The past year was crucial for trade, the focus of this issue of *Friends of IDRC*. It was all the more so for the coalition of developing countries that, at the September 2003 World Trade Organization talks in Cancún, showed they could make their voices clearly heard. The strength of the G20+ coalition, an alliance of diverse emerging countries formed shortly before the Cancún meetings, set an important precedent.

The resolution shown by these developing nations is not surprising given the stakes involved and the major hurdles they face in realizing the potential gains offered by trade. Some of these hurdles are domestic—such as inadequate policies, institutions, and infrastructure. Many are posed by trade practices at the regional and international levels. While tariffs have been falling over time, market access for developing countries’ products is still limited in some important areas. With a few exceptions, notably coffee, Northern countries severely limit the flow of agricultural products from the South. There is also some evidence that rich countries are finding novel ways of reintroducing restrictive measures.

IDRC supports developing countries in their efforts to participate more effectively in the global economy. Through the Trade, Employment, and Competitiveness (TEC) Program Initiative, it aims to help developing-country scholars and public policy analysts develop a better understanding of international trade rules and, thereby, benefit more fully from global trade. In “trade,” we support research to improve the terms of engagement of developing countries in international trade. In “employment” and “competitiveness,” we support work that examines the development and poverty-alleviating gains from trade’s impact on labour incomes and consumer prices. Competition laws that protect consumers and vulnerable local businesses as well as policies that promote a dynamic private sector are among the desired outcomes of this support.

Consistent with the mandate of the Centre as a whole, we target research and research capacity-building in developing countries. We focus on policy research because we believe that position-taking in international economic negotiations, no less than in policymaking generally, needs to be informed by rigorous, locally generated, research-based evidence.

This situates TEC in a relatively small niche within the large field of donor trade-related overseas assistance. IDRC is probably third only to the US Agency for International Development and the UK’s Department for International Development in the resources allocated especially to research on trade and development. But neither of those donors gives the priority that we do to supporting current research—and to building enduring research capacity—in developing countries. And that is done one researcher at a time.

The articles on the following pages describe a few of the ways in which the TEC program works. More can be found on IDRC’s Web site: www.idrc.ca/tec.

Maureen O’Neil
TRADE LIBERALIZATION: POVERTY’S FRIEND OR FOE?

They are the familiar images of global trade talks: streets turned into battle zones, conference centres into fortresses. Entrenched positions on both sides of the barricades have effectively stifled public debate on trade liberalization. Is the developing world healthier, wealthier, better fed, and better educated thanks to trade-led economic growth? Or has it triggered a rising economic tide that will float yachts but threatens to swamp simpler craft anchored in poverty? There is precious little quantitative research to support either position.

“We know that trade liberalization is supposed to be good for growth,” says Dr John Cockburn of Université Laval in Québec, Canada, “but we’re not quite clear on who wins and loses, or how freer trade affects poverty.”

One of the main stumbling blocks is the lack of an effective means for linking changes in trade policy to changes within individual households. This connection is critical to estimating the impact of trade on poverty.

To date, economists have used tools, such as Computable General Equilibrium (CGE) models, to gauge the effects of macroeconomic shocks – trade liberalization or tax reform, for instance – on the economy as a whole. Most models, however, do not or cannot make the link to the effects on individual households (see box: Computable General Equilibrium models: a primer).

“CGE models generally work with categories of households, such as rural farm and rural nonfarm households,” says Cockburn. “They do not distinguish between the poor and nonpoor within these categories, nor do they give any idea of the proportion of each in any of the household categories.”

To overcome this hurdle, Cockburn drew on the work of a team of developing-country researchers from the Poverty and Economic Policy (PEP) Network, which he codirects. The network is part of IDRC’s Micro Impacts of Macroeconomic and Adjustment Policies (MIMAP) Program Initiative. MIMAP was launched in 1990 to help developing countries measure and analyze poverty and to design improved policies and poverty-alleviation programs.

