns ○ Analysis of production patterns ○ Cross check with consumption surveys
<p>1.7. To what extent do short and medium term adjustment costs (for example the loss of jobs in formerly protected sectors) affect governments' anti poverty efforts?</p>	<ul style="list-style-type: none"> • Important where governments are forced to split their anti-poverty efforts among the chronically poor, and the transitorily poor and thus potentially reduces overall impact e.g. where it leads to reduced subsidies or increased support to poor regions 	<ul style="list-style-type: none"> ▪ Local production, e.g. of manufactures, which has developed behind protection may be immediately vulnerable to liberalised imports. In contrast, there is a time lag before investment allows the expansion or establishment of newly competitive goods ▪ The poor may be less able to take advantage of new opportunities because of lack of access to financial 	<ul style="list-style-type: none"> ○ Analyse speed of response of falls in production, emergence of new sectors ○ Identify barriers to entry or exit for producers

		physical, natural, human, social or political capital	
1.8. What determines which individuals/groups are least able to adjust to the short and medium term costs? What are the implications of this lack of adjustment for their welfare?	<ul style="list-style-type: none"> Identifying the most vulnerable or unable to adjust to short and medium term costs is important for pro-poor interventions e.g. safety nets to prevent declines into, or further into, poverty 	<ul style="list-style-type: none"> Workers in established industries may be older and less adaptable than those who will participate in new sectors. Craftsmen or artisans may have significant barriers to exit (human and physical capital) 	<ul style="list-style-type: none"> Participatory wealth and vulnerability ranking Livelihood analysis Interviews with those identified <ul style="list-style-type: none"> life histories to trace impact of adjustment Identification of the enabling Focus on key resources of those who do adjust
1.9. What (or do) formal/informal safety nets exist to support those most adversely affected by price and market effects of trade liberalisation? How effective are they? How equitable is access to these?	<ul style="list-style-type: none"> Safety nets help alleviate poverty/vulnerability (where risk/uncertainty is unavoidable) Equity and targeting issues are important for the success of safety nets Designing and administering formal safety nets have costs and require administrative competence 	<ul style="list-style-type: none"> Some types of alternative income or employment schemes may have been designed for particular needs (by age or family structure) and may assume an even distribution across the economy. Trade-induced shocks may be concentrated on particular sectors and localities Safety net schemes have the potential to be captured by other non-targeted individuals/ groups 	<ul style="list-style-type: none"> CWIQ/Household living standards analysis Review studies of social protection/social policy Develop case studies of responses to income changes
1.10. Does trade liberalisation foster poverty alleviation- through more efficient resource allocation and enhanced growth and productivity? To what extent does this occur?	<ul style="list-style-type: none"> Where trade liberalisation leads to economic growth it has the potential to permit redistribution and thus to reduce poverty 	<ul style="list-style-type: none"> Increased economic activity can increase employment, including of the previously poor although this is dependent on labour supply elasticity It also increases taxable income and permits government policy to reduce poverty either through income transfers or through public services. 	<ul style="list-style-type: none"> Analysis of structural changes Analysis of market structure
1.11. What effects would liberalisation of movement of people under GATS have on poverty?	<ul style="list-style-type: none"> Increase in both opportunities and competition for poor workers 	<ul style="list-style-type: none"> Temporary migration raises the income of those who migrate (who are not generally the poorest) and through their remittances can raise the income of the poor. It is necessary to consider whether remittances are adequate 'compensation' to areas that are net losers in terms of 'skill/ labour' drains 	<ul style="list-style-type: none"> Analysis of structure of labour markets and demand for labour (in-country and in trading partner countries) Analysis of wage determination
1.12. To what extent does trade liberalisation lead to reduced fiscal revenue? Do tax revenue reduction lead to (1) increased tax burdens on the poor, or (2) reduced expenditure on pro-poor interests?	<ul style="list-style-type: none"> Where trade taxation forms a large portion of fiscal revenue, liberalisation may lead to reduced income. Reduced revenue may lead to reduced pro-poor spending, depending on both the structure of spending and policy choices If spending on public services is reduced, this transfers the cost of providing essential services to households Conversely, simultaneously reducing tariff rates and removing tariff exceptions actually increases revenue 	<ul style="list-style-type: none"> Tariff revenue is conventionally replaced by value added or sales taxes, but calculating the necessary rates and administering them can be difficult. A changed tax base is likely to have different distributive effects. Where the burden of providing essential services is transferred to households, this will have implications on the quality of these services "It is ultimately a political decision whether the new taxes necessary to make up the shortfall, or the cuts in government expenditure that result from falling revenue, hit the poor. In recent years some East Asian countries have protected pro-poor expenditure in the face of far greater shocks than any trade reform would produce (Winters, no date) 	<ul style="list-style-type: none"> Analysis of tax revenue, structure and value Analysis of public expenditure Policy analysis of key government documents linking <ul style="list-style-type: none"> trade reforms revenue pro-poor expenditure (basic social sector services, safety nets)

Section 2: Economic effects of other aspects of trade liberalisation

<p>2.1. How do new regulations or costs for intellectual property affect poverty?</p>	<ul style="list-style-type: none"> • Poor people may use the technology of others, so the access to and cost of intellectual property (IP) affect them. • IP includes technology for production, processing & packaging and distribution (including for medicines) • Some forms of intellectual property are held by the poor, in particular traditional knowledge 	<ul style="list-style-type: none"> ▪ If technical knowledge, including of industrial processes, is protected by patent, the costs of entry into new sectors are raised, making adjustment more difficult. ▪ Without adequate human and social, (including legal and official) capital, the poor might not be able to protect their own IP and thus the benefits arising from this 	<ul style="list-style-type: none"> ○ Analysis of major types of IP directly and indirectly used by poor ○ Survey of access to IP. ○ Analysis of IP assets of the poor
<p>2.2. How could changes in investment rules affect poverty?</p>	<ul style="list-style-type: none"> • Changes in investment rules may affect attractiveness to foreign investors • Bi- or multilateral changes in investment rules may affect special incentives • Increased investment is likely to have a significant effect on production in a capital-scarce country. • Investment is an efficient means of technology transfer 	<ul style="list-style-type: none"> ▪ Rules requiring a share of local ownership can be used to encourage either collective ownership or individual ownership. ▪ Rules requiring local employment may change the structure of employment ▪ Certain assurances need to be provided, especially to external investors if their investments are to be long term and thus have the greatest potential to affect poverty 	<ul style="list-style-type: none"> ○ Analysis of existing investment regulations ○ Analysis of present and likely investment to determine whether it is regulation-sensitive ○ Analysis of present and likely production patterns to determine how important technology transfer is
<p>2.3. How could changes in competition rules affect poverty?</p>	<ul style="list-style-type: none"> • Competition can weaken potential monopolies or other abuse of market power. • In small markets, regulation may be more realistic than reliance on competition policy 	<ul style="list-style-type: none"> ▪ Many primary commodities exported by developing countries face markets dominated by a few buyers. ▪ Within small countries, with high transport costs to other suppliers, opening markets may not have a strong effect of increasing the number of providers 	<ul style="list-style-type: none"> ○ Analysis of the structure and size of markets in country ○ Analysis of the structure of markets in trading partners for different types of exports
<p>2.4. How could changes in safeguards, anti-dumping, etc. rules affect poverty?</p>	<ul style="list-style-type: none"> • Anti-dumping (AD) can destroy (or deter) industries • Use of these imposes adjustment costs • Fear of increased use may increase the perceived risk of trade • Low wage labour intensive sectors may be particularly vulnerable to action 	<ul style="list-style-type: none"> ▪ A combination of AD and enforcement of rules of origin by S. Africa destroyed around 7 household textile plants in Malawi in 1999. ▪ Kenya is concerned by S. Africa and EU food dumping. Imports undercut local producers, but benefit poor net consumers. There is no evidence on the net effect ▪ AD actions tend to be by developed countries against developing, by more advanced developing against less advanced, and by these against least developed 	<ul style="list-style-type: none"> ○ Analysis of exports to determine which are/might become vulnerable ○ Analysis of how sectors adjust to changes in demand
<p>2.5. How do the increased requirements of international standards affect poverty?</p>	<ul style="list-style-type: none"> • Increasing trade integration has led to both informal and formal requirements of conformity of standards. • Meeting standards devised in and for advanced economies imposes costs on developing countries but may increase potential income from trade 	<ul style="list-style-type: none"> ▪ To produce to international standards may require following international methods, increasing capital intensity and reducing employment ▪ Using the standards may increase the potential to trade and increase output and employment ▪ As with trade liberalisation, there is a need to consider meeting short-term adjustment costs ▪ International standards may act as an insurmountable trade barrier limiting or excluding certain countries/ regions from trading in the most profitable markets 	<ul style="list-style-type: none"> ○ Analysis of the principal traded sectors to see how relevant international standards are or are likely to be ○ Study of the potential costs of meeting and of not meeting standards
<p>2.6. How might including provisions on labour standards in trade rules affect poverty?</p>	<ul style="list-style-type: none"> • Imposing international labour standards may increase the welfare of those in work if national standards were previously lower. • It may reduce the number employed if it raises labour costs 	<ul style="list-style-type: none"> ▪ Whilst (higher) minimum wages are associated with reduced poverty, they are also associated with (higher) unemployment so the potential reduction in poverty is not costless from an efficiency point of view (Lustig and McLeod 1996) 	<ul style="list-style-type: none"> ○ Analysis of current legal and customary standards ○ Analysis of relative incomes of employed and unemployed.

<p>2.7. How might strengthening the environmental constraints in trade rules affect poverty?</p>	<ul style="list-style-type: none"> Any form of production may have external effects on the environment The poor may be more vulnerable both to changes in the environment and to unemployment if there are restrictions on output If environmental constraints raise the costs of production in protected sectors sufficiently to offset the effects of the protection, then there may be a shift of production to countries where production is less environmentally damaging 	<ul style="list-style-type: none"> Protection of agriculture in developed countries has led to over-intensive production and environmental damage: a requirement to avoid or compensate for this could increase the opportunities for developing countries The poor would be likely to benefit in terms of health outcomes where polluting industry are restricted/ given quotas/ fined (e.g. the respiratory health benefits of reduced air pollution) 	<ul style="list-style-type: none"> Analysis of the environmental impact of current and expected production patterns Analysis of the regulatory competence of the government
<p>2.8. Does trade liberalisation at different levels (multilateral, regional, bilateral, unilateral) have different effects on poverty?</p>	<ul style="list-style-type: none"> Partial integration between trading partners, regional blocks, or internationally may lead to inefficiencies through trade diversion The comparative advantages which a county has relative to a subset of the rest of the world may not be the same as towards all of it, and therefore the sectoral and income group effects will be different Unilateral and multilateral liberalisation both avoid the costs of inefficient diversion, but are likely to lead to different changes in the composition of trade 	<ul style="list-style-type: none"> The advantages of lower costs may be smaller from liberalisation to similar countries, but the adjustment costs may also be lower 	<ul style="list-style-type: none"> Analysis of the production, cost and demand structures of the region or other group Analysis of the net effects on production and distribution of output of any liberalisation by the country itself and its trading partners
<p>Section 3: Social Structure of Trade</p>			
<p>3.1. To what extent do social identity and barriers to trade affect ability to trade (and to respond to changes)?</p>	<ul style="list-style-type: none"> Exclusionary/exclusive trade practices will determine trade opportunities and may contribute to inequality Gender, ethnic, class and caste (etc) barriers to entry to particular activities distort responses to policy changes 	<ul style="list-style-type: none"> The distribution of effects of liberalisation on the poor can be analysed in terms of the economic characteristics of poor people (employment status, assets, both monetary and human, location), by their gender and household characteristics, and by socially relevant characteristics, including ethnicity. 	<ul style="list-style-type: none"> Review sociological studies of traders Talk to key informants <ul style="list-style-type: none"> Wholesalers Retailers Informal financiers Producers
<p>3.2. How can changes in trade policy affect the use of child labour?</p>	<ul style="list-style-type: none"> Increased family earnings may reduce the need for child labour but changes in the industrial structure or increases in returns to particular sectors may increase the demand for it Increased employment of adults especially of women may increase child labour within the household Increased employment of women may increase the perceived value of education for children, and reduce child labour 	<ul style="list-style-type: none"> A shift to factory based employment reduces the scope for child labour Factories may result in increased population densities reducing the cost of delivering public services (e.g. education) There tend to be fewer child workers in export industries compared to sectors producing for consumption Child labour is most prevalent where the capacity or will to enforce minimum age work and schooling limits is weakest enabling child labour in some trade related industries such as hand made carpets and foot ball stitching 	<ul style="list-style-type: none"> Analysis of the structure of employment in different sectors Analysis of household structure (including extended households)
<p>3.3. To what extent does the social structure of trade have an effect on factors that determine how border prices are transmitted (to the poor)?</p>	<ul style="list-style-type: none"> Social structure of trade – where a dominant ethnic/ gender/ social/ location group are able (perhaps through monopoly or oligopoly power) to control prices/ extract rents and may prevent border price increases/ reductions from being transmitted down the production chain to the poor. This situation could be exacerbated where these groups control the cash economy 	<ul style="list-style-type: none"> “Even in simple economies a good passes through many stages on its way to or from the border. In each of these stages, costs are added, which reduces the proportionate impacts felt by individuals relative to those on the border, and often substantially reduces the predicted effects of liberalisation. If the internal distribution sector is not competitive, the pass through of price changes may not be complete, perhaps even 	<ul style="list-style-type: none"> Studies of trading groups Key informant interview with traders (formal and informal of different turnovers and in different sectors), producers, trade officials, market administrators Analysis of market records

