The Doha Development Agenda Impacts on Trade and Poverty

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A collection of papers summarising our assessments of the principal issues of the WTO round, how the outcome might affect poverty, the progress of the negotiations, and the impact on four very different countries.

Papers in the series

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Overseas Development Institute
111 Westminster Bridge Road
London SE1 7JD, United Kingdom
Tel: +44 (0)20 7922 0300
Fax: +44 (0)20 7922 0399
iedg@odi.org.uk
www.odi.org.uk

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1. Trade liberalisation and poverty reduction

Tim Conway

Defining poverty

In part, the differences between those who see trade as good for poverty reduction and those who see it as bad can be attributed to different understandings of what is meant by poverty and how it should be measured. The definition of poverty in academic and policy discourses on international development broadened considerably in the 1990s. The first strand of the debate is fundamentally philosophical and concerns the meaning of poverty, in particular the distinction between means (e.g. income) and ends (e.g. life expectancy, substantive freedoms). Depending on outlook, some components (e.g. expenditure, assets, or literacy) can potentially be classified as either means or ends in the definition of poverty. The second strand is more prosaically methodological, and revolves around the accuracy of different approaches to the measurement of poverty: even if it is accepted that poverty is defined as falling below a minimum acceptable level of consumption, there is room for debate as to whether this level can be accurately captured in surveys of expenditure, or whether analysis also needs to take account of access to common property resources, assets, and so on. While relative poverty lines are often used in rich countries, research and policy in the developing world almost always uses an absolute poverty line.

Consumption/expenditure poverty lines are indispensable for comparing levels and degrees of poverty between areas or groups and monitoring changes over time. But there are a number of methodological problems inherent in measuring expenditure (or income) during household surveys, given the complexity of inflows, outflows and stores in household economies in the developing world. Recognition of these limitations suggests that poverty line-based analysis needs to be complemented with other definitions and measures of poverty in order to produce fully-informed policies.

The DFID variant of the livelihoods approach analyses the well-being of households in terms of their control over assets (equivalent to forms of 'capital' in other approaches). During the 1980s and 1990s there emerged calls for lack of power to be made not just an explanation of poverty but part of its definition. Along a related line, it was suggested that social exclusion or lack of social capital was often at the core of what it meant to be poor.

Many actors who accept the principle of multidimensionality commonly revert to using a simple, unidimensional measure of poverty for practical purposes. The Millennium Development Goals (MDGs) constitute a well-known example of a multidimensional approach to defining and measuring poverty (see box), and provide a useful point of reference by which to frame discussion of the potential impact of trade liberalisation upon various dimensions of poverty.

An important body of micro-level work, deriving from fields such as anthropology or sociology as well as empirical microeconomics, has focussed on household welfare dynamics, the distinction between chronic and transitory poverty, and the importance of vulnerability. Empirical work, much of it in the field of food security studies, revealed that the poor often make trade-offs between poverty and vulnerability. Over the long term, minimising their exposure to shock in this way keeps them trapped in low-investment, low-risk, but low return activities, with investment of time and money spread across a number of activities rather than concentrated upon the most promising. This has important implications for understanding the link between trade policy and the welfare of the poor, as it implies that poor producers will often not respond to new opportunities created by liberalisation, or will respond only after a considerable lag.

A conceptual framework for analysing trade-poverty linkages

Liberalisation may raise private incomes and expenditures for poor groups, but in some circumstances these gains are offset by declines in the level or effectiveness of state spending, or by increased insecurity of employment or income. Trade liberalisation may contribute towards some MDGs, while having a negligible or even potentially negative impact on others.

The poor may be affected by liberalisation policies pursued either by their own government or by the governments of countries that are or might become trading partners or competitors. Some argue that the barriers against pro-poor growth in the South are overwhelmingly due to trade distortions created by Northern protection; given this past record of trade rules weighted against developing countries, it is reasonable to demand that developed countries liberalise earlier and faster, while allowing developing countries to retain protectionist measures for an extended period to safeguard the incomes and food security of the poor against the shocks of rapid market opening. The gains that a developing country and poor groups within it stand to make from liberalisation, their own or others', depend on i) the nature of their current insertion into international markets and trade agree-

