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Introduction

JIM REDDEN*

Why this book?

International trade is one of the greatest sources of modern wealth. However, it can be challenging and disruptive, especially to poor people¹ who usually have very few resources and little capacity to cope with changes in the price of what they produce and consume. To share in higher global living standards, the poor must gain access to the benefits that international trade has to offer. But how?

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

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

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

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

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

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

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

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

What is in this book?

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

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

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

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

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

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

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

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

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

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

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

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

The emerging themes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Highlights and insights

Transnational corporations and the global supply chain

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

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

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

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

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

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

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

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

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

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

Trade in agriculture

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

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

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

production and in linking small farmers and entrepreneurs to existing and newly emerging trade opportunities.

Hamish Smith and Lee Ann Jackson's case study on agriculture in Samoa discusses the potential costs and impacts on trade and poverty reduction for a small economy graduating from least developed country (LDC) status. It concludes that the impact for Samoa should not be significant so long as such factors as concessional loan facilities and trade-related capacity-building arrangements remain in place.

Lydia Napitupulu discusses a rarely explored industry in a case study of ornamental fish farming in Bali, Indonesia. International trade in Bali's ornamental fish species is important for small-scale coastal fishermen in Indonesia, and large volumes are being harvested to meet the demand. However, harvesting methods continue to include the use of cyanide, a method that is highly destructive, leading to both overfishing and the loss of ecological conservation in the reef's ecosystem. This case study focuses on one community of fishers that has successfully made the transition to sustainable harvesting and breeding of ornamental marine species.

From sea farming we turn to land farming. The Indonesian case study on the rice sector in West Java by Milda Irhamni and Chaikal Nuryakin examines the impact of trade liberalisation on rice production and rice prices. It suggests that the impact of rice trade liberalisation might be somewhat limited, although opposition from some producers can be expected. The case study notes that the price of rice in Indonesia is rarely the main driver of farmers' decisions to sell or diversify their production and that, in fact, the lower prices that liberalisation would bring would benefit many farmers who are net consumers of rice. While liberalisation could have a negative impact on some farmers in the short term, this impact could be minimised with good support for 'behind the border' government policies.

Shunli Yao notes that trade-related poverty-alleviation policies across western and central China need to be more closely linked with horticultural development through preferential policies for foreign investment in this sector and through stricter testing and certification systems that guarantee the authenticity of organic produce for consumers in China and abroad.

Trade in services

In their thematic overview paper to Part III, Joy Abrenica, Christopher Findlay and Aik Hoe Lim argue that reform and openness to trade in

services can bring new technology in a physical sense (e.g. digital technologies associated with telecommunications) to the poor in developing countries, as well as new and more efficient structures of organising businesses (as in the case of logistics). They contend that the openness of local markets increases both the potential for entry of new competitors as well as the quality of actual entry, leading to higher levels of efficiency, greater productivity and increased incentive to innovate. Better quality education and health systems that are associated with the reform of those markets can add to the rate of accumulation of human capital and thereby growth. However, their paper acknowledges that, during transition periods, there can be job losses across both high- and low-income levels – requiring governments to devote resources to training or retraining, industry restructuring and safety-net facilities.

The case studies in this part of the book are striking in their support for these findings – that is, on the potential of services liberalisation to contribute to economic growth and poverty reduction if the appropriate regulatory regimes, training and institutional capacity are put in place.

A case study from Uganda illuminates the link between the liberalisation of the ICT sector in an African country and the welfare of the poor. The study explores policy reforms implemented at the national level in the ICT sector and the subsequent growth of the Nakaseke telecentre in a remote town of Uganda. It shows that a combination of a positive regulatory-reform framework and donor support led to the growth of the telecentre, which transformed the lives of the local farmers, women and young people. Siddhartha Prakash draws many policy lessons for successful services liberalisation and related sector reforms, but also offers practical guidance on making ICT services work for the poor. He identifies the importance of rural electrification infrastructure, developing special content and applications for illiterate communities based on simple ICT applications and changing social attitudes towards the value of a knowledge-driven economy.

In his study on ‘health tourism’ services in Malaysia, Aik Hoe Lim reflects on the importance of strategic domestic trade reform through appropriate regulation. He examines the impact of services liberalisation in Malaysia and the rise of ‘health tourism’, involving patients from developed countries who seek cheaper treatment at private hospitals and clinics in developing countries. He finds that the outcomes can be ambiguous. On the one hand, exporting countries can earn more foreign exchange and generate additional revenue for investment in their public health-care, of particular significance for the poor. On the other hand, increased commercialisation of health services without an appropriate regulatory

framework or safeguards on access and equity may result in a dichotomy with a well-resourced private sector catering to foreigners and wealthy nationals and an under-resourced public sector serving those who cannot afford private care.