	<ul style="list-style-type: none"> Control of/access to the cash economy helps determine the extent that the poor benefit from Producers appropriating monopoly/oligopoly rents may affect the price and quality of goods and services Impacts may be mediated by aspects of social identity, location and resource endowments 	completely frustrating the liberalisation e.g. where monopolistic marketing boards fail to pass on price increases on export goods" (Winters 1999)	
<p>3.4. To what extent do changes in trade rules affect the social structure of trade (e.g. the strength of barriers to entry)? What does this depend on?</p>	<ul style="list-style-type: none"> If/ where changes in trade rules favour one group over another or act to strengthen or weaken barriers to entry. This has the potential to undermine or create new monopolies, create or undermine opportunities, enable those who were previously unable to participate in the sector to participate, or may strengthen the position of incumbents Social dynamics (e.g. of ethnicity, class and gender) and resources enable new groups to compete with established traders 	<ul style="list-style-type: none"> The effect that trade liberalisation has on the social structure of trade is in part influenced by its effect on the social capital of traders. Where it facilitates positive (negative) social relationships this is likely to lead to significant discounts (premiums) to targeted groups (Robison et al 2002) 	<ul style="list-style-type: none"> Key informant interviews as above to establish impact of specific trade liberalisation measures
<p>3.5. What effect does trade liberalisation have on formal and informal financial markets/sectors? What is the importance of this relationship?</p>	<ul style="list-style-type: none"> Where trade liberalisation strengthens/weakens any nexus between finance (e.g. credit) and trade markets (interlocked markets) then the dynamics and effects of trade relationships will be altered with implications for winners and losers Where markets are linked, what implications does this have on the perceived credit worthiness of the poor? 	<ul style="list-style-type: none"> Informal financial markets typically arise in response to 'financial repression'/market controls. Both formal and informal financial markets are responsive to macroeconomic forces and shocks. The effect that trade liberalisation has on formal and informal financial markets, and on the poor depends upon the manner in which exogenous and policy shocks are disseminated throughout the economy, both on impact and over time (Montiel et al 1993). 	<ul style="list-style-type: none"> Analysis of price data Key informant interviewing on aspects of interlocking (producers, traders, wholesalers, input suppliers, storage facility owners)
<p>3.6. What factors determine access to credit and what affect does this have on ability to trade?</p>	<ul style="list-style-type: none"> Aspects of social identity and financial status contribute to access issues Can/do producers combine to engage in trade where this is viable (considering both social and resource constraints) Often, credit enables the most favourable terms to be exploited Trade is often a route out of poverty Especially in informal finance markets, credit checks are sometimes conducted through informal networks of credit lenders who may or may not be connected through ethnicity, region of origin and kin relationships Monopolistic/oligopolistic competition often exists in informal credit markets 	<ul style="list-style-type: none"> In instances where credit supply is dominated by a particular group, (be it ethnic, kin, family, occupation) their criteria will dictate who they provide credit to. Access to credit in turn has the potential to enable or constrain trade 	<ul style="list-style-type: none"> Review studies of microfinance Review impact of financial sector regulation on people without adequate collateral Review loan repayment periods with respect to trading cycles Review microfinance and bank lending policies on different categories of traders Review impact of financial sector regulation on the depth and spread of financial markets
Section 4: Social Implications of Employment Changes			
<p>4.1. To what extent does liberalisation affect (1) wages and (2) employment? To what extent are these effects determined by aspects of social identity e.g. gender, ethnicity, or by levels of education/skills?</p>	<ul style="list-style-type: none"> Improved/worsened wage and employment conditions resulting from trade liberalisation may be distributed unevenly between sexes, sectors, education/skill categories. 	<p>"Trade liberalisation affects households through its impact on profits and hence on employment and wages. There are two opposite was in which this may occur. First, if wages are flexible and labour is fully employed, then price changes caused by trade liberalisation will be reflected in wage changes, with employment staying the same. But alternatively, if there is a large pool of workers who move in or out of jobs when circumstances change, then trade</p>	<ul style="list-style-type: none"> Review studies of adjustment, retrenchment and distribution of costs of adjustment

		liberalisation will cause changes in employment. In reality, there will be a combination of these effects. How this affects poverty depends not only how employment changes, but also on the types of labour that poor households supply and where the various wage rates lie relative to the poverty line" (McCulloch et al 2001). The distribution of employment/ wage effects is dependent on the effects of liberalisation on the formal/informal sector, skilled/unskilled sectors over time	
4.2. How are job losses (if any) distributed by sex, ethnicity (etc.), sector, education and skills following trade liberalisation?	<ul style="list-style-type: none"> This knowledge will help in the design and targeting of safety nets and other pro-poor interventions 	<ul style="list-style-type: none"> As well as the biases found in employing, there may be differences according to mental or physical impairment, age or seniority Where liberalisation leads to increased mechanisation and replaces unskilled/low skilled workers, job losses are likely to be high amongst affected groups 	<ul style="list-style-type: none"> Employment statistics Re-analysis of household and census surveys over time Employment statistics Grey/published literature Key informant interviews
4.3. What effect do employment and wage effects have on household leisure and reproduction and care responsibilities of women/ men?	<ul style="list-style-type: none"> Changes in leisure/work divisions may affect individual and household time pressures and thus their ability to exploit new/increased opportunities They may affect health, care and welfare of dependants (e.g. children, elderly, chronically ill e.g. AIDS/HIV sufferers and households), esp. for children. This affects their physical and cognitive development, leading to the intergenerational transmission of poverty and opportunity Non-monetary poverty indicators may be affected by trade liberalisation especially where increased time commitments are not proportionately compensated for by increased wages 	<ul style="list-style-type: none"> "Policy which supports forms of competition based on 24 hours instant availability and disposability of the labour force is not likely to be consistent with the objective of promoting stable, caring and inclusive communities" (Elson, no date) "Feminist economists and social scientists have long observed that an increase in women's labour-force participation is not accompanied by a commensurate reduction in their unpaid domestic labour, as men have been reluctant to pick up the slack, resulting in the so-called 'double day' for women. Two consequences can be seen with the increase in women's paid employment: either the provision of care is squeezed and/or women's leisure time is reduced" (Cagatay 2001:24) 	<ul style="list-style-type: none"> Review studies of gender effects of employment change Apply gender analysis to inform <ul style="list-style-type: none"> surveys FGDs PRA work Review social indicators trends with respect to policy changes (but NB complexities of attribution) Key informant interviews
4.4. To what extent does paid/unpaid labour for household reproductive tasks change due to the employment effects of trade liberalisation?	<ul style="list-style-type: none"> May stimulate secondary employment benefits May mitigate against household reproductive and care welfare losses arising from employment effects of trade liberalisation 	<ul style="list-style-type: none"> Paid/unpaid domestic labour is often employed to enable the income generating activities of household members 	<ul style="list-style-type: none"> Re-analysis of household surveys Review employment statistics Review gender studies
4.5. How accessible is service sector employment to (1) the least skilled/educated and (2) women? What affect does service sector employment have on incomes and employment security?	<ul style="list-style-type: none"> With service sector employment being one of the most rapidly growing sectors, barriers to access (e.g. gender, skill/education endowment, ethnicity, old age, physical and mental impairment, class and location) may exclude some of the most vulnerable Where job security is affected by business cycles and other macro market related pressures, service sector employment may result in transitory poverty reduction 	<ul style="list-style-type: none"> If liberalisation enables the movement of relatively unskilled workers, there could be very positive effects on poverty. Liberalisation may also increase unskilled employment such as tourism or boost local efficiency and competitiveness, such as financial services. However, liberalising some inefficient services may eliminate unskilled jobs while offering their main benefits to the relatively rich (McCulloch et al 2001) Women's access to service sector employment is in part dependent upon their skill endowments and whether social norms consider it to be an appropriate activity for women to undertake 	<ul style="list-style-type: none"> Review literature on service sector Interview key informants in service sector at different levels

Section 5: Social Constraints on Supply Responses

<p>5.1. To what extent do intra-household relations (in particular incomplete pooling of household resources; obligations to produce traditional food crops, and household reproductive obligations), lead to (1) weak incentives to increase production; (2) allocative inefficiencies and (3) difficulties [for women] to respond to new productive opportunities?</p>	<ul style="list-style-type: none"> • Any social constraints affecting the transmission of economic effects from trade will affect the extent to which women benefit from trade liberalisation, and thus their, and their household's, poverty and welfare 	<ul style="list-style-type: none"> ▪ Where the structure of market institutions intersects with the structure of social reproduction to segment markets, this can constrain women to more localised, small scale, lower-risk, less remunerative forms of trade than men (Elson, no date). Where this is compounded by insufficient access to resources (e.g. credit, inputs, labour) and the need to produce food crops, this acts as a barrier to women's exploitation of new opportunities 	<ul style="list-style-type: none"> ○ Review studies in microfinance ○ Re-analysis of household income and expenditure surveys with a specific sensitivity to gender analysis ○ Analyse gender differentiated participation in new opportunities
<p>5.2. To what extent do gender (and other) disparities affect access to capital (e.g. land, credit, inputs) and access to labour and agricultural goods markets? How important are these in people's ability to respond to (1) higher producer prices and (2) better employment opportunities that might result from trade liberalisation?</p>	<ul style="list-style-type: none"> • Important for understanding the gender differentiated ability to exploit changes in returns to labour and to capital and benefit from the returns to factors of production (also consider other forms of social differentiation – old age, impairment etc) 	<ul style="list-style-type: none"> ▪ Where the structure of market institutions intersects with the structure of social reproduction to segment markets, this can constrain women to more localised, small-scale, lower-risk, less remunerative forms of trade than men (Elson, no date) 	<ul style="list-style-type: none"> ○ Review studies in microfinance, land, input, labour and agricultural goods markets ○ Analyse gender differentiated access to capital ○ Examine factors that lead higher producer prices and improve employment opportunities
<p>5.3. How are the effects of trade liberalisation, on the risks and uncertainties faced by the poor differentiated according to their social identity, occupation and level of skills and education?</p>	<ul style="list-style-type: none"> • Aspects of social identity are likely to contribute to the level of or ability to respond to risk and uncertainty 	<ul style="list-style-type: none"> ▪ Aspects of social identity will affect the level of social capital have which can act as a safety net in response to risks and uncertainty ▪ The risks and uncertainties faced by the poor, in terms of their occupation, will depend upon the sector affected by the liberalisation and the resultant policy changes, both on impact and over time 	<ul style="list-style-type: none"> ○ Participatory vulnerability ranking of different groups pre and post liberalisation/ policy change
<p>5.4. To what extent are different members of the same household able to exploit new opportunities (supply response)? Are they all equally able to enjoy the returns on investment from new opportunities?</p>	<ul style="list-style-type: none"> • Important to understand the experience of trade liberalisation and its potential for poverty reduction at the intra-household level • Such information helps design/target interventions 	<ul style="list-style-type: none"> ▪ This depends on the intra-household distribution of resources, opportunity and decision making power. Several internal divisions sub-divide the household e.g. between the commodity and non-commodity sectors, between men and women, between socially-defined categories such as seniority, age, marital status and relation status (Kabeer 1994), and result in associated rights and responsibilities that govern individual access to, and use of resources and returns from resources (Chen and Dunn 1996). 	<ul style="list-style-type: none"> ○ Analysis of household members' contribution to total household income and access to household resources ○ Analysis of the distribution of returns to investment between household members
<p>5.5. How equitable is access to new opportunities between different households and social groups within a community? How are people constrained in responding to new opportunities?</p>	<ul style="list-style-type: none"> • Important to understand the factors that facilitate or constrain different households/social groups • Helps design/target interventions 	<ul style="list-style-type: none"> ▪ "The incompleteness of market contracts puts a premium on maintaining shared systems of information, shared norms about how deals are done, shared systems for creating trust, shared systems for extending and receiving credit. These shared systems are systems of exclusion of outsiders, as well as inclusion of insiders – and the patterns of exclusion and inclusion are frequently constructed along gender [and other] lines" (Elson no date) 	<ul style="list-style-type: none"> ○ Examination of participants in new opportunities ○ Analysis of individuals/households/ groups who do/can <u>not</u> partake new opportunities

Annex 3: Appropriate research and analysis methods

1. Introduction.

This annex provides a brief overview of methods and approaches to poverty and social analysis, policy analysis and the analysis of trade-poverty linkages.