The PEP researchers developed CGE models of their respective African and Asian countries to forecast how changes in trade policy, such as tariff reductions, affect household income and the consumer prices they face. By combining the predicted income and consumer price results of the models with data from standard household surveys, the researchers developed an accurate picture of the real income distribution effects within each category of households. The researchers then applied standard poverty indicators to this data to develop a poverty profile before and after trade liberalization policies were introduced.

In this case, the indicators were

- Poverty headcount, to measure the percentage of households under the poverty line;
- Poverty gap, to assess how far below the poverty line households fell; and
- Poverty severity, to examine the distribution of income among poor households (see box: Sample outcome).

SURPRISING RESULTS

The model was piloted in eight countries: Bangladesh, Benin, India, Nepal, Pakistan, the Philippines, Senegal, and Viet Nam. Each research team analyzed the impact on poverty of trade liberalization policies since 1995.

Cockburn and colleagues at Université Laval are now analyzing the data from the national studies to see if they can draw any broad conclusions about the links between trade liberalization and poverty. The analysis, he cautions, is still in its preliminary stages, but the results have already produced a few surprises.

For example, conventional wisdom suggests that the heavily protected sectors of the economy – generally the industrial sector in developing countries – would shrink as trade liberalization removes tariffs and national markets open to competition from imported goods. Other sectors – commonly agriculture – would expand to exploit new opportunities afforded in the export market.

“Prior to our study,” says Cockburn, “we thought agriculture would be the big winner as a result of trade liberalization. But,” says Cockburn, “the ‘export push’ that comes from trade liberalization doesn’t benefit the agricultural sectors as much as the industrial sectors.”

The reason, he argues, is three-fold:

- The difference in tariff levels between the agricultural and industrial sectors was not as marked by 1995 at it was in the heyday of industrial protectionism in the 1970s and 80s, so the shock of lowering trade barriers was not as pronounced as it might have been;
Local industries benefited enormously from cheaper imported inputs, effectively offsetting the drop in domestic prices caused by competition with lower cost foreign manufactured goods; and

Agricultural sectors are less export-oriented than industrial sectors in most of these countries, and thus benefit less from trade liberalization.

WAGE GAINS

The researchers also examined the effect of trade liberalization on wages and income. Their analysis did show a relative rise in wages and incomes but not for the reasons expected. It was generally assumed that the lack of tariff protection in the agricultural sector would better position labour-intensive agricultural industries to seize opportunities in export markets after liberalization. This, in turn, would increase the demand for unskilled labour and push wage levels upward. The study clearly shows that agriculture did not benefit as expected from freer trade. So what accounts for the relative rise in wages and incomes? It was, in part, the buffering effect of the service sector, says Cockburn.

“Forty to 60% of labour [employment] comes from the service sector. Because the service sector is not directly affected by freer trade, it did not face import competition in any significant way and its price levels are relatively unaffected. As a result, wages remained relatively stable and, relative to other factors such as the drop in consumer prices, they increased. So, in the economy as a whole, the service sector has a stabilizing effect on workers’ wages. This is especially important for the urban poor, who make up most of the workers in this sector.”

QUESTIONING CONVENTIONAL THINKING

Cockburn’s analysis challenges many long-held notions about trade liberalization and poverty.

“We went into this thinking that the effects of freer trade on poverty were going to be country-specific. But as we work with the data, there seem to be some rules that apply to all the countries. I can say that, generally, trade liberalization has positive effects on welfare and poverty, especially for urban households.”

SAMPLE OUTCOME

“If our model shows a 5% increase in the average income of one category of households, we could apply this increase to survey data and see how the income of each household within the category changed,” says Cockburn. “By comparing income distribution before and after trade liberalization to an established poverty line, we can see how many households were lifted out of poverty.”

POLICY LINKS

Despite the generally positive effects of freer trade, many households still face difficulties. Indeed, one of the clear lessons from the PEP study is that governments need to pay close attention to how workers, especially agricultural workers, and their families adjust to changes brought on by freer trade.