In their study of India, Ajitava Raychaudhuri and Prabir De examine the recent patterns of trade in services, particularly the rapid growth of exports of information technology and labour services. They also examine the associations between the growth of trade and the levels and distribution of income. They observe that whilst urban inequality may have increased, the bias towards employment of males in the services sector may have, in fact, declined. Services-sector growth, they suggest, has created employment opportunities for females. They remain concerned about the risk of rising income inequality in urban areas, and suggest a number of initiatives to create a greater demand for workers who presently have relatively low skill levels. These include access to education, the design of curricula relevant to the ICT sector and on-the-job training. The authors stress the importance of state and local government participation in the central government's intervention strategies.

Amanda Sunnasse's paper on Tanzania analyses the link between the services sector and the supply-side constraints faced by an LDC, using the Tanzanian transportation and logistics sector as a case study. The unique contribution of her case study is its special focus on the role of Aid for Trade (AfT). Sunnasse explores means of using AfT to add value, attract trade and investment – and hence jobs for low-income communities – in the services sector.

Last in this section is an important contribution from Chakriya Bowman on telecommunications reform in the Pacific, with a particular focus on Vanuatu. Connectivity within and between Pacific Island countries has always been weak, she argues, but small island states can reap the benefits of services liberalisation if they are prepared to reform poorly performing sectors. Her study relates the success story of Vanuatu, where reform of the Telecom Vanuatu Limited monopoly has resulted in increased competition in the sector, a major inflow of FDI and the delivery of telecommunications services to previously unserved ni-Vanuatu living in remote and rural locations.

Labour mobility

Part IV of the book is devoted to the debate on the opening of labour markets to the temporary movement of both skilled and unskilled workers. Both of the thematic papers on services, which comprise the thematic

papers to Parts III and IV, show that almost every study of the temporary movement of natural persons demonstrates absolute poverty-related gains to developing countries as a result of the liberalisation of the movement of low and unskilled workers.³ Greater liberalisation of labour mobility allows developing countries the opportunity to exploit their relative abundance in low and unskilled labour. There are, of course, various social and political complexities that accompany trade in skilled and unskilled labour, and these issues receive thorough treatment in Graeme Hugo's thematic paper and the case studies that follow. Hugo calls for a far more integrated approach than what exists at present between migration and development policies, pointing to the need for a whole-of-government approach to migration and labour mobility.

Despite the complexities, this chapter firmly establishes the economic benefits of remittances, which increase the per capita income of the remittance-receiving countries and thereby can have a significant poverty-reducing effect on the economy. Cross-country and micro-based estimates have supported this, showing that, in general, the fraction of a population living in poverty is reduced by about 0.4 per cent for each percentage point increase in the share of remittances to gross domestic product (GDP).⁴ International remittances in Bangladesh, for example, have reduced the poverty head-count ratio there by 6 percentage points according to the first case study in this part of the book.

Fhamida Khutan shows that Bangladesh has benefited significantly from an increase in remittances due to the movement of its human resources. The abundance of labour supply in Bangladesh has given it a comparative advantage over other countries in the global market. Bangladesh earns a huge amount of foreign exchange through the remittances of its workers abroad. Khutan shows that these remittances have not only cut the current account deficit and stabilised the balance of payments of the country for the last few years, but they have also helped to improve the standard of living of a large section of the population through employment of its workers. Bangladesh could have done even

³ See Winters, L. A. (2002), 'The Economic implications of Liberalising Mode 4 Trade', paper prepared for joint WTO-World Bank Symposium on Mode 4, WTO, Geneva, 11 to 12 April 2002; Winters, L. A., Walmsley, T. and Wang, Z. K. (2003), *Liberalising Labour Mobility under the GATS*, Commonwealth Secretariat: London; Walmsley, T., Ahmed, S. A. and Parsons, C. (2005), 'The impact of Liberalizing Labour Mobility in the Pacific Region', GTAP Working Paper No. 1874, Centre for Global Trade Analysis, Perdue University: West Lafayette, IN.

⁴ World Bank (2005), *Global Economic Prospect*, World Bank: Washington, WA.

better, according to Khutan, had there been a comprehensive whole-of-government policy in the country to facilitate the movement of all categories of workers from Bangladesh, with fewer barriers imposed by the importing countries.

The case study by Saibal Kar focuses on the impact of migrant remittances on the level of poverty, particularly for lower-skilled workers from the state of Kerala in India. The non-migrant members of households in Kerala enjoy better living standards, higher levels of school attendance, access to healthcare facilities and provisions for the future with the aid of such remittance receipts. Of interest to policy makers, the study highlights evidence that lower-skilled workers remit larger amounts more frequently than their higher-skilled counterparts, as their families or communities are in greater need and rely more heavily on regular remittances.