It is not free-standing and should be read in conjunction with the main body of the paper and with both '*Annex 1: Checklist of trade-poverty linkages*' and '*Annex 2: Matrix identifying trade-poverty linkages.*'

As we showed in Section 2 of the main body of the paper, the ability to trace the impact of changes in trade to different parts of the economy and to the poor requires good quality poverty and social analysis, an understanding of linkages between domestic economic performance, trade and poverty reduction *and* a comprehensive overview of recent and forthcoming trade policy reforms and their implementation. Researchers must also have a thorough understanding of the current and likely future impact of multi-lateral, regional and bi-lateral trade agreements and changes in the policy and macro-economic environment of trade partners and competitors. This will generate a considerable mass of data, and it is important that researchers build on the work of existing studies to determine linkages, causation and likely impacts - where possible.

2. Poverty and Social Analysis

As we have shown in the main body of this paper, good quality poverty analysis is now multidimensional and uses a mix of qualitative and quantitative methods.

The Terms of Reference for this study recommend that researchers involved in each of the ATPP country case studies also assess the current and likely future frameworks for development of PRSPs into which trade policy changes could feed.

2.1. Issues in researching trade-poverty linkages

The literature on methods and approaches to researching poverty is extensive, and this section does not attempt to either summarise it or provide detailed guidance on researching poverty. Section 2 of the main body of this paper touches on a number of methodological issues in terms of defining and measuring poverty and the importance of differentiating the poor in any study by gender or social difference, by income or wealth groupings, by location, and by chronicity.

It is not anticipated that research undertaken as part of the ATPP study will involve primary data collection in terms of poverty and social analysis, but much of the necessary information can be gained from secondary sources and grey literature. Information on the incidence and severity of income poverty can commonly be found through government statistics (including Household Surveys and Participatory Poverty Assessments), supplemented by other sources of in-country analysis. It may be broken down by region and with changes tracked over time. However, as we showed in Section 2 of the main paper, income poverty is not the full story and such information should be supplemented with data which presents a more

multidimensional view. This includes data on asset deprivation, vulnerability and more intangible forms of poverty, such as isolation and social and political exclusion, and powerlessness, (Chambers 1983:108-111; UNDP, 1996:109-111). However, identifying sources of such data may require some thought³⁰. Data on some aspects of multi-dimensional poverty may be amassed through referring to participatory poverty assessments, census data, living standards surveys and the health, education and livelihood components of household surveys. For instance, an analysis of assets should include a household's productive assets, but also their human capital (health and education/ skills or capability); physical capital (house, machinery/ tools, etc.); natural capital (land, trees, ground water, common lands etc.); financial capital (cash, savings, credit); social capital (kinship networks, community interactions, associational life, involvement in networks etc.) and political capital (political literacy, access to and control over key decision makers and decision making processes) (see Carney, 1998, for how these 'capitals' form the basis of the livelihood framework).

The World Bank provides a quick introductory guide to approaches and methods to poverty analysis through their website³¹. The Bank also has a site specifically geared to trade-poverty issues³² which summarises relevant reports in an accessible format. The Chronic Poverty Research Centre (an international research programme) has produced a research methodology 'toolbox' which can be accessed through their website³³. This also provides useful guidance on a range of poverty-related research approaches.

We have shown how important intrahousehold decision-making and differentiation can be in terms of both the distribution of the costs and benefits of changes in trade and in terms of its influence on the supply response (see Section 2.1.2 of the main paper). National studies in Latin and Central America distinguish earnings of different members of households, by type (Gomes de Conceição, 2001 in Page, 2001:18). An analysis of this data, combined with information on the determinants of household composition³⁴ could be used to trace the impact of changes in trade down to the intrahousehold level (Page, 2001). It does not appear that similar work has been undertaken in the ATPP study countries. However, lessons could be learnt from the approach.

If we look at the household level or at the structuring of the labour market and the economy and society in general it is clear that gender-aware economic analysis (at macro, meso and micro levels) can play in identifying ways in which women and men are differentially affected by processes of economic change (Baden, 1998). Such analysis can help us to understand why

- some countries, sectors, or regions are unable to capitalise on potential trading opportunities, which relates in part to rigidities and distortions, including gender distortions in factor markets

³⁰ National Human Development Reports are produced for many countries. They often provide disaggregated data at the regional and district level, and where more than one has been produced, begin to provide an indication of changes over time. Where available, these reports - and the background papers used to develop them - are a useful resource.

³¹ See <http://www.worldbank.org/poverty/index.htm> and 'Measuring poverty' at <http://www.worldbank.org/poverty/mission/up2.htm> for useful summaries.

³² See <http://www1.worldbank.org/devoutreach/index.asp>

³³ See <http://chronicpoverty.org/>

³⁴ Page (2001) suggests taking account of the literature on how changes in employment, by sector, age or gender can act on the determinants of marriage (and the formation of new households) fertility and family/ household structure.

- the benefits of trade expansion are differentiated between women and men, as well as between different groups of women with implications for both gender equality and poverty reduction goals (copied verbatim) (Fontana et al., 1998)

This suggests that researchers wishing to trace the trade-poverty linkages should incorporate gender analysis. Some research indicates that it enables researchers to examine ways in which gender biases in institutions – including agricultural marketing systems – affect the implementation and outcomes of reform policies (Baden, 1998) and is essential if trade policies are to be designed and implemented to enhance rather than hinder gender equality and human development (Çagatay, 2001). Again, we are not suggesting that researchers involved in the ATTP study undertake primary data collection for this aspect of the work, however, existing studies should be drawn on where possible.

CGE models can be designed which account for household activities and leisure, in addition to standard market sectors, and treat women and men as separate factors of production (recognising gender-based rigidities in the labour market and the allocation of productive and reproductive tasks) (e.g. See Fontana, 2002). While such work has not been undertaken in all of the ATTP study countries, findings from existing studies may provide researchers with interesting insights.

Pursuing the theme of understanding the impact of changes in trade of different groups, the ILO has developed global estimates of the magnitude and distribution of working children. This includes estimates of economically active children and the extent to which children are engaged in hazardous work and other worse forms of child labour (ILO, 2002). Another paper presents information on the extent of child labour involvement in commercial agriculture in Africa³⁵ (IPEC, 1996). It assesses how effective existing measures have been to improve the employment conditions of working children and identifies additional measures which may prove feasible. These reports may be useful for tracing or predicting the impact of changes in trade on children in the ATTP study countries.

2.2. Policy Analysis

In order to understand the linkages between changes in trade policy, changes in trade practice and changes in the level, depth or distribution of poverty and ill-being researchers must assess current policy. The process of listing the current and potential future trade and related policies (both domestically and in relevant trade partner countries) should be combined with some basic policy analysis.

One of the first steps in this analysis should be an examination of the policy making processes and context. How are policies made? To what extent does technical information drawn from the analysis outlined above concerning the determinants of poverty, the distribution of poor people, livelihoods and coping strategies, the macro-economy and current and future trade flows, values and impacts influence policy making? In other words, does information-based policy making occur or is it driven by short term political expediency?

Two main theories of decision-making, the rational model and disjointed incrementalism, provide contrasting explanations of how decisions are made. The rational model is prescriptive, outlining how decision-making *should* occur, while

³⁵ The report contains case studies on Kenya, Malawi, South Africa, Tanzania and Zimbabwe, which may be useful.

disjointed incrementalism is descriptive, illustrating how decision-making actually occurs (Nunan, 2001).

The model of rational decision making assumes that decision-makers behave in a logical, sequential manner. They identify their objectives, formulate possible strategies, think through the implications of these strategies and select a course of action which on balance will best achieve their objectives. The process of decision-making is value free and technocratic ('what interventions will be achieve my goal?'). Nunan (2001) states that decision-making in the rational mode includes the following:

1. identification of the nature of the problem.
2. isolation of the overriding policy objective.
3. identification of all the possible means of achieving the objective and assessment of the consequences of adopting each.
4. selection of the policy most likely to secure the overriding objective.

This does not take account of cultural setting, changes in ideological values or the impact on policy making of political bargaining or compromise.

The disjointed incrementalism approach to policy analysis was developed to be closer to reality. It denies that policy makers are purely rational and argues that in practice they usually try to cope or 'muddle through'. This means that when making decisions they tend to start with the status quo and make what adjustments they can to accommodate new situations. They therefore do not solve 'problems' but make adjustments to them (ibid).

This approach represents how decision-making occurs in reality. It has four key features:

1. The most pressing problem is taken first, that is the issue that people are making the most noise about.
2. Only tackle one problem at a time.
3. Marginal changes are made to existing policies (i.e. incremental changes), which are easier to gain acceptance than radical change.
4. Ignore unintended consequences until they become major problems. They will then become the focus of a new process to adjust policy.

This model suggests that policy-making is an endless process which is exploratory in nature, with no defined stages in which problems are first identified and solutions examined (Nunan, 2001).

These two models help us to recognise that while we expect policy making to be linear, rational and technocratic it in fact more commonly follows the path described in the model of disjointed incrementalism. The fourth point in the list of key features is crucial to our study of trade-poverty linkages, as it indicates that unintended reductions in the well-being of the poor may need to get quite severe and high profile if they are to be tackled. Coupled with the first point, which highlights that governments are unlikely to respond to an issue unless it is brought forcefully to their attention and we can see that ensuring that policy change is pro-poor may be very difficult indeed unless there is a strong local constituency for pro-poor action.

We commonly assume that governments have poverty reduction, developmental or growth orientated objectives - in other words, that they want the best for their country. However, research has shown that the existence of neo-patrimonialism can explain deviation from altruistic policy making and implementation (Bird et al, 2003). Neo-

patrimonialism expresses the institutional 'in-betweenness' of the national states of the region – between a patronage and bureaucracy, between 'presidentialism' and liberal democracy (ibid).

Neo-patrimonialism influences policies and their outcomes in the following broad ways:

- The political interests of ruling elites have been defined in a way that systematically conflicts with the principle of maximising the welfare of citizens. Policies are commonly formulated as a means of guaranteeing political support, resulting in large symbolic gestures rather than attempts to resolve structural problems through better policy or implementation.
- Policies are pursued that allocate economic resources inefficiently, with high opportunity costs for the poor.
- Intermittently, but on an occasionally massive scale, state resources are diverted unofficially for personal gain, through corruption and nepotism. A major source of difficulty is the way neo-patrimonialism detracts from issue-based political competition in general (Bird et al, 2003).

We must acknowledge the local political realities if we are to predict future policy making, implementation and its impact on both the economy and different groups within the population.

(An in-depth analysis of policy processes by Rebecca Sutton - 'The Policy Process: An Overview.' ODI Working Paper 118, London, ODI. 1999 - can be found on the ODI website www.odi.org.uk)

3. The realities of implementation

Even if there is consensus on what policies are needed, there is commonly a problem about how to implement them successfully. Omamo (2003) has argued that much policy research on Africa has focused with the 'what' of policy, with researchers treating the question of 'how' to adopt and implement these policies as a second-order issue that can safely be left to consultants and practitioners. But the 'how' questions are crucial as it is often poor implementation that leads to unexpected failure (Bird et al, 2003). These failures are commonly due to institutional factors which are summarised in the table below.

Researchers may find the questions in the table below useful to guide thinking on the effectiveness of current and proposed trade and complementary policies.

Table 1: Understanding Institutions.

Priorities	Has government identified its priorities and allocated resources accordingly? Are allocations adhered to? What are the core policy and decision making structures? What levels of expenditure can be afforded in the short, medium and long term? How effective is public expenditure management and financial accountability? What mechanisms are available to ensure that poor people's views are taken into account? Who sets priorities and in response to what interests?
Policies	How effective are the core policy and decision-making structures and processes? Are they based on evidence and data? What is the availability and quality of data? What is the impact of policy changes on the livelihoods of the poor?
Incentives	What is the current formal/informal incentive structure? Who benefits? What are the incentives for state structures to deliver services; for the bureaucracy to attract and motivate staff; for the development of national skilled human resources? What incentives, if any, are there to modify behaviours of key players in support of the desired outcomes? What incentives are there to review and improve performance?
Law	Independence of judiciary. Effectiveness of rule of law - both criminal and civil. Extent of political interference in judicial decisions. Levels of corruption in the legal system. Stability of legal institutions. Are there informal systems of dispute resolution? Are rules respected and enforced? Is there a clear separation between the judiciary, the legislature and the executive?
Culture	Cohesiveness of society; dominant national values and norms; stability of such values. Attitudes to consultation, hierarchy, incentive systems, participation, the dissemination of information, donor interventions, risk, etc.
Drivers for change	What are the key drivers for change? Social, technological, economic or political? Are there sponsors or champions for reform? Extent of their power and influence. Level of commitment to reform. What benefits or incentives do they have to push a reform process? Level of political stability. What are the implications of the current electoral cycle?
Voice and partnership	What mechanisms and structures are in place to promote the concerns of poor people? Awareness raising, capacity building, joint management of eg forestry or water resources, participatory budgeting? How effective are they? What voice do poor people have to hold delivery organisations to account? Report cards, public audits?