“To adjust successfully you have to really look at the export possibilities that open up rather than simply trying to compete with foreign firms on the domestic market,” says Cockburn. “You need to know where big changes will occur, be able to remove any obstacles to adjustment, and lessen the negative impact of that change. It’s a juggling act.”

continued...
Trade Liberalization: Poverty's Friend or Foe? continued...

The juggling act is made more difficult by shrinking government revenues as income from tariffs drop. “How much government revenues will drop is a matter of some debate,” says Cockburn, “but there is a general agreement that they will fall because of trade liberalization.”

This sobering fact leaves policymakers with two choices: cut spending or find other sources of revenue, typically through taxes. Cockburn and the PEP researchers are now “modeling” various options to see which have the most positive poverty and welfare effects.

Understanding the tradeoffs in the choices they make should help policy-makers better tailor solutions to fit their economies. Will it ensure more equitable growth from trade liberalization? We can all look to the barricades for the answer.

A BETTER BREW: TOWARD A SUSTAINABLE COFFEE INDUSTRY

In 2003, some six million tonnes of coffee beans were picked, roasted, and consumed globally. But despite a robust coffee market, trouble has been brewing in the industry for years. It has now reached a full boil.

According to the International Coffee Organization (ICO), the intergovernmental body that represents coffee-producing and coffee-consuming countries, coffee prices are at the “the lowest in real terms for 100 years.”

“Coffee is a good example of a market that’s perfectly free and liberalized, where there are no trade-barrier issues in terms of protectionism or subsidies, and yet it offers no great benefits to producers,” says Jason Potts of the International Institute for Sustainable Development (IISD) located in Winnipeg, Canada. With support from IDRC, IISD has launched an initiative to introduce fair trade principles into the mainstream coffee market. Those principles form the basis for rigorous social and environmental criteria that characterize fair trade supply chains. By adopting these criteria, farmers earn a premium for their coffee crop. That premium now stands at more than double the conventional market price.

Potts is under no illusions about the hurdles he faces bringing fair trade to the free-trading coffee market.

“We discovered early on that sensitivities around the word ‘fair trade’ were massive,” says Potts. Nevertheless, he organized a workshop that brought together players from the fair trade and mainstream coffee sectors together with developing-country producers.

“From the first workshop, we identified different market-based options for promoting sustainability,” says Potts.

Among the options proposed were a clear, internationally recognized definition of sustainability and a pricing system that would include the social and environmental costs of production in the global market price of coffee.

The list of options also served to identify research needed to inform future discussions, such as the use of contracts to improve the livelihood of producers. Fair trade supply chains use long-term contracts to guarantee coffee farmers a living wage in return for adopting socially and environmentally sound farming practices. Players in the mainstream coffee market, however, rely on contracts to control costs and hedge against fluctuating market prices on the futures markets.

According to the study, contracts alone cannot shield producers from fluctuating coffee prices. The base price of coffee remains firmly pegged to supply and demand. But as Potts points out, farmers already earn a premium for their crop based on its quality.

“If the market already provides for a price differential based on physical quality of coffee beans, why can’t it do it on the basis of some nonphysical quality criteria like production practices?” he argues.

Despite the challenges he has faced, Potts sees genuine progress in the process IISD and IDRC have begun. He is now involved in developing and launching a global Sustainable Coffee Partnership, a forum for developing a multistakeholder strategy to promote sustainability in the coffee sector.

Potts remains optimistic about the future. “Fair trade has been banging at the door for so long that the mainstream private sector has become involved – not so much in fair trade but in sustainability issues. So, we can now look to develop a system to capture say 12% or 90% of the coffee market,” he says. “The difference in the two market shares will reflect just how deep we go with our sustainability criteria. That remains to be determined.”
WERE IT NOT FOR THE ADVICE OF HER FATHER, VEENA JHA MIGHT WELL BE A MATHEMATICIAN NOW INSTEAD OF AN ECONOMIST.

“I was 15 when I started university,” says Jha. “I was very good in mathematics and was thinking about doing a degree in it, but my father suggested economics because the career prospects looked brighter.”