Nur Hadi Wiyono and Owini Handayani, in their case study on Indonesia, recount the interesting story of one returned migrant worker (twenty-five years old, married with one child) who used his remittance to purchase three hectares of fertile land at a price of Rp 300 million to provide him with the income to continue school and finish his university degree. He married an ex-migrant worker who had worked as a domestic worker in Saudi Arabia. He was already known as a successful person in the village because he owned a house and had a steady income from his paddy field. However, his business sense led him to open a new waste-collection business – previously unheard of – as a joint venture with other returned migrant workers. The multiplier effect not only resulted in employment and income for other villages, but has also had positive environmental consequences.

The study on Tonga by Salote Vaimoana Taukolo, Jim Redden and Raelyn Esau notes that up to 45 per cent of Tonga's GDP comes from remittances. Contrary to the view held by some that remittances will decrease over generations, the study shows the general sustainability of remittances in Tonga over the last decade. It points to a useful model for community-based temporary labour market schemes with an early evaluation of the Recognised Seasonal Employer scheme between New Zealand and Tonga. It highlights the importance of continuous training and up-skilling of low-income, low-skilled workers and the important role of remittances in savings and job creation back home. The conclusion underlines the role of temporary labour mobility and remittances as a vital 'safety valve' that can allow Tonga the time and revenue base to invest in a more sustainable economy based on the expansion of services and increased agricultural productivity.

Small and vulnerable economies

Most small and vulnerable economies (SVEs) in the Pacific, and Timor-Leste in Asia, have relatively low trade barriers according to the authors of the thematic paper to Part V, Jim Redden and Ron Duncan. They argue that the contemporary challenge for SVEs is to embed the fundamentals of future competitiveness – taking account of transition costs – while ensuring safety nets are firmly in place to allow people to adjust to, and benefit from, future trading arrangements. They contend that this transition will require clear support for flexible trade arrangements and the financing of trade-related capacity building from their major trading partners.

The case studies in this Part of the book contain two main messages. Firstly, although the trade challenges must, at times, seem daunting, there are a plethora of practical opportunities for Pacific SVEs to benefit from trade and to implement more sustainable poverty reduction processes.

The second message is that developed and larger developing countries should recognise the ‘multitude of challenges’ facing SVEs and intensify their own political efforts to ensure that sufficient market access, adequate time and ‘policy space’, technology transfer and capacity-building support is given to SVEs to assist in consolidating reform.

The study on women potters in Lombok, Indonesia, by Heather Baigent tells the story of a successful export business that needed considerable local determination and external support to overcome a range of internal obstacles and international trade regulations on health and technical standards. The lessons from this study include the value of assisting women to directly manage such projects – with technical assistance and training from abroad – and the value of marketing support in overcoming a number of trade barriers. Although the women in Lombok are now much better off than before, they remain relatively poor. Overall, the case study illustrates the ongoing need for domestic reform and capacity building that need to be supported by external assistance to small and medium enterprises in small and vulnerable communities.

Sacha Silva reveals an intriguing study of the problems faced by Grenada as it transitions from an economy facing eroding preferences for its chief agricultural export (bananas) to one that is becoming increasingly based on services, especially educational services. The study describes the vital role of education and training of human resources and the complex issue of dealing with wage expectations and differentials if the transition is to continue to be successful.

Manleen Dugal, in the study on the western and central region of the Pacific recommends a series of trade strategies on both the multilateral and domestic fronts to assist in the development of a viable fishing industry and to help lift local artisan fishers in the Pacific out of poverty. The author describes a comprehensive 'green box' of subsidies that should be allowable, and which would assist small island states in the western and central Pacific to develop their fishing capacity and fisheries sectors.

President Ramos-Horta is lauded for advocating a trade- and investment-friendly Timor-Leste in the case study by Joao Saldanha and Jim Redden on the relationship between international trade and youth unemployment. The research and consultations undertaken in Timor-Leste point to a qualified but positive relationship between well-crafted trade policies and job opportunities for young people. However, the study emphasises the importance of long-term political stability to allow government to harness oil and gas revenues for financing necessary economic reforms and for investing in infrastructure, services and the agriculture sector so as to create sufficient jobs for low-income and under-skilled young people.

The case study on Papua New Guinea by Nolpi Kilwa invites the reader to explore the important relationship between local, regional and multi-lateral trade initiatives. Papua New Guinea lacks a coherent trade strategy and has little experience in trade negotiations, but, according to the author, there are ample natural resources and potential competitive advantages that Papua New Guinea can pursue. However, it requires, he argues, not only domestic reform but greater support and flexibility on the part of developed nations in the Doha Round and in regional trade negotiations. The study focuses on current EU negotiations with Papua New Guinea and the Pacific region as part of the Cotonou Agreement, highlighting the need for more flexible arrangements, for example, on how rules of origin are interpreted. Papua New Guinea and other Pacific SVEs, according to the case study, sought context-specific rules appropriate to the region given the multi-country, multi-industry nature of global supply chains in goods manufacturing.