Source: Piron, 2003 (adapted from DFID 2002)³⁶

4. The Analysis of Trade-Poverty Linkages.

Use of the analytical building blocks outlined in the sections above do not necessarily lead to the same point. There is a gulf in the trade-poverty literature between those who 'focus on the broad economic benefits of trade liberalisation for aggregate poverty reduction, and those who critically examine the micro-level effects of trade liberalisation of poverty from a livelihood perspective' (Kanji and Barrientos, 2002:6). We suggest that researchers explore the micro, meso and macro levels and use a mix of methods to triangulate their findings.

Analysing trade-poverty linkages is effectively a policy-level impact assessment exercise. In the sections below we introduce some of the key issues in assessing impact. Researchers are likely to be conversant with these issues, and the following should be simply used as an aide memoire. The likely struggle of combining poverty and social analysis data with analyses of trade policy and its implementation is touched on in Section 6, below.

³⁶ Piron, L-H. (2003) *'Food Security Project in Southern Africa: How to include a governance perspective.'* Internal briefing note. Mimeo. London, ODI.

DFID (2002) *'Conducting Institutional Appraisals and Development.'* Governance Department, DFID. Guidelines for DFID. London: DFID.

4.1. How to research impact?

As with any study attempting to trace impact, there are a number of methodological issues that need to be considered, to ensure that findings are robust:

- Selection of the right unit (or units) of analysis
- Selection of the right mix of methods
- Triangulation
- Avoiding bias
- Causality and the counterfactual

Most successful impact assessments explore the whole ‘impact chain’, and so investigate the link between inputs and activities, how these generate outputs and these in turn outcomes and finally impact (Roche, 1999:26).

4.1.1. *Selection of the right unit of analysis*

Should analysis take place at the level of the individual, household, community, organisation or a combination of these? Different aspects of poverty and deprivation are evident at different levels of social organisation. For example, the lack of access to markets may apply predominantly at the level of the settlement or community while food security and income may apply to the household level, or even at an intra-household level due to differentiation based on age, gender or relationship to household head (Herbert and Shepherd, 2002). So, focusing solely on one level of analysis may lead to important gaps in understanding. By broadening our analysis to include different levels allows inter-linkages between them to be explored (ibid). Table 2 (below) highlights the advantages and disadvantages of different units of assessment.

4.1.2. *Selection of the right mix of methods*

Impact assessments have moved increasingly from single method to multi-method approaches (Herbert and Shepherd, 2002), and greater use of participatory approaches in impact assessment has expanded the toolbox (Hulme, 1997 in Herbert and Shepherd, 2002). When undertaking project-level impact assessments sample surveys are still common but they are now often combined with participatory and other qualitative approaches, and qualitative methods (rapid appraisal, participant observation, PLA) are often used on their own, particularly for NGO implemented projects (Herbert and Shepherd, 2002).

As each key method has its own strengths and weaknesses (see table below) they are increasingly selected for use together. As a result studies are now able to benefit from the advantages of sample surveys and statistical methods (quantification, representativeness and attribution) and the advantages of the qualitative and participatory approaches (ability to uncover approaches, capture the diversity of opinions and perceptions, unexpected impacts etc.) (Herbert and Shepherd, 2002).

Researchers examining trade-poverty linkages will commonly be relying on secondary data and drawing on the findings of existing local level impact studies in order to justify assumptions of causal linkage and likely directions and magnitudes of change. However, it is useful for researchers relying on secondary sources to have a critical perspective on the methods used in the studies they rely on.

The method(s) chosen in impact assessment studies will depend on the nature of the project, programme or policy; the type of information which is needed (or given priority); the context of the study and the availability of resources (time, money, human) (ibid).

See Table 3 for guidance on the strengths and weaknesses of key impact assessment methods, and Table 4 for when key methods are appropriate.

Table 2: Advantages and disadvantages of different units of assessment

Unit of Assessment	Advantages	Disadvantages
Individual	<ul style="list-style-type: none"> • Easily defined and identified • Allows social relations to be explored • Allows inter-household relations to be explored • Can allow more personal and intimate issues to emerge • Permits an exploration of how different people by virtue of their gender, age, social status etc. experience poverty/ the effects of the intervention. • Permits understanding of political capital 	<ul style="list-style-type: none"> • Most interventions have impacts beyond the individual level • Difficulty of attribution through long impact chain • Difficult to aggregate findings
Household	<ul style="list-style-type: none"> • Relatively easily identified and defined • Permits appreciation of household coping and survival strategies such as income, asset, consumption and labour pooling • Permits appreciation of link between individual, household and group/community • Permits understanding of links between household life cycle and well-being. 	<ul style="list-style-type: none"> • Exact membership sometimes difficult to assess • The assumption that what is good for the household is good for all its members is often flawed.
Group/ CBO	<ul style="list-style-type: none"> • Permits understanding of collective action and social capital • Permits an understanding of political capital • Permits understanding of potential sustainability of impacts • Permits understanding of potential community level transformation 	<ul style="list-style-type: none"> • Exact membership sometimes difficult to assess • Group dynamics often difficult to unravel and understand • Difficult to compare using quantitative data
Community/ Village	<ul style="list-style-type: none"> • Permits understanding of differences within the community • Permits understanding of community level poverty and of changes in provision and access to produced capital such as water, electricity. • Permits understanding of collective action and social capital • Permits an understanding of political capital • Permits understanding of relations between different groups/factions in the community eg. clans. • Permits understanding of potential community level transformation and beyond • Can act as a sampling frame for individual/household assessments 	<ul style="list-style-type: none"> • Exact boundary sometimes difficult to assess • Within community dynamics often difficult to understand • Difficult to compare
Local NGO/ Development Agency	<ul style="list-style-type: none"> • Permits understanding of potential sustainability of impacts • Permits understanding of changes brought about by capacity building • Allows performance especially of effectiveness and efficiency to be assessed • Allows relationship with community, group and individual changes to be explored. 	<ul style="list-style-type: none"> • Within NGO dynamics often difficult to understand • Difficult to compare across local NGOs
Institutions	<ul style="list-style-type: none"> • Permits broader change and influence to be assessed 	<ul style="list-style-type: none"> • Greater problems of attribution • Internal dynamics and processes difficult to explore or understand

Source: Herbert and Shepherd, 2002, adapted from Hulme, 1997 and Roche, 1999.

Table 3: Common Impact Assessment Methods

Method	Key Features
Sample Surveys	Collect quantitative data through questionnaires. Usually a random sample and a matched control group are used to measure pre-determined indicators before and after the intervention
Rapid Appraisal	A range of tools and techniques developed originally as rapid rural appraisal (RRA). Involves the use of focus groups, semi-structured interviews with key informants, case studies, participant observation and secondary sources
Participant Observation	Extended residence in a programme/project community by field researchers using qualitative techniques and mini-scale sample surveys
Case Studies	Detailed studies of a specific unit (a group, locality, organisation) involving open-ended questioning and the preparation of 'histories'.
Participatory Learning and Action	The preparation by beneficiaries of a programme of timelines, impact flow charts, village and resource maps, well being and wealth ranking, seasonal diagrams, problem ranking and institutional assessments through group processes assisted by a facilitator.
Specialised methods	E.g. Photographic records and video.

Source: Herbert and Shepherd, 2002, adapted from Hulme (1997) and Montgomery et al (1996)

Table 4: Strengths and weaknesses of key impact assessment methods.

Method Criteria	Surveys	Rapid Appraisal	Participant Observation	Case Studies	Participatory Learning and Action
Coverage (scale of applicability)	High	Medium	Low	Low	Medium
Representativeness	High	Medium	Low	Low	Medium
Ease of data standardisation, aggregation and synthesis	High	Medium	Medium to Low	Low	Medium to Low
Ability to isolate and measure non-intervention causes of change	High	Low	Low	Low	Low
Ability to cope with the problem of attribution	High	Medium	Medium	Medium	Medium
Ability to capture qualitative information about poverty reduction	Low	High	High	High	High
Ability to capture causal processes of poverty and vulnerability	Low	High	High	Medium	High
Ability to capture diversity of perceptions about poverty	Low	High	High	Medium	High
Ability to elicit views of women, minorities and other disadvantaged groups about poverty	Low	Medium??	High	High - if targeted	Medium??
Ability to capture unexpected negative impacts on 'the poor'	Low	High	Very High	High	High
Ability to identify and articulate felt needs	Low	High	High	Medium to Low	High
Degree of participation of 'the poor' encouraged by the method	Low	High	Medium	Medium	Very High
Potential to contribute to building capacity of stakeholders with respect to poverty analysis	Low	High	Low	Medium to Low	Very High
Probability of enhancing downwards accountability to poor groups and communities	Low	High	Medium	Medium	High
Ability to capture the multidimensionality of poverty	Low	Medium	High	Medium	Very High
Ability to capture poverty impact at different levels e.g. individual, household, community	Low	Medium	High	Low	High
Human resource requirements	Specialist supervision, large numbers of less qualified field workers	High skilled practitioners who are able to analyse and write up results	Mid-skilled practitioners. Long time commitment. Need good supervision	Mid-skilled practitioners. Need good supervision	High skilled practitioners
Cost range	Very high to Medium	High to Medium	Medium to Low	Medium to Low	High to Medium
Timescale	Very high to Medium	Medium to Low	High	High to Medium	Medium to Low ³⁷

Source: Herbert and Shepherd, 2002, adapted and extended from Montgomery 1996 and Hulme, 1997.

³⁷ It is important to note that participatory methods could consume a lot of poor people's time.

4.1.3. *Triangulation*

Users of research into the impact of changes in trade on poverty will want to be assured that the research findings are robust. Confidence in research findings can be increased through triangulation, in other words using information from a number of different sources as part of the research process. This may mean that individually commissioned studies include a range of methods geared to capturing the voices of a range of stakeholders (both 'winners' and 'losers' from changes in trade at the household, through to the community and macro or national levels), AND that the findings of these individually commissioned studies are set against findings from national level surveys (where available) (Bird, 2002).

4.1.4. *Avoiding Bias.*

Bias can be introduced by the type of questions researchers ask and who they talk to, and when interviews or surveys are conducted (Gosling and Edwards, 1995). The way that questions are asked, the behaviour of interviewers and their gender or background (etc.) can influence responses. In addition, the way that data is analysed or presented can introduce bias (Gosling and Edwards, 1995:39-41). Ways to minimise bias include the careful training of researchers, setting of objectives and indicators, and the triangulation of information. Where secondary sources are being used it is important that researchers assess each text or set of data for in-built or error induced bias.

It is important to remember that impacts considered significant will differ by gender, class and other dimensions of social difference, in addition to being influenced by their role in trade or trade-affected enterprise. Aggregating these views into an 'objective truth' may be impossible.

4.1.5. *Attribution, causality and the counterfactual*

The issue of attribution or causality is at the centre of debates about impact assessment. It is important to recognise that policy changes and interventions occur in a socio-cultural and economic context. They cannot easily be isolated from the impacts of other organisations, from government policy, from shifts in the global economy or national political economy. One can estimate the plausibility of x input generating y impact, but '(o)ften the most that can be done is to demonstrate through reasoned argument that a given input leads logically towards a given change, even if this cannot be proved statistically (Roche, 1999:33).

Determining the causality of change can be problematic. In addition, the nature of change is contextually specific and may be path dependent. It is contingent or dependent on specific events, conditions or on the context of a given situation *as well* as the intervention (Herbert & Shepherd, 2002). So, an intervention which creates a certain impact may not do so in a different setting at a different time. Moreover, those involved in impact assessment should be conscious of the need to map the counterfactual i.e. what would have happened without the intervention. But in doing so they ought to be aware that change is not always linear, and can be unpredictable, sudden and discontinuous (Uphoff, 1993, Roche, 1994 and Fowler, 1995 in Roche, 1999:25).

The issue of causality runs through debates in both the trade-poverty literature and the structural adjustment literature and many researchers worry that they will be

unable to disentangle the effects that they wish to analyse from others in the economic and policy environment. (Kanji and Barrientos, 2002:7). Much has been published concerning the distribution of costs and benefits of structural adjustment in sub-Saharan Africa (Killick, 1995; White, 1996, 1997 in Kanji and Barrientos, 2002), but determining causality as related to the impact of trade-related changes and changes in poverty is exceptionally difficult as trade reforms are frequently part of a broader programme of change (Kanji and Barrientos, 2002:8), and policy interventions not associated with the reform process may reinforce or reduce the anticipated trade-poverty linkages (Page, 2001:1). In addition, it is never possible to be certain of the effect of trade *alone*, as there is no empirical evidence to draw on which presents the impact of the changes experienced along a route from a complete absence of trade to completely open borders, let alone analysis which presents such evidence while isolating trade-related changes from changes in the broader economy or society. To further complicate matters, many of the countries that we are interested in, are experiencing economic crisis making it difficult to predict the trajectory in the absence of changes in trade (i.e. the counterfactual) (Kanji and Barrientos, 2002:7).

There are strengths and weaknesses in the way the three main paradigms of impact assessment (the scientific method; the humanities tradition and the participatory learning and action approach) attempts to deal with attribution. In practice, approaches tend to be combined (particularly scientific and humanities approaches) and this makes for more robust design (Herbert and Shepherd, 2002).