Box: MDGs Goals and Targets

Goal 1:	**Eradicate extreme poverty and hunger**
Target 1:	Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day
Target 2:	Halve, between 1990 and 2015, the proportion of people who suffer from hunger
Goal 2:	**Achieve universal primary education**
Target 3:	Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling
Goal 3:	**Promote gender equality and empower women**
Target 4:	Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015
Goal 4:	**Reduce child mortality**
Target 5:	Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate
Goal 5:	**Improve maternal health**
Target 6:	Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio
Goal 6:	**Combat HIV/AIDS, malaria and other diseases**
Target 7:	Have halted by 2015, and begun to reverse, the spread of HIV/AIDS
Target 8:	Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases
Goal 7:	**Ensure environmental sustainability**
Target 9:	Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources
Target 10:	Halve, by 2015, the proportion of people without sustainable access to safe drinking water
Target 11:	By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers
Goal 8:	**Develop a Global Partnership for Development**
Target 12:	Develop further an open, rule-based, predictable, non-discriminatory trading and financial system (*Includes a commitment to good governance, development, and poverty reduction – both nationally and internationally*)
Target 13:	Address the Special Needs of the Least Developed Countries (*Includes: tariff and quota free access for LDC exports; enhanced programme of debt relief for HIPC and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction*)
Target 14:	Address the Special Needs of landlocked countries and small island developing states (*through Barbados Programme and 22nd General Assembly provisions*)
Target 15:	Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term
Target 16:	In cooperation with developing countries, develop and implement strategies for decent and productive work for youth
Target 17:	In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries
Target 18:	In cooperation with the private sector, make available the benefits of new technologies, especially information and communications

ments; ii) their capacity to respond to new market opportunities and to mitigate adjustment costs (see Trade Issues paper); and iii) national institutions which govern the links from trade to poverty.

McCulloch et al (2001) identifies three channels by which trade policy change might affect poor individuals and households, namely those of enterprise (through profits, wages and employment), distribution (the transmission of changes in border prices to consumers), and government (in which trade reform affects government revenues and thus the scope for pro-poor expenditures). Bird (2004) similarly uses a household-focussed, livelihoods analysis-inspired approach to draw out the micro-level determinants of whether or not a given trade reform benefits different groups amongst the poor.

It is possible to distinguish both static and dynamic components to the linkage. Static effects include the reallocation of resources towards sectors in which the country in question enjoys comparative advantage. Dynamic effects are those achieved through economic growth if the more efficient allocation of resources increases growth. Either might reduce poverty. Short- to medium-term adjustment costs (as, for example, jobs lost in industries rendered uncompetitive) could increase it. A more open economy can be expected to allocate new investment more efficiently, create opportunities to realise economies of scale, increase entreprises' exposure to technological improvements in productivity, and intensify competition. This analysis suggests four channels by which the Doha Round could affect poverty.

Consumption: prices faced by poor households for the goods they purchase. Even in 'subsistence' rural economies, certain goods (notably food, but also manufactures such as clothing) must be bought. Own liberalisation is likely to exert downward pressure on the prices of basic consumption goods, as barriers to cheaper imports are removed and competition is increased. The liberalisation of other countries' trade regimes may increase prices, as domestic producers find it possible to obtain higher prices through exporting to newly-opened markets. Food is obviously pre-eminent in consumption by the poor; it is highest for those in extreme poverty, and for the food-purchasing rural poor. But inputs into household-level economic activities: for example, seeds or fertiliser for poor agricultural producers also affect the poor.

Income: returns to the labour, assets and/or products of the poor. The primary asset of the poor is in most cases their own labour, typically unskilled or semi-skilled. Thus, trade reform which results in increased access to overseas markets and increases the prices paid for exports, may increase the demand for unskilled labour and is likely to have a positive effect on poverty reduction, through increased employment, or increased wages, or both.

Liberalisation by poor country governments themselves will affect different social groups differently. Sectors which had previously been protected may experience job losses and/or falling incomes, while other economic activities in which the country has comparative advantage and which had been constrained under previous trade regimes (e.g. export controls on agriculture or barriers to the import of essential inputs such as fertiliser) expand.

The provision of public goods: government expenditures on health, education, sanitation, and social protection, accessible to the poor. In countries in which government revenue is heavily dependent upon tariffs (which are much easier and cheaper to collect than other taxes), own trade liberalisation may result in a significant reduction in total revenue. In most cases, political realities suggest that the poor rather than the rich will suffer most from reductions in public spending. In principle expanding volumes of trade at lower tariff levels may offset this fall (as seen for example in India). Linking the reduction in tariffs to the removal of tariff exemptions may help to offset the fall in tariff revenue. Least Developed states with low levels of income and limited administrative capacity are most heavily dependent on tariffs. Developing country governments may gain if liberalisation in other countries leads to expanding export volumes and rising incomes. Like losses, gains in revenue may not feed through into increased spending on the poor.