Dr Jha’s assessment of her career choice belies the success she has enjoyed as both a researcher and development specialist. Her teaching stints have included universities in both her native India and England, among them the University of London, where she obtained her doctorate. She has undertaken projects and consultancies for a variety of United Nations’ programs, development banks, and bilateral agencies. Dr Jha now coordinates the India Programme and is affiliated with the Division on International Trade in Goods and Services and Commodities at the United Nations Conference on Trade and Development (UNCTAD).

It was in this capacity that she joined forces with IDRC in 1999 to examine the effects of product standards on trade in the developing world. The project addressed a fear that standards were hidden restrictions and nontariff trade barriers that reduced the benefits of liberalized agricultural trade, notably in fish products, peanuts, rice, mango pulp, spices, and tea.

“Often,” notes Jha, “it is not the standards that are the problem, it’s standard setting and where it is done. Standards have become moving targets.”

Where more stringent standards are justified, developing-country producers are often suspicious of new regulatory measures because they are not always implemented transparently, are complex in nature, and their own capacity problems make new standards difficult to implement. Furthermore, “national” standards do not always conform to international standards even among countries in the same region. Thus, British standards for tea are not the same as those applicable in Germany.

Part of the solution, Jha maintains, is for developing countries to develop their own standards, especially for products in which they have a competitive advantage. Global trade in Darjeeling tea is a case in point. “Darjeeling tea is a high value product for which India is well known. It was able to set a standard and get it internationally accepted,” says Jha.

She would like to see more proactive intervention on the part of developing-country governments and producers in standard setting. “We (UNCTAD) believe that attention should shift from capacity-building to meet standards to capacity-building to set standards,” says Jha.

It is precisely this sort of change in mindset that she maintains is the biggest challenge in the work she does. Her current work with steel subsidies is another prime example. “The present mindset goes something like ‘my subsidies are OK, but yours must be lowered’.”

Jha would see an objective, uniform, global measure of subsidies created to provide a baseline from which countries would negotiate reduction commitments.

“The current practice of playing one subsidy off against another builds a litigious regime,” says Jha. “If you want [trade] agreements that will work rather than agreements that are guaranteed to be litigious, you need a new approach.”

Researching and refining new approaches has been a landmark of Dr Jha’s career. And while her reasons for choosing to pursue a career in economics are, by her own admission, anything but profound, the loss to the field of mathematics was most certainly a gain for economics.
UN SECRETARY-GENERAL KOFI ANNN VISITS IDRC

UN Secretary-General Kofi Annan visited IDRC headquarters on the afternoon of March 9, 2004, for an informal meeting with Canadian civil society and government representatives. The meeting took place at IDRC at the request of the Minister for International Cooperation, the Honourable Aileen Carroll, who also attended. IDRC President Maureen O’Neil chaired the meeting on The Millennium Development Goals, Gender, and HIV/AIDS.

There was a frank exchange of views between civil society representatives on the one hand and the Secretary-General and some of his most senior officials on the other. Civil society representatives urged the Government of Canada to take a more proactive role on development and humanitarian issues and many people present noted that the lack of interest by Canadian (and other) politicians is linked to the lack of an active civil society constituency pushing development issues onto the agenda.

THE WORLD TRADE SYSTEM: CHALLENGES AND OPPORTUNITIES

On December 11, 2003, IDRC research partners and policymakers from the South and elsewhere gathered in Ottawa at a workshop organized by the Trade, Employment, and Competitiveness Program Initiative to discuss their understanding of the problems and opportunities in the current trade regime. The workshop also aimed to make recommendations for policy and for future research and research capacity building in the field from developing-country perspectives. Among the emerging research issues pointed out by Professor Hana’a Khir-El Din of Cairo University in closing the day-long workshop is the role of domestic political pressure in challenging trade-distorting policies and the need to include development considerations in negotiations on trade policy from the outset.

More information, including workshop proceedings, can be found on the IDRC Web site at: web.idrc.ca/en/ev-51329-201-1-DO_TOPIC.html.