5. Methods for researching the impact of trade.

Reimer (2002) summarises and classifies 35 trade and poverty studies by method. The studies include a broad range of methodologies from econometric analysis of household expenditure data to computable general equilibrium models based on national accounts data. Reimer categorises these into four groups: (i.) cross-country regression; (ii.) partial-equilibrium and cost-of-living analysis; (iii.) general-equilibrium simulation; and (iv.) micro-macro synthesis. Reimer then focuses on the methods used by researchers to examine factor market links between trade and poverty. The conclusion of this work is that successful research into trade-poverty linkages use a combination of methods examining both household and national level data³⁸.

Methodology in this area is evolving and includes some which have been specifically designed to examine trade and market interactions (e.g. the Global Commodity Chain approach). Others adapt methods from economics and sociology for application to trade and poverty analyses.

Annex 2 which presents a matrix identifying trade-poverty linkages suggests specific approaches and methods which can be employed to investigate particular aspects of trade-poverty linkage.

5.1. Global Commodity Chain approach

The Global Commodity Chain (GCC) approach can be used to examine the organisation of international marketing chains and the distribution of income along

³⁸ The terms of reference for this work recommends that data collection for each ATPP country-study include compiling price data, information on import volumes and domestic production trends.

the chain. A worked example is presented in Ponte's study of changes in coffee markets (2001), and Kanji and Barrientos (2002) use Global Value Chain analysis (GVC) to track a product from production to consumer. They use methods derived from sociology and institutional economics to explore the relations between buyers and sellers to understand who acquires economic rents in chains of supply and why. Their method allows researchers to develop an understanding of whether producers are able to adapt to the specific requirements and standards of particular value chains and GVC analysis is now being extended to help in the study of poverty (Kanji and Barrientos, 2002:19). This form of analysis could play an important role in examining trade and poverty linkages in SSA countries with a high dependence on a few primary product exports (ibid) (See also IDS, 2003:3).

5.2. Sector or Entitlement Specific Changes

Researchers may explore the impact of changes in trade on specific sectors or on particular entitlements (production-based, trade based, labour-based or transfer-based entitlements) (Sen, 1981) through an examination of changes in, for example, trade flows, wage rates and unemployment across the economy (IDS, 2003; ID21, 2003). Such analysis require robust data sets and complex regressions, but can be illuminating, particularly when findings are illustrated with the use of detailed qualitative data.

6. Coming to a conclusion on impact.

Combining poverty and social analysis with information on the formulation and implementation of trade policy in order to generate conclusions on the impact of changes in trade on poverty is complex. The difficulties and peculiarities of data availability within each country makes it impossible to provide a rigid blueprint for doing so which will be relevant for every country situation.

Researchers may find referring to work which outlines approaches to combining qualitative and quantitative data useful (for example, Qualitative and Quantitative Poverty Appraisal: Complementarities, Tensions and the Way Forward – Contributions to a Workshop Held at Cornell University, March 15-16, 2001 at <http://www.people.cornell.edu/pages/sk145/papers/QQZ.pdf> and Howard White's paper on 'Combining quantitative and qualitative approaches in poverty analysis.' World development, Mar 2002, Vol.30, No.3, pp.511-522.)

Annex 4. Annotated Bibliography: Trade & Poverty.

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SECTION 1: TRADE REFORM, LIBERALISATION AND POVERTY

Bannister, G. J and Thugge, K (2001) “*International Trade and Poverty Alleviation*”, IMF Working Paper Wo/O1/54, IMF

Empirical studies suggest that trade reform has a positive effect on employment and income for the poor; however there are winners and losers. If the transitional costs of trade liberalisation fall disproportionately on the poor, trade reform can be designed to mitigate these effects. This includes making reforms as broad based as possible, sequencing and phasing them to allow for adjustment, and implementing social safety nets and other reforms borne in mind that the links between trade reform and poverty are complex, making systematic empirical investigations difficult.

Bhatia, S (1999-2000 “*Trade liberalisation and diversification in select developing countries*”, *Foreign trade review*, Oct-Mar 1999-2000, Vol.XXXIV, No.3-4, pp.61-101

Blake, A, McKay, A and Morrissey, O (2001) “*The Impact on Uganda of Agricultural Trade Liberalisation*”, CREDIT Research Paper No. 01/07, University of Nottingham, UK

This paper evaluates the impact on Uganda of the liberalisation of world trade, especially in agricultural commodities in the Uruguay Round. We can draw three broad conclusions. First, the impact of multilateral liberalisation on a low-income country such as Uganda appears to be quite slight, albeit positive, largely because there is only a slight impact on the world prices of the agricultural commodities it exports. Second, the principal gains actually arise from reforms that are essentially unilateral trade liberalisation. Third, the impact is likely to be pro-poor. Although the largest proportional gains are to the urban self-employed, there are significant gains in agriculture that benefit almost all categories of rural household [Author’s Summary]

**Borregaard, N and Halle, M (2001) “*Striking a Balance for Trade and Sustainable Development*”, IIED, London
http://www.iied.org/pdf/wssd_01_trade_long.pdf**

The authors argue that there needs to be an international trading system that contributes to sustainable development. This will come about if trade policy at the international level is built from the bottom up, through democratic processes at the national level that balance the interests of different stakeholders within a regulatory and institutional framework that safeguards social equity and environmental protection. It also requires an international system that guarantees adequate participation of all nations in defining the trading system, and an agreed code of conduct on how the rules should be applied [Author’s Summary].

Brooks, J. (no date) ‘*Agricultural Policy Design in Developing Countries: The Case for Using Disaggregated Analysis.*’ Background paper. OECD.

This paper focuses on disaggregated rather than aggregate consequences of reform, and argues for disaggregated information on the impacts of multilateral and own-country agricultural policy reforms. It considers how such information can be integrated into the process of policy design in developing countries. The rationale for this work comes from the recognition that while reforms should benefit the majority of countries, some countries may lose overall, and within all countries there will invariably be losers as well as winners. The paper suggests ways in which policy makers can identify the losers from reform and design policies appropriate to their needs.

Bussolo, M, Lecomte, H-B, S (1999) “Trade Liberalisation and Poverty”, ODI Poverty Briefing, ODI, London

DFID (2000) “Eliminating World Poverty: Making Globalisation Work for the Poor”, White Paper on International Development, <http://www.globalisation.gov.uk/>

Dollar, D and Kraay, A (2001) “Trade, Growth and Poverty”, Development Research Group, World Bank, Washington <http://www.worldbank.org/research/growth/pdffiles/Trade5.pdf>

A key issue today is the effect of globalisation on inequality and poverty. We first identify a group of developing countries that are participating more in globalisation. Since China, India, and several other large countries are part of this group, well over half of the population of the developing world lives in these globalising economies. The post-1980 globalisers have seen large increases in trade, and significant declines in tariffs over the past 20 years. Their growth rates have accelerated from the 1970s to the 1980s to the 1990s, even as growth in the rich countries and the rest of the developing world has declined. The post-1980 globalisers are catching up to the rich countries while the rest of the developing world is falling farther behind. We next ask how general these patterns are, through regressions that exploit the within-country variation in trade and growth. We find a strong positive effect of trade on growth after controlling for changes in other policies and addressing endogeneity with internal instruments. Finally we examine the effects of trade on the poor. Since there is little systematic evidence of a relationship between changes in trade volumes (or any other globalisation measure we consider) and changes in income share of the poorest, the increase in growth rates that accompanies expanded trade leads to proportionate increases in incomes of the poor. The evidence from individual cases and from cross-country analysis supports the view that globalisation leads to faster growth and poverty reduction in poor countries [Authors' Summary]

Diao, X, Roe, T and Somwaru, A (2001) “What is the cause of growth in regional trade: trade liberalisation or RTAs? The case of agriculture”, World economy, Jan 2001, Vol.24, No.1, pp.51-80

Devarajan, S and Mensbrugge D (2000) “Trade Reform in South Africa: Impacts on Households”, Paper prepared for the Conference on Poverty and the International Economy, organised by World Bank and Swedish Parliamentary Commission of Global Development, Stockholm, October 20-21, 2000

Friedman, J (2000) “Differential Impacts of Trade Liberalisation on Indonesia's Poor and Non-poor”, paper presented at the conference on Poverty and the International Economy, sponsored by the World Bank and the Parliamentary Commission on Swedish Policy for Global Development, Stockholm, October

Greenaway, D, Morgan, W and Wright, P (2002) “Trade Liberalisation and Growth in Developing Countries, Journal of Development Economics, Feb 2002, Vol.67, No.1, pp.229-244

Hoekman, B, Michalopoulos, C, Schiff, M and Tarr, D (2001) “Trade Policy Reform and Poverty Alleviation”, Working Paper No. 2733, World Bank, Washington

In this paper, developed as part of the World Bank's Poverty Reduction Strategy Sourcebook. The authors examine how to implement trade liberalisation as part of a strategy for alleviating poverty in developing countries. They discuss trade policy

instruments, institutions, complementary policies, sector issues, adjustment policies, and safety nets in an integrated approach to trade policy as a tool for poverty alleviation. The authors examine the patterns or models of trade policy that have been successful in alleviating poverty. They discuss the role of tariffs, non-tariff barriers, contingent protection (such as safeguards and antidumping), special import regimes (such as duty drawback), export taxes, export subsidies, and trade-related institutions (such as standards, marketing, export finance, customs clearance, and regional trade arrangements). The authors also discuss policies that complement successful trade reform, including macroeconomic stability, a competitive exchange rate, flexible labour markets, competitive product markets, and policies that do not discriminate against foreigners in investment. They suggest approaches to policies and institutions in services and agriculture, key sectors in poverty reduction. They explain the roles of retraining and safety nets in dealing with the adjustment costs of trade liberalisation. Finally, the authors elaborate guidelines for implementing trade reform and explain tools for assessing whether trade reform will help or harm the poor in particular sectors in the short run [Authors' Summary]

Ianchovichina, E Nicita, A and Soloaga, I (2001) “Trade Reform and Household Welfare: The Case of Mexico”, Policy Research Working Paper 2667, World Bank, Washington

The Authors use a two-step, computationally simple procedure to analyse the effects of Mexico's potentially unilateral tariff liberalisation. First they use a computable general equilibrium model provided by the Global Trade Analysis Project (GTAP) as the new price generator. Second, they apply the price changes to Mexican household data to assess the effects of the simulated policy on poverty and income distribution. By choosing GTAP as the price generator, the authors are able to model Mexico's differential tariff structure appropriately: almost zero for North American Free Trade Agreement (NAFTA) members and higher tariffs for non-members. Even starting with low tariff protection, simulation results show that tariff reform will have a positive effect on welfare for all expenditure deciles. Under an assumption on non-homothetic individual preferences, trade liberalisation benefits people in the poorer deciles more than those in the richer ones [Authors' Summary]

IMF/World Bank (2001) “Market Access for Developing Countries' Exports”, <http://www.worldbank.org/economics/marketaccess.pdf>

This article praises the positive effects (economic growth, development, poverty reduction) of economic integration. This has largely been achieved by economic liberalisation. Although integration has certainly benefited some countries, the benefits of integration have been uneven. Some countries have been marginalised by this process. The reasons for their marginalisation are, according to the article, due to deep-seated structural problems, weak policy frameworks and institutions, and protection at home and abroad. The article proposes further liberalisation of trade, particularly in areas important to poorer developing countries [Author's Summary]

Jensen, J and Tarr, D (2002) “Trade Foreign Exchange and Energy Policies in the Islamic Republic of Iran: Reform Agenda, Economic Implications and Impact on the Poor”, World Bank, Washington, http://econ.worldbank.org/files/3622_wps2768.pdf

Iran has itself committed to substantial trade and market reform in its 3rd Five-Year Development Plan. It started, however, with non-tariff barriers on all products, a dual exchange rate regime with the market rate more than four times the official rate, and domestic energy product subsidies of about 90 percent of the cost of energy products. Many of the existing interventions are justified as helping the poor. We develop a multi-sector computable general equilibrium model with 10 rural and 10 urban households to analyse the various forms, separately and together. Reflecting

the large initial distortions (for example, energy subsidies are about 18 percent of GDP and Iranians pay about 10 percent of world market prices for energy), we find that the combined reforms could generate welfare gains equal to about 50 percent of aggregate consumer income. The gains to the reforms separately are about 5 percent of income from trade reform, 7 percent from exchange rate reform and 33 percent of income from energy pricing reform.

Moreover, our results show that well-intentioned policies of commodity subsidies for the poor can have perverse effects. Direct income payments to all households (not just the poor) would have the effect of vastly increasing the incomes of the poor compared to the status quo. If the combined reforms are implemented, the poorest rural household is estimated to gain about 290 percent of its income, while the poorest urban household is estimated to gain about 140 percent of its income [Authors' Summary]

McCulloch, N, Baulch, B and Cherel-Robson, M (2000) “Globalisation, Poverty and Inequality in Zambia during the 1990s”, OECD Development Centre, Paris

Zambia has undergone a dramatic transformation of economic policy during the 1990s. The election in 1991 of the Movement for Multi-party Democracy government saw the introduction of a series of major economic reforms designed to transform the Zambian economy from a relatively inward looking and state dominated economy to an outward oriented economy based upon private enterprise. A sharp stabilisation early in the decade was followed by reforms to open the economy to the rest of the world including exchange rate liberalisation, trade liberalisation and capital account liberalisation. In addition, a set of structural and institutional reforms were initiated: including reform of agricultural marketing, a large privatisation programme, and reforms to the public sector.