Security: improved capacity to sustain long-term welfare through reduction and mitigation of risk, and increased capability to cope with the consequences of a shock. To a considerable extent, all of these are a function of changes in average values of the three variables already mentioned. Variability in any of them imposes the costs of risk-management strategies. The consequences of risk are particularly serious when they strike large numbers of individuals or households simultaneously on the basis of some common characteristic. If greater trade integration reduces vulnerability to local-level misalignment of supply and demand, it may help to smooth income and consumption, and encourage investment in productive assets. Integration also, however, brings exposure to price movements in international markets. Diversification – both within the household economy and between households within a community – can help to reduce the probability and magnitude of simultaneous shocks to production, income and/or employment.

Implications for non-trade policy

The way in which a change in border price arising from liberalisation is transmitted to different groups of producers and consumers within the country is determined by a number of intermediary factors and institutions, including the level of education and skills amongst the poor; their ability to obtain access to credit (in order to finance investment in new export market opportunities) or to communications and transport (in order to know about and reach export markets); and the existence of affordable mechanisms to mitigate production or consumption risk. The degree to which developing countries and poor groups within them gain or lose from liberalisation thus depends crucially upon a range of policies with regard to service delivery, infrastructure provision and the regulation of financial markets. Trade barriers may not be the most important constraint upon the livelihoods of the poor. Complementary policies may be critical in maximising the benefits and minimising the losses that the poor experience from trade liberalisation. In some circumstances, the adequacy or inadequacy of these complementary policy measures may determine not only the size but even the direction of the effect of trade liberalisation on poverty. The pace and sequencing of moves towards liberalisation may affect how well complementary policies can harness the effects of liberalisation for poverty reduction.

Generally, policies designed specifically to recompense those disadvantaged by liberalisation are to be avoided: these groups are not always the poor, or poorest, and compensating groups on the basis that they have been affected by government policy change can create a cumbersome long-term budget commitment (and an awkward precedent). Governments are better advised to make use of social protection (or safety net) schemes provided on the basis of need, including retraining and assistance in finding new employment. If trade policy is to contribute to poverty reduction, this is best framed as part of an overarching national strategy for poverty reduction.

At the global level, preferences have not been an efficient way of targeting poverty. 70% of those currently living on less than $1/day are not located in the 49 Least Developed Countries, but large low income countries (India, Pakistan and Nigeria) and a number of middle-income countries (China and highly unequal Brazil) In 1999, India and China alone accounted for almost 50% of the world's $1/day poor.

Potential Doha reforms and poverty reduction effects

Agriculture

Liberalisation by developed countries in agriculture might be expected to affect the livelihoods of the poor as follows:

- Increasing demand in previously protected markets would result in higher profits for those who own or rent land; increased demand for agricultural labour should increase the price of labour and labourers' incomes benefiting the landless poor.
- Increasing exports may increase the prices paid by poor households for agricultural goods, most notably food.
- Increasing the diversity of international markets to which poor producers have access may reduce the degree of variability and uncertainty in agricultural income and consumer prices.
- Removing developed-country policies designed to stabilise prices in their own economies, by putting more of the burden of adjusting to shocks onto other market participant, will also reduce instability, and thus vulnerability.

Higher and more dependable agricultural incomes in developing countries would:

- Increase ability to purchase inputs such as fertiliser or irrigation which increase average yields and/or decrease production variability.
- Increase demand for other goods and services, with positive effects on the employment and incomes of the poor.
- Increase household investment in human capital development – education and health care – which broadens opportunities, increases the returns to household labour and reduces the potentially pauperising costs of a serious illness.
- Increase ability to diversify by investing income in alternative crops and/or off-farm activities, reducing the vulnerability of not only the households concerned but also communities and the country as a whole.
- Shift investment from non-agricultural sectors into agriculture.

The impact of agricultural growth in terms of reducing poverty is greatest at the lowest income levels because a greater percentage of the population are engaged in agriculture and because the agricultural poor in least developed countries have fewer alternatives to agriculture in the form of off-farm income.

The poor in non-preferred countries, notably India and China, would gain, but for those Southern farmers currently dependent on preferences these price effects would be largely reversed. Another group of countries in which the poor might lose out from agricultural reforms are those that are net importers of agricultural goods. Amongst the 58 low-income countries, 29 were classified as net agricultural importers in 2000/01; amongst the 89 middle-income countries, 51 were net agricultural importers. The most significant of these (in terms of the numbers affected) are Bangladesh, Pakistan and North Korea.

Developing country trade policies are less of an issue in agriculture (relative to both developed world agricultural policies and to developing-country policies in other sectors, such as manufacturing), but some developing countries still operate trade or other policies which in effect impose constraints on the expansion of agricultural exports, sometimes in the name of food security. In many cases, to ensure that the agricultural poor can benefit from international trade, developing country governments must reduce protection of inefficient industrial sectors and the associated over-valuation of the exchange rate, which draw investment away from agriculture.