REPAIRING THE PAST: RESULTS OF AN INTERNATIONAL STUDY

In their transition to democracy, countries that have gone through periods of violence are often confronted with a legacy of human rights abuses. Argentina, Brazil, Chile, South Africa, and Malawi, to name a few, have adopted a range of remedies to address crimes perpetrated during times of dictatorship, repression, or civil war. From prosecuting individuals and offering reparations to victims of state-sponsored violence to convening truth commissions, all these remedies are part of what is called transitional justice. But among these remedies, reparation programs have received less attention.

The results of one of the most comprehensive attempts to compare and evaluate programs to repair the harms caused to victims of human rights abuse were presented at the symposium Repairing the Past: Reparations and Transitions to Democracy, which took place on March 11–12, 2004, at IDRC. The symposium was organized by IDRC’s Peacebuilding and Reconstruction Program Initiative, which cofunded the study, led by the New York-based International Center for Transitional Justice (ICTJ).

For more information: web.idrc.ca/en/ev-57759-201-1-DO_TOPIC.html

AFRICAN PARLIAMENTARIANS AT WORK ON POVERTY

In February, the Micro Impacts of Macroeconomic and Adjustment Policies Program Initiative (MIMAP), in collaboration with the Parliamentary Centre of Canada, brought together some 30 African members of parliament for a three-day seminar on macroeconomics and poverty. Hosted in Dakar, Senegal, the seminar aimed to strengthen the role of African parliamentarians in the fight against poverty. A number of eminent African economists who are also part of the MIMAP network presented and led discussions on key issues and challenges surrounding poverty reduction, including Poverty Reduction Strategy Papers (PRSP) processes and contexts; impacts of the macroeconomic policies on poverty, growth, and poverty; and trade liberalization and poverty. Members of parliament from Benin, Burkina Faso, Burundi, Democratic Republic of Congo, Ethiopia, Ghana, Kenya, Malawi, Mali, Niger, Nigeria, Senegal, Tanzania, Uganda, and Zimbabwe were represented.

For more information: www.parlcent.ca
The G8 (the United States, the United Kingdom, France, Germany, Japan, Italy, Russia, and Canada) represents the world’s largest industrial market economies. It is also the most powerful political force behind the multilateral institutions that are shaping global economic practice and governance. The aid, trade, and investment policies and practices of G8 member nations have considerable influence on the poorer countries around the world.

This book reviews commitments over the G8 summits of 1999, 2000, and 2001 with a preliminary assessment of the 2002 summit in Kananaskis, Canada. It presents findings from the G8 Research Centre at the University of Toronto (Canada), which has been tracking compliance on G8 commitments for a number of years. Based on research funded by IDRC, the book extends these assessments of compliance to an examination of how adequate G8 commitments are to global development needs.

The Politics of Trade and Industrial Policy in Africa
Forced Consensus?
Edited by Charles Soludo, Osita Ogbu, and Ha-Joon Chang
This book maps the process and political economy of policymaking in Africa. Its focus on trade and industrial policy makes it unique in the literature. Detailed case studies help the reader to understand how the process and motivation behind policy decisions can vary from country to country depending on the form of government, ethnicity and nationality, and other social factors.

Africa World Press/IDRC 2004
ISBN 1-55250-125-6
web.idrc.ca/en/ev-52168-201-1-DO_TOPIC.html

Building Businesses with Small Producers
Successful Business Development Services in Africa, Asia, and Latin America
Edited by Sunita Kapila and Donald Mead
This book presents the findings and a comparative analysis of seven case studies that challenge current beliefs about good practice in the provision of business development services (BDS) to small and micro enterprises. The book also highlights issues concerning the assessment of impact, sustainability, and cost-effectiveness of such services.

ITDG/IDRC 2002
ISBN 0-88936-986-0
web.idrc.ca/en/ev-9438-201-1-DO_TOPIC.html

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FINANCE AND COMPETITIVENESS IN DEVELOPING COUNTRIES

Edited by José María Fanelli and