These policies were intended to stimulate growth. However the combination of major structural reforms with falling copper prices and recurrent drought has resulted in disappointing macroeconomic performance - only two years between 1990 and 1998 showed positive per capita GDP growth. Mining and manufacturing output and employment have declined dramatically and, although external liberalisation has helped to boost non-traditional exports, this has not compensated for the loss of employment in other sectors. Furthermore, earnings data suggest that it is less skilled urban workers who have borne the brunt of unemployment in the formal sector, with better off workers being relatively protected. However, stabilisation policies have reduced inflation and the effective rescheduling of the governments' debt obligations has substantially reduced external debt servicing commitments over the decade. Furthermore, capital account liberalisation appears to have facilitated the resumption of private capital inflows.

An analysis of household survey data from 1991, 1996 and 1998 shows a dramatic increase in poverty and inequality in urban areas between 1991 and 1996 due to stabilisation, the removal of maize meal subsidies, and job losses resulting from trade liberalisation and the privatisation programme. Between 1996 and 1998, despite economic recovery at the national level, the reduction in urban poverty and inequality has been small. In rural areas, drought devastated rural livelihoods in the early 1990s, while maize marketing reforms principally benefited those near the major urban centres, and hurt more remote rural farmers.

Consequently there was little change in the overall poverty headcount for rural areas between 1991 and 1996, although there was a substantial reduction in rural inequality during this period. The rural sector experienced strong growth between 1996 and 1998, which translated into a substantial reduction in poverty in rural areas

between the two years. However, differential access to inputs, transport and marketing services has led to an increase in rural inequality. [Author's Summary]

McCulloch, N, Winters, L. A, Cirera, X (2001) “*Trade Liberalisation and Poverty: A Handbook*”, Centre for Economic Policy Research, UK, <http://www.ids.ac.uk/ids/global/pdfs/tlpov.pdf>

The authors of this handbook use economic analysis and practical experience, to illustrate the likely outcomes for the poor of reform of particular sectors.

They argue that:

- Agricultural liberalisation is key to poverty reduction – but both developed and developing countries must liberalise.
- The liberalisation of services presents a major opportunity for growth and can help poverty reduction if care is taken to ensure access to key services for the poor. Current concerns about the way WTO will deal with public services are misplaced.
- Improved international labour mobility has huge potential for poverty reduction, especially if it focuses on the less skilled sector. Resolving the practical and political difficulties of achieving this should be a priority.
- Improved labour standards could help the poor and international action can help to tackle poor labour standards, but labour standards should not be linked to trade.
- The environmental threats faced by the poor are overwhelmingly local – they should be tackled by appropriate domestic environmental policy.
- International environmental problems should be tackled by international environmental agreements, not just trade sanctions.

[Author's Summary]

McKay, A, Winters, L.A and Kedir, A.M (2000) “*A Review of Empirical Evidence on Trade, Trade Policy and Poverty*”, DFID White Paper on Eliminating Poverty: Making Globalisation Work for the Poor, UK

This paper suggests that although trade liberalisation is not a poverty reduction strategy in its own right, it can have substantial indirect effects (positive and negative, short-term and long-term) on poverty.

Currently available cross-country evidence suggests that on balance:

- Both trade liberalisation and openness have a beneficial impact on economic growth, particularly when accompanied by good policies in other areas
- On average economic growth does benefit the poor proportionately
- But there are variations about the average, and these variations about the average are likely to reflect among other things how trade reform was done and what the initial conditions are.

The following general conclusions seem to be reasonably robust:

- The poverty effect of trade reform will depend particularly on how it impacts on the agricultural sector, given the high concentration of poverty in that sector and its strong linkages to other sectors. Complementary policies, especially relating to distribution channels, are particularly important in this sector.
- Consumers benefit from trade reform and this includes the poor
- Unskilled labour might lose in relative terms from trade reform, though there is little evidence for this outside Latin America; nonetheless investment in training by increasing the supply of skilled labour is likely to have a favourable effect on poverty

- Trade liberalisation has often resulted in beneficial impacts on productivity, technology adoption and investment, which form the basis for long-run growth.
- Trade reforms need to be conducted in such a way as not to have an adverse effect on government revenue (for which there may be more demand in a liberalising environment); this will often mean that domestic tax reform will need to be carried out in parallel.

[Author's Summary]

Reimer, J.J (2002) “*Estimating the Poverty Impacts of Trade Liberalisation*”, Working Paper No. 2790, World Bank, Washington

In this paper the author summarises and classifies 35 trade and poverty studies into four methodological categories: cross-country regression, partial-equilibrium and cost-of-living analysis, general-equilibrium simulation, and micro-macro synthesis. These categories include a broad range of methodologies in current use. The continuum of approaches is bounded on one end by econometric analysis of household expenditure data, which is the traditional domain of poverty specialists, and sometimes labelled the “bottom-up” approach. On the other end of the continuum are computable general equilibrium models based on national accounts data, or what might be called the “top-down” approach. This survey gives particular emphasis to the means by which studies address factor market links between trade and poverty. The general conclusion of Reimer’s survey is that any analysis of trade and poverty needs to be informed by both the bottom-up and top-down perspectives [Author’s Summary].

Robbins, D, J (1996) “*Evidence on Trade and Wages in Developing Countries*”, Technical Paper No. 119, OECD Development Centre, Paris

This paper synthesises nine in-depth developing country (LDC) studies on the impact of trade upon wages. It is traditionally assumed that in LDCs trade liberalisation lowers relative wage dispersion, while raising wage dispersion in DCs. Evidence from cross-sectional household data for Argentina, Chile, Costa Rica, Colombia, Malaysia, Mexico, the Philippines, Chinese Taipei and Uruguay show: first, counter to one model in Leamer (1995), for countries with diversified trade, labour supply shifts generally shift wages. Second, liberalisation was accompanied by rising relative wages and labour demand. And third, trade liberalisation often increases the inflow of machinery, and may partly explain positive relative demand shifts accompanying trade liberalisation [Eldis].

Rodrik, D. (2001) ‘*The Global Governance of Trade: As if Development Really Mattered.*’ UNDP

http://www.undp.org/mainundp/propoor/docs/pov_globalgovernancetrade_pub.pdf

Third World Network (2001) ‘*The Multilateral Trading System: A Development Perspective.*’ UNDP.

<http://www.undp.org/mainundp/propoor/docs/multitradesystem.pdf>

Tsikata, Y (2000) “*Globalisation, Poverty and Inequality in Sub-Saharan Africa: A Political Policy Appraisal*”, OECD, Paris,

The paper explores the policies and political context underlying the response of African countries to globalisation, with an emphasis on trade liberalisation. African countries have had mixed experiences with globalisation, with some achieving better social outcomes than others. The outcomes suggest that it is possible to liberalise and reduce poverty and inequality (Ghana and Uganda) but that a more nuanced

approach that takes complementary policies into account (Mauritius) is more sustainable.

The variance in the response to globalisation is a function of several factors. They include the political-institutional framework, state capacity and external actors. Economic crisis and political change gave some non-democracies a mandate to liberalise in the short-run (Ghana, Uganda), but crisis was neither necessary (Mauritius) nor sufficient for liberalisation to occur. It did, however, insulate regimes and gave them political space to meet globalisation's challenges.

In the long-run, however, a political system that demands accountability and encourages coalition-building (such as in Mauritius) appears to create conditions that are more conducive to balancing the costs and benefits of globalisation and is more sustainable than crisis-driven reforms. State capacity determines the ability to independently design and implement complementary policies. Together with leadership, it determines how skilfully a regime can negotiate and build consensus around the response to globalisation [Author's Summary].

Wilson, J. S (2002) “*Liberalising Trade in Agriculture: Developing Countries in Asia and the post-Doha Agenda*”, Policy Research Working Paper No 2804, World Bank, Washington

The author provides an overview of the data relevant to the interests of developing countries as they engage in continuing agricultural trade negotiations set forth in the World Trade Organisation Ministerial held in Doha, Qatar, in November 2001. He examines country performance in agricultural trade, income levels and population characteristics, with a focus on developing country members of the Asian Development Bank. The author concludes that trends in agricultural trade in the past 10 years are quite heterogeneous across developing regions. Shares of agriculture in GDP are still high in the East Asia and Pacific and South Asia regions. Moreover, data indicate that trade reform in export partners, particularly OECD countries, will affect a significant share of the population in these developing countries, resulting in rural poverty alleviation. Trade liberalisation is expected to benefit net exporter countries, particularly those that are highly open to trade. What is also important, but often neglected, is a country's pattern of specialisation between domestic supply and exports. The impact of trade reform through the WTO negotiations, particularly reforms undertaken in exporting partners can therefore have important implications in the post-Doha development agenda.

World Bank (2002) “*Globalisation, Growth, and Poverty: Building an Inclusive World Economy*”, World Bank Policy Research Report 23591, World Bank, Washington

Societies and economies around the world are becoming more integrated. Integration is the result of reduced costs of transport, lower trade barriers, faster communication of ideas, rising capital flows, and intensifying pressures for mitigation. Integration, or “globalisation”, has generated anxieties about rising inequality, shifting power, and cultural uniformity. This report assesses its impact and examines these anxieties. Global integration is already a powerful force for poverty reduction, but it could be even more effective. Some, but not all of the anxieties are well founded. Both global opportunities and global risks have outpaced global policy. The authors propose an agenda for action, both to enhance the potential of globalisation to provide opportunities for poor people and to reduce and mitigate the risks it generates. This report presents three main findings that bear on current policy debates about globalisation. First, poor countries with around 3 billion people have broken into the global market for manufactures and services; these “new globalisers” have experienced large-scale poverty reduction. The second finding concerns inclusion

both across countries and within them; the authors highlight a range of measures that would help countries in danger of becoming marginalised become integrated with the world economy. A third issue concerns the anxiety that economic integration leads to cultural or institutional homogenisation [Author's Summary]

Winters, A.L (1999) “Trade Liberalisation and Poverty”, GDN, Washington

The paper asks how trade liberalisation impinges on poverty from a theoretical perspective, from a grass-roots perspective in two African countries, from an econometric and labour market perspective and on the basis of the, surprisingly patchy, existing literature. It considers briefly the appropriate policy response to fears of liberalisation-induced poverty and the dimensions of future trade negotiations that may raise poverty issues. It concludes that, while care is required to minimise poverty impacts (care that has not always been taken in the past), open trade is generally an important component of development policy, and one which can play a positive role in poverty alleviation. [Author's Summary] *not for citation

Yang, Y and Huang, Y (1997) “The Impact of Trade Liberalisation on Income Distribution in China”, National Centre for Development Studies, Australia

While poverty has been declining with strong income growth, China's income distribution has deteriorated in recent years. Trade policy has been advocated to address income disparities, especially those between rural and urban households. Using a computable general equilibrium model, this paper analyses the impact of trade policy on incomes of different households. Particular attention is given to the various non-farm sources of incomes for rural and urban factor markets [Author's Summary]

SECTION 2: REGIONAL INTEGRATION

Longo, R, and Sekkat, K (2001) “Obstacles to Expanding Intra-African Trade”, OECD Development Centre Technical Papers No. 169, Paris, <http://www1.oecd.org/dev/publication/tp/TP169.pdf>

The paper analyses the determinants of intra-African trade (IAT) to assess the potential obstacles to greater sub-regional trade. It finds that infrastructure, particularly poor telecommunication networks and weak transport communications, is a crucial factor hindering intra-Africa trade. Sound economic policies, such as the adoption of the Structural Adjustment Programmes (SAP) and good exchange-rate management, are conducive to IAT [Author's Summary]

Schiff, M (2002) “Regional Integration and Development in Small States”, Policy Research Working Paper, World Bank, Washington

The author examines the impact of various trade policies for small developing states in the face of changing international trends – including globalisation the proliferation of regional integration agreements, the changing relationship between African, Caribbean, and Pacific (ACP) countries and the European Union (EU), the erosion of ACP preferences in the EU market, the Everything-But-Arms Initiative (a 2001 EU initiative providing forty nine developing countries free access to EU markets), and the negotiations on the Free Trade Agreement of the Americas. The author concludes that: 1) The participants in South-South regional integration agreements should further reduce their external trade barriers. 2) The trade component of the Cotonou Agreement between the ACP countries and the EU is likely to harm those countries. The ACP countries should liberalise their trade regimes to reduce the size of transfers to the EU. 3) Small states should sign free trade agreements with the rest of the Organisation for Economic Co-operation and Development (OECD), and

pursue multilateral liberalisation. 4) Small states, and other developing countries should intensify South-South regional co-operation in the area of regional public goods. 5) The EU, and other OECD countries should provide country-specific technical assistance for " behind the border " reforms in small states - something specified in the Cotonou Agreement for ACP countries - as well as assistance in implementing their commitments under World Trade Organisation agreements [Author's Summary]