Biman Chand Prasad, Yenteshwar Ram and Ariel Marr analyse the relationship that exists between trade policies and poverty in the garment industry in Fiji. Their findings point to a number of factors that will need to be in place if the Fijian clothing and textile industry is to survive and increase its productivity. The requisites for success include the orderly exit of uncompetitive firms, strong improvements to Fiji's trade facilitation processes, accommodating outcomes in upcoming PICTA, PACER Plus

and EPA regional trade negotiations, more training and wage restructuring and last, but certainly not least, the need for ongoing political stability. As with the case studies on Papua New Guinea and Timor-Leste, both of which deal with whole-of-government approaches to trade and poverty reduction, the Fiji study emphasises the importance of an approach to trade reform that results from a collaboration between the private sector and government at the national level, and one that includes support from developed nations involved in trade negotiations and agreements.

The three case studies in this part of the book on Fiji, Papua New Guinea and Timor-Leste further confirm the importance of political stability, good governance and an economy-wide perspective as key pre-requisites for the design of successful trade reform and poverty reduction.

All of the case studies in Part V note the ongoing importance of trade-related technical assistance and capacity building as essential for poorer nations seeking to engage successfully in the international trade environment while building the necessary infrastructure, institutions and human resource skills at home.

Conclusion

Anecdotally, quantitatively and qualitatively, the case studies demonstrate positive correlations between more open, competitive trade policies and sustainable poverty reduction – so long as certain pre-conditions are in place.

With respect to the five overriding policy elements referred to earlier (trade openness, domestic reform, a robust and responsible private sector, international reform and political will), it is now possible to distil a further set of more specific criteria for trade-related poverty-reduction strategies that have emerged from the context-specific case studies.

At the top of the list for many are training and education strategies that allow poorer communities greater self-reliance and that enhance their ability to participate in trade and economic growth. Literacy and vocational training find particular resonance across the studies, as does the importance of inclusive planning that allows lower-income communities to participate in and support trade-related development reforms.

Supply-side reform and removing domestic trade and economic barriers to doing business feature strongly in many of the case studies. A number suggest that supply-side reform should be led by institutional reform, which in turn can drive legislative and regulatory reform, address

physical infrastructure and logistical services needs, drive sectoral-specific productivity gains and generally establish a more conducive climate for business investment and employment creation. Political stability, transparency and good governance are all seen as absolute pre-requisites to this end.

A number of case studies argue that trade reform will require domestic governments to use taxation and fiscal equalisation policy to implement more efficient wealth redistribution programmes that assist in directing income to lower-income communities, and that help to finance key rural and urban poor expenditure programmes. A number of the case studies emphasise the importance of government planning for the provision of safety nets and compensatory packages that allow time for the economy to absorb industry restructuring costs or job losses that may occur during transition periods. The authors make it clear that some economies face considerable economic 'pain' as manufacturing struggles in the face of competition from lower-cost producers in Asia, and from preference erosion globally.

Several studies identify market access, technology transfer and solid commitments to trade-related aid or capacity building as the most important means to helping poorer communities trade their way out of poverty. Labour market access is frequently cited for the direct benefits employment, training and remittances can potentially bring. The roles of developed countries and larger developing countries are seen as critical in providing the necessary market access and flexibility, whether for services exports generally or labour mobility in particular.

Finally, the concept of 'strategic liberalisation' finds favour in many of the studies. They call for the careful sequencing and timing of reform, for example the introduction of an appropriate regulatory framework and safeguards on access and equity in advance of liberalising specific trade in services. Services liberalisation is considered by several of our authors to hold the key to future poverty reduction. But they are also at pains to highlight the ongoing importance of agricultural reform and manufacturing reform aimed at productivity increases, supply-side diversification and identification of niche markets able to integrate with global supply chains. The special needs of SVEs are well noted, but most argue that support is required to sequence and accelerate reform rather than delay it.

Although the case studies focus predominantly on the Asia-Pacific region, we hope they contain useful insights that can inform government

policy makers, community leaders and private-sector corporations throughout the world, all of whom can play such a vital role in expanding trade and reducing poverty in a sustainable fashion.

A full commitment to the adequate financing of reforms needed to include the 'poor' in trade and help arrest the widening global gap between rich and poor will require strong cooperation across the board. The overriding message of this book is the need for greater political commitment and cooperation at all levels – locally, domestically, regionally and internationally – in support of practical trade-related development strategies.