Manufactured goods

Liberalisation of trade in manufactured goods is likely to have significant pro-poor effects in fewer countries than in agriculture (albeit including some with very large poor populations, such as India). In most developing countries far fewer are employed; wages are generally higher than in agriculture, so increased wages or employment for industrial workers will not necessarily benefit the poor; and manufactures account for a much smaller proportion of the total household expenditure of poor households than does food. Of these, the most important are probably clothes and agricultural inputs.

Liberalisation by market countries will increase incomes. But a number of developing countries (including large countries such as India) have significant policy barriers of their own. Tariffs that protect inefficient manufacturing tends to result in a preference for capital-intensive rather than labour-intensive activities. Whether changes from a country's own liberalisation will be good or bad for the poor will depend on the existing structure of enterprises and employment in the sector and the institutional environment of laws and regulations. One effect may be a switching of employment from the formal sector to the informal sector (with fewer labour rights) as companies seek to lower their costs and improve their flexibility in response to competitive pressure from imports. The result may be an increase in the level of employment, but at lower wages, less security of employment, and less protection. If the formerly protected workforce are able to respond to new opportunities, then transitional unemployment may be relatively short-lived. If, however, few alternatives exist, the negative effects may be large and persistent. In the absence of alternative manufacturing or service sector jobs, the effects of liberalisation-induced manufacturing in small uncompetitive and undiversified economies are thus likely to include increases in rural poverty rates through loss of remittances and return migration to rural areas.

Services

A number of countries have succeeded in creating service sector jobs serving developed world markets. Tourism may create significant demand for unskilled and semi-skilled labour. Back-office business services and call centre operations in India; or software in India and China have employment and spillover effects on the demand for goods and services from the poor.

Other developing countries have specialised in the provision of temporary migration to provide services in higher-income countries. While much of this movement is of non-poor professionals, in some countries (e.g. the Philippines, Sri Lanka or Pakistan) large numbers of unskilled and semi-skilled workers are involved in migration for temporary employment, and state policies and institutions have been developed to facilitate this movement. Earnings brought back from a period of work abroad, or sent back as remittances, may provide a significant injection of capital into poor, often rural communities. Labour out-migration in low-wage fields in a labour-abundant economy may also have an indirect positive effect by reducing labour supply relative to demand, exerting an upward pressure on the wages of those remaining. Finally, returning labour migrants may bring back with them newly-acquired skills.

Competition in service provision induced through trade liberalisation might also reduce the prices the poor must pay for health and education services that directly enhance welfare (and, via human capital formation, indirectly affect incomes). More efficient 'backbone' services – in finance, telecoms, domestic transportation, retail and wholesale distribution, and business services – have the potential to improve the performance of the economy as a whole. They may however result in the elimination of unskilled jobs, and successful liberalisation of services requires an appropriate regulatory framework.

Trade-related intellectual property rights and public health

The implications of rules on trade-related intellectual property rights (TRIPs) for poor country access to affordable pharmaceuticals were a high-profile issue in the Doha round. The protection of pharmaceutical patents, it was argued, prevented the under-resourced health services of developing countries badly affected by HIV/AIDS (particularly in sub-Saharan Africa) from obtaining access to cheaper generic versions of key anti-retroviral drugs; and, more generally, increased the prices that health services must pay for drugs for diseases which constitute major threats to public health. The counter-argument, put forward primarily but not only by the pharmaceutical industry, is that providing exemptions from intellectual property protection for drugs of relevance to the world's poor reduces the profitability of such drugs and thus the incentives for research into cures for these diseases (research which is already markedly skewed towards the health problems of the developed world).

In August 2003, an agreement confirmed that developing countries with a pharmaceutical industry could sell generic drugs cheaply not only in their own countries but also in Least Developed Countries and other developing countries which face a 'public health emergency' and lack the capacity to produce themselves. Although the gains from this declaration are potentially significant, it is important to place them in context. The majority of drugs on the WHO Essential Drugs List (EDL) are already out of patent, and therefore not affected by TRIPs; they remain beyond the reach of the poor for other reasons. Pharmaceuticals may account for a large proportion of public health spending (e.g. around 20% in Mali, Tanzania, Vietnam and Colombia), but this often amounts to a microscopic level of spending. At these levels of spending, even drastic reductions in the price of pharmaceuticals will leave them beyond the reach of the poor. In most countries the health sector faces a number of other fundamental problems with resourcing and institutional capacity which cheaper drugs will not solve, and most developing country governments have not made full use of the provisions that already exist (because of capacity constraints and lack of familiarity with international patent laws). The potential effect is likely to be greatest in large middle income countries in which the size of the public health budget is such that patent-affected drugs do constitute a significant proportion of total spending, and do become affordable at lower prices.

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For further information contact Sheila Page (s.page@odi.org.uk)