Stevens, C (1999) "WTO: Understanding the Development Angle [Trade and Development Background Briefings]", IDS, Sussex, <http://www.ids.susx.ac.uk:80/tradebriefings/>

Series of 10 short background papers, each on a different aspect of the WTO agenda and describing how developing countries may be affected by different outcomes, and what preparations they need to make to participate effectively. Developing countries have joined the WTO in large numbers, in the expectation that its objectives of rule-based liberal trade will foster development. They will influence, and be affected by, the flurry of new negotiations scheduled for the turn of the millennium [Eldis]

Venables, A. J (1999) "Regional Integration Agreements: A force for convergence or divergence?", Working Paper No. 2260, World Bank, Washington

The author examines the way in which the benefits and costs of a free trade area are divided between member countries. Outcomes depend on the comparative advantage of member countries, relative to each other and relative to the rest of the world. He finds that free trade agreements between low-income countries tend to lead to divergence of member country incomes, while agreements between high income countries will cause convergence. These comparative advantage induced changes may be amplified by agglomeration effects. The results suggest that developing countries are likely to be better served by 'north-south' than by 'south-south' free trade agreements [Author's Summary]

Wangwe, S.M (1995) "Economic Integration in Southern Africa: Towards Cost and Benefit Analysis in Tanzania" Economic and Social Research Foundation (ESRF) Discussion Paper Series Number 002, Dar es Salaam

The paper offers an examination of the impact of economic integration on a broad range of distinct sectors. It includes agriculture, mining, transport, health, education, construction, tourism and labour markets. It also provides recommendations for an agenda for the integration process and the modalities of integration in relation to trade, institutions, transport macroeconomic policies and capital and financial markets. Advocates modest pace to integration led by market incentives and automaticity rather than administrative discretion for incentives and preferences [Eldis]

Weeks, J (1999) "Have Workers in Latin America Gained from Liberalisation and Regional Integration?", Centre for Development Policy and Research (CDPR), SOAS, UK

Winters, L. A and Chang, W (1997) "Regional Integration and the Prices of Imports: An Empirical Investigation", Working Paper No 1782, World Bank, Washington

Winters and Chang explore the effects on the terms of trade of regional economic integration. They show why it is an appropriate measure of the welfare effects of such integration, comparing it with the many ex-post studies that base their conclusions on changes in the import shares of member and non-member countries.

They demonstrate, by using a simple strategic model, how member countries might gain in their terms of trade, and non-members lose, through a lowering of preferential tariffs. Most important, they show that measuring such price effects, though difficult, is feasible.

This is the first ex-post study of its kind, they believe, and an improvement over previous ex-post studies on how integration affects the rest of the world. Using finely disaggregated data about Spanish imports of finished manufactures from major OECD trading partners, despite their noisiness, they found a consistent story over all of the country pairs examined.

They find that non-members (in this case, Japan and the United States) suffered detectable losses in terms of trade relative to European Community competitors in Spanish import markets for differentiated goods [Authors' Summary].

Yeats, A. J (1998) “*What can be Expected from African Regional Trade Arrangements? Some Empirical Evidence*”, Working Paper No. 2004, World Bank, Washington

The author suggests that Sub-Saharan Africa must adopt appropriate trade and structural adjustment policies to become more competitive internationally and to capitalise on opportunities in foreign markets. The exchange of regional preferences alone cannot reverse Africa's unfavourable export trends. A far more promising policy approach would be broad-based reductions in African trade barriers, on a most-favoured-nation basis.

For over three decades, Sub-Saharan African countries have had an interest in regional integration initiatives to accelerate their industrialisation and growth. With the help of a more comprehensive database on intra-African trade than was previously available, Yeats examines a proposal to exchange trade preferences among Sub-Saharan African countries. The data suggest that problems with African regional trade arrangements are more daunting than is generally recognised [Author's Summary].

SECTION 3: GENDER AND TRADE

Baden, S (1998) “*Gender Issues in Agricultural Market Liberalisation*”, BRIDGE, Report No. 41 IDS, Brighton

The report argues how until recently, economic analysis of agricultural markets and marketing paid limited attention to gender issues, focusing mainly on price analysis and market integration. Current concern with the institutional infrastructure to support market reform and development is creating greater awareness of and interest in the social and political factors underlying marketing organisation, including gender relations. Gender-aware economic analysis, at macro-, meso- and micro-levels, is a valuable tool to identify ways in which women and men are differentially affected by processes of economic change and also ways in which gender biases in institutions, including agricultural marketing systems, affect the implementation and outcomes of reform policies [Author's summary].

Çagatay, N (2001) “*Trade, Gender and Poverty*”, UNDP, New York

This paper focuses on the relationship of trade, on the one hand, with gender and poverty, on the other, within the context of the human development paradigm. Specifically, it examines the impact of trade liberalisation on gender inequalities

(primarily via employment, wages and the care economy); and the impact of gender inequality on trade performance. These interactions are discussed in light of mainstream literature on trade, growth and poverty reduction, which define poverty in terms of income or consumption and largely ignore gender. The paper also considers the policy implications of a gender-aware approach to international trade analysis and the current world trade regime. The principal conclusions that emerge from this analysis are; 1. That men and women are affected differently by trade policies and performance, owing to their different locations and command over resources within the economy 2. That gender-based inequalities impact differently on trade policy outcomes, depending on the type of economy and sector, with the result that trade liberalisation policies may not yield expected results 3. That gender analysis is essential to the formulation of trade policies that enhance rather than hinder gender equality and human development [Author's summary]

Evers, B (2002) “Gender, International Trade and the Trade Policy Review Mechanism: Conceptual Reference Points for UNCTAD”, Gapresearch.org, IDS

Fontana, M (2002) “Modelling the Effects of Trade on Women: the case of Zambia”, IDS Working Paper, 155, IDS, Brighton

This paper describes the application of a gendered computable general equilibrium (CGE) model to a set of 1995 data for Zambia. The principles of gendered CGE approach are to account for household activities and leisure in addition to standard market sectors, and to treat men and women as separate factors of production. Two main trade strategies are analysed: the abolition of tariffs on manufactured imports and the effects of non-traditional agricultural export promotion. The experiments show that the liberalisation of manufactured imports causes smaller employment and wage gains for women than for men. Introduction of incentives in non-traditional agricultural exports suggests that women are favoured more by expansion of horticulture and groundnuts than by expansion of tobacco and coffee. Moreover it reveals that the impact on female work is different depending on their level of education. The simulation also shows that reallocation of assets from maize to female-intensive crops makes women more productive but reduces their leisure time. A further experiment analyses the effects of a rise in the world price of copper and finds that women with higher education gain more, than other female workers, from better wages and more leisure time [Author's summary].

Fontana, M, Joeques, S, and Masika, R (1998) “Global Trade Expansion and Liberalisation: Gender Issues and Impacts”, BRIDGE, Report No. 42, IDS, Brighton

The article argues that a major challenge for development policy aimed at reducing poverty is to enable a more equitable distribution of gains associated with trade expansion and liberalisation. This requires a better understanding of why some countries and social groups are able to benefit more than others from increasing trade flows. There is some understanding of these issues at country and regional level but there has been little consideration as yet of the gender dimensions of trade outcomes. This report argues that (a) gender analysis is important in understanding why some countries, sectors, or regions are unable to capitalise on potential trading opportunities, which relates in part to rigidities and distortions, including gender distortions in factor markets; and (b) the benefits of trade expansion are differentiated between women and men, as well as between different groups of women, with implications for both gender equality and poverty reduction goals.

The consequences of trade liberalisation and expansion for women both absolutely, and relative to men, have been mixed, with both positive and negative features,

depending on a range of factors and preconditions. These include gendered patterns of rights in resources, female labour force participation rates, education levels and gaps by gender and patterns of labour market discrimination and segregation, as well as socio-cultural environments [Authors' summary].

Fontana, M and Wood, A (2000) “Modelling the Effects of Trade on Women, at Work and at Home, World Development, Vol. 28, No.7

Foreign trade affects women's wages and jobs, their household work, and their leisure. This paper develops a model which covers not only all the sectors of the market economy, but also social reproduction and leisure activities, for women and men separately. The model, which in other respects is a standard CGE (computable general equilibrium) model, is applied to a simplified set of data for Bangladesh. Its use is illustrated by simulating the gendered effects of changes in trade policies and capital flows [IDS]

Harrison, G. W, Rutherford, T. F and Tarr, D. G (2000) “Trade Liberalisation, Poverty and Efficient Equity”, Economics Working Paper B-81-02, Moore School of Business, University of South Carolina

Harrison and Hanson (1999), “Who Gains from Trade Reform? Some Remaining Puzzles”, NBER Working Paper, No. 6915, Cambridge, Massachusetts: National Bureau of Economic Research)

Hertel, Thomas W., Preckel, Paul V., Cranfield, John A.L. and Ivanic, Maros (2001) ‘Poverty Impacts of Multilateral Trade Liberalization.’ For World Bank.

Joekes, S (1995) “Trade Related Employment for Women in Industry and Services in Developing Countries”, Occasional Paper No. 5, UNRISD

This paper first sets out what is known about the relation between different types of industrialisation and female employment in the light of evolution in regulatory arrangements for world trade, and then goes on to raise a new issue, that of the significance, in relation to female employment, of the rapid expansion in international transactions in services. As part of the analysis, this paper examines the experiences of five countries (Bangladesh, Uganda, Morocco, Jamaica and Vietnam) selected for attempts at policy dialogue on gender issues under Phase II of a UNDP/UNRISD project. The analysis points to several areas of concern for gender policy: There is a possible relationship between the degree and duration of export orientation in manufacturing and the wage gap by gender; The distinction between educational attainment levels per se and the subjects in which women obtain educational qualifications will become increasingly important in future; The evidence indicates that in many developing countries, TNCs (Trans National Corporations) are becoming increasingly important as employers, especially in certain parts of the services sector

Kanji, N and Menon-Sen, K (2001) “What Does the Feminisation of Labour Mean for Sustainable Livelihoods”, IIED, London, http://www.iied.org/pdf/wssd_13_gender_long.pdf

It is only now, a decade and a half after the global acceptance by most countries of economic liberalisation and market-oriented growth as strategies of choice for development, that reports on their negative impacts are being recognised as reliable. There is now sufficient evidence that these processes, particularly in the South, have resulted in greater inequalities in income and assets between and within countries. It is difficult to arrive at general statements about the specific effects of liberalisation

and market orientation on women, since these are mediated by the level of development, forms of integration into the world economy and pre-existing socio-economic inequalities in a particular country. Nevertheless, and despite country-specific variations, the phenomenon of 'feminisation of the labour force' is emerging as a common theme in discussions of the way in which global economic changes and market-led growth have impacted on women [Author's Summary]

Lögfren, H (1999) “Trade Reform and the Poor in Morocco: A Rural-Urban GE Analysis of Reduced Protection”, IFPRI TMD Discussion Paper 38

Minot (1998) “Distributional and Nutritional Impact of Devaluation in Rwanda”, in Economic Development and Cultural Change, Vol. 46, No. 2, pp 379-402

Moghadam, V. M (1999) “Gender and Globalisation: Female Labour and Women’s Mobilisation”, Journal of World-Systems Research, Vol V, No.2, pgs 367-388

This paper casts a gender perspective on globalisation to illuminate the contradictory effects on women workers and on women’s activism. The scope of the paper is global. The sources of data are UN publications, country-based data and newsletters from women’s organisations as well as the author’s fieldwork. The paper begins by examining the various dimensions of globalisation – economic, political and cultural – with a focus on their contradictory social-gender effects. These include inequalities in the global economy and the continued hegemony of the core, the feminisation of labour, the withering away of the developmentalist/welfarist state, the rise of identity politics and other forms of particularism, the spread of concepts of human rights and women’s rights, and the proliferation of women’s organisations and the trans-national feminist networks. The author argues that, although globalisation has had dire economic effects, the process has created a new constituency – working women and organising women – who may herald a potent anti-systematic movement. World-systems theory, social movement theory and development studies should take account of female labour and of oppositional trans-national feminist networks.

Page, S. (2001) ‘Trade and Climate Change: Implications for Poverty and Poverty Policy.’ Overseas Development Institute Working Paper.

Smarzynska, B. K (2002) “Composition of Foreign Direct Investment and Protection of Intellectual Property Rights: Evidence from Transition Economies”, Working Paper No. 2786, World Bank, Washington

UNCTAD (1999) “Trade, Sustainable Development and Gender”, UN, New York <http://www.unctad.org/en/docs/poedmm78.en.pdf>

This publication contains materials of the Pre-UNCTAD X Expert Workshop on Trade, Sustainable Development and Gender held in Geneva from 12 - 13 July 1999. Forty-three articles reflect experiences from developing and developed countries and economies in transition. These papers deal with conceptual and practical issues and are grouped around three major areas: globalisation and gender; trade-related issues and gender; and specific problems of LDCs and gender. Presentations of the above material as well as the agreed conclusions and recommendations adopted at the Workshop may further promote an exchange of experiences and views on policy-related issues of trade, sustainable development and gender, and assist in formulating policy recommendations and measures, including at UNCTAD X, for further action in this field [Authors Summary]

Whitehead (2001) “Trade, Trade Liberalisation and Rural Poverty in Low-Income Africa: A Gendered Account”, background paper prepared for The Least Developed Countries Report 2002, UNCTAD, Geneva

Winters, L. Alan (2000) “Trade Liberalisation and Poverty”, Paper prepared for the UK Department for International Development, mimeo, Brighton, University of Sussex

SECTION 4: CHILD LABOUR AND TRADE

Chowdhry, G Beeman, M (2001) “Challenging Child Labour: Transnational Activism and India’s Carpet Industry”, Annals on the American Academy of Political and Social Science, No. 575, pgs 158-175

Transnational movements have become an important component of an emerging and relatively recently theorised transnational civil society in the field of international relations. Non-governmental organisations, social movements, and social activists concerned with the global issues of poverty, environment, and human rights have created an intellectual and political global space outside the national territorial space to give voice to their concerns on issues of transnational importance. This article examines transnational human rights movement around the issue of child labour in the carpet industry in India. Although the intersection of child labour with the carpet trade from India was utilised effectively by Indian and German activists to bring about changes in child labour use, the more foundational impact has been the creation of Rugmark, a label that certifies child-labour-free carpets and provides services for the rehabilitation and education of children involved in the carpet industry [Sage Publications, Inc.]

ILO (2002) “Every Child Counts: New Global Estimates on Child Labour”, ILO, Geneva

As part of its effort to increase the knowledge base on child labour, the ILO has prepared new global estimates on the overall magnitude and distribution of working children. This includes estimates on economically active children, children in child labour that requires elimination and the extent to which children are engaged in hazardous work and other worse forms of child labour [Authors’ Summary].

IPEC (1996) “Child Labour in Commercial Agriculture in Africa”, ILO, <http://www.ilo.org/public/english/standards/ipec/child/91africo.htm>

This paper seeks to review briefly the available evidence on the extent and types of child labour in the commercial agriculture sector in the Africa region. Information and data are included from case-studies carried out on the child labour situation in commercial agriculture in Kenya, Malawi, South Africa, United Republic of Tanzania and Zimbabwe. The purpose of these studies was to document contrasting conditions and hazards of child labour in commercial agriculture, to analyse the relevance and efficacy of measures already taken to improve working conditions among children and to reduce the use of child labour, and to identify additional feasible measures and activities [Author’s Summary].

Toor, S (2001) “Child Labour in Pakistan: Coming of age in the New World Order”, Annals of the American Academy of Political and Social Science, No. 575, pgs 194-224,

SECTION 5: SICK/DISABLED

Drager, N, Woodward, D, Beaglehole, R and Lipson, D (2001) “*Globalisation and the Health of the Poor*”, Development Vol 44, pgs 73-76

The authors present an analytical framework for considering the effects of globalisation on the health of the poor and put emphasis on the indirect effects of globalisation operating through the macro- economy, household income and other sectors. They suggest that these effects are as important to health outcomes as the direct effects of globalisation on health risks and the health sector. In order to maximise the positive effects of globalisation on the health of the poor, they argue it is necessary to develop policy coherence across multiple sectors [Sage Publications Ltd].

Walt, G (2001) “*Globalisation and Health*”, Medicine Conflict and Survival, Vol 17, No.1 pgs 63-70

Globalisation means different things to different people; a general definition is the increasing movement of information, material and people across borders. It can be considered in terms of five conflicting but inter-relating themes, economic transformation; new patterns of trade; an increasing poverty gap associated with widening health inequalities; the revolution in electronic communication; and the growing role of non-state actors, such as non- governmental organisations and transnational corporations, in global governance. Globalisation is both an opportunity and a threat, but it is not inexorable. Successful action against its undesirable aspects is possible [Frank Cass & Co. Ltd].

SECTION 6: NATURAL RESOURCE COMMODITIES

Breitenbach, M. C and FényesT. I (2000) “Maize and wheat production trends in South Africa in a deregulated environment, Agrekon, Sep 2000, Vol.39, No.3, pp.292-312

Qualitative control measures and government regulation of the marketing of agricultural produce was seen as distorting the working of the market mechanism. Trade liberalisation, with tariffication of agricultural produce and the deregulation of the marketing of agricultural produce was therefore promoted. It was expected that producers of agricultural produce would respond to liberalisation efforts and deregulation in a way that would move production closer to some optimum point. An analysis of production trends for maize and wheat confirms that production of these commodities have moved closer to an optimum point, especially after the deregulation of these markets. [BIDS - Reprinted by permission of Landbou-Ekonomievereniging van Suid-Afrika = Agricultural Economics Association of Southern Africa]

Gibbon, P (1998) “*Peasant Cotton Cultivation and Marketing Behaviour in Tanzania Since Liberalisation*”, Centre for Development Research, Working Paper subseries no i.98.16, Copenhagen

This paper discusses the debate around structural adjustment and African agriculture, the history of the Tanzanian cotton sector and farming systems in the main cotton growing area of the country before reporting the results of a small survey of cultivators carried out at the end of the 1997/8 seed cotton marketing season. This survey, carried out in the fourth year of market liberalisation, covered crop sales,

farming methods, marketing behaviour and perceptions of the marketing system
[Author's Summary]

**NRET/NRI (1998) “Ethical Trade and Sustainable Rural Livelihoods”, NRI,
<http://www.nri.org/NRET/nracre.pdf>**

The paper explores the actual and potential contribution ethical trade can make to the achievement of sustainable rural livelihoods. It includes a description of ethical trade (Section 2), followed by an analysis of the building blocks and trade-offs that affect participation in ethical trade (Section 3). Section 4 describes the livelihood components required to participate in ethical trade initiatives, and Section 5 describes the strategies adopted by various ethical trade schemes. Section 6 describes the outcomes of these schemes for sustainable rural livelihoods. The paper ends with conclusions about the actual and potential contribution ethical trade can make to sustainable rural livelihoods [Eldis]

Page, S (1999) “Environment Benefits from Removing Trade Restrictions and Distortions: Background for WTO Negotiations”, ODI, London

The interaction between environmental policies and trade policies emerged as an issue at the end of the Uruguay Round of trade negotiations in 1994. It has been feared by developing countries as a potential excuse for protection, but the work of the Committee on Trade and the Environment at the WTO has tried to shift the debate to looking also at ways in which improving access by developing countries to developed markets can lead to more environmentally friendly production, in addition to the conventional gains to income and development from trade and the potential effect of reducing poverty on increasing care for the environment. The CTE has provided a forum for discussing some of the issues and started to identify products, but there is now a need to clarify the analysis and look at products in more detail. Liberalising trade improves the efficiency of production by allowing production to shift to the cheapest location. The objective of an environmental approach is to seek liberalisation of those products where that increase in efficiency is particularly concentrated in efficiency with respect to processes which might damage the environment. This criterion can be added to the conventional negotiating objectives of finding products with severe problems of access and a significant impact on the exporting economy. Because developing countries already have a range of schemes giving preferential access to developed countries, analysing the effects of any new preferences or improvement in access can be complex; the clearest possibilities are likely to be found among goods where developed countries subsidise domestic production because there has been less liberalisation at multilateral level and there are few examples of preference. These criteria and the suggestions made in the discussions at the WTO give a preliminary list of products to consider. For some there is a clear potential for reforms in trade policy and subsidies to help both development and the environment [Author's Summary].

Shepherd, A and Onumah, G (1998) “Liberalised Agricultural Markets in Ghana: The Roles and Capacity of Government”, Paper 12, Green Series, DAG, Birmingham. www.bham.ac.uk/idd

Since Ghana became committed to a structural adjustment programme several years ago the onus has fallen on government agencies to take on new and unaccustomed roles in respect of liberalised markets in agricultural products. A study under the Role of Government in Adjusting Economies research programme, co-ordinated by the Development Administration Group³⁹ at the University of Birmingham, examines the case for government intervention in the production and marketing of export and food crops grown in Ghana, specifically cocoa, maize and rice. The findings point to

³⁹ Now the International Development Department (IDD).

alternative relationships between the government on one hand and (on the other) producers and marketing agents and analyses the institutional conditions under which they operate. The researchers question the wisdom of withdrawing state intervention from certain key areas (such as cocoa marketing) where it continues to uphold significant gains and advantages [Authors' Summary]

SECTION 7: FAIR/ FREE/ ETHICAL TRADE

Page, S (2003) "Towards a Global Programme on Market Access: Opportunities and Options." A report produced for IFAD. London: ODI. www.odi.org.uk

The purpose of the report is to identify ways of increasing the access of small rural producers in developing countries to markets, with the objective of reducing poverty. There is strong evidence that those not integrated into markets are among the poorest. The report concentrates on market access and uses existing knowledge to indicate the possible effects of the different forms of market access on poverty. Initiatives which assist producers at the point of market access can act on choice of product, the technology of production, the organisation of the producer, marketing the organisation of national and international markets (including fair trade), transport, finance and other infrastructure for trade, and government policy towards all of these.

Ponte, S (2001) "*The 'Latte Revolution'? Winners and Losers in the Restructuring of the Global Coffee Marketing Chain*", Centre for Development Research (CDR) Working Paper 01.3, Copenhagen

This paper uses as Global Commodity Chain (GCC) approach to examine the transformation of the global coffee marketing chain and its repercussions in developing countries. It focuses on shifts that have occurred in the last two decades in the international coffee trade regime, on regulations at the domestic level in producing countries, and on changes in corporate strategies and consumption patterns. These are assessed in relation to the evolution of the organisation of the chain its mode of governance, the ownership of characteristics at various 'nodes', and the distribution of income along the chain. The paper also explores how the restructuring of the coffee chain has affected different groups of actors and suggests some policy directions to address the emerging imbalances. Finally, it assesses the contribution offered by the coffee case study to wider debates that are taking place in the GCC literature.

Shafaeddin, M (2000) "*Free Trade or Fair Trade? An Enquiry into the Causes of Failure of Recent Trade Negotiations*", UN Conference on Trade and Development, Discussion Paper 153,

The article draws attention to the deadlock in the negotiations during the recent meetings of WTO, which has demonstrated the severe differences among various groups of member countries. This paper focuses on frictions between developing countries and industrial economies in the particular area of trade in manufactured goods. The purpose of this paper is to argue that the failure of the negotiations is related to a number of fallacies and contradictions surrounding the concepts and practices of universal trade liberalisation and infant industry protection [Eldis].

SECTION 8: INTERNET RESOURCES

Centre for Concern – Trade and Gender

The Centre of Concern closely monitors current trade negotiations from an equity and social development perspective. Although trade negotiations argue that trade is gender neutral, feminist economists have established that all macro economic issues have a different impact on women and men due to their social roles, social expectations and patterns of discrimination. Currently the Gender and Trade project is focusing on agriculture, services and investment in the WTO and the FTAA negotiations and calling for social impact assessments of these negotiations.

<http://www.coc.org/topics/topics.html?ID=9030>

Trade Liberalisation and Women

These web pages on “Trade and Liberalisation and Women” are part of UNIFEM's program on Women and International Trade. The aim is to bring together relevant data on trade issues and their gender-differentiated impact on women. These pages are a foundation for an accumulative and accessible body of knowledge that can be used as a resource tool for women's economic empowerment

<http://www.undp.org/unifem/trade/index.htm>

International Gender and Trade Network:

The IGTN is an international network of gender advocates actively working to promote equitable, social, and sustainable trade. The Network utilises research, advocacy and economic literacy to address the specific trade issues of its seven regions: Africa, Asia, Caribbean, Europe, Latin America, North America and Pacific.

<http://www.genderandtrade.net/>

Institute for Development Studies:

IDS is an internationally renowned centre for research and teaching on development, established in 1966. The policy-related research and advisory agenda is focused on spreading the gains from globalisation. Globalisation has benefited many people, but it is clear that it has also contributed to increases in inequality, both within and between countries.

<http://www.ids.susx.ac.uk/ids/global/>

OECD- Trade

The key objective of OECD work on trade is to support a strong, rules-based multilateral trading system that will maintain the momentum for further trade liberalisation, while contributing to rising standards of living and sustainable development [OECD].

<http://www.oecd.org/EN/home/0,,EN-home-notheme-10-no-no--no,00.html>

Trade and Development Centre

The Trade & Development Centre was created to provide information to the community of Internet users who have a specific need for information on trade as it relates to social and economic development. The site is a joint venture of the World Trade Organisation and the Economic Development Institute of the World Bank.

Though designed primarily for use by individuals from developing countries, the site welcomes anyone with an interest in its subject matter. The site will be enriched with new content on a regular basis [WB/WTO].

<http://www.itd.org/index1.htm>

World Trade Organisation:

The World Trade Organisation (WTO) is the only global international organisation dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the majority of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business.

<http://www.wto.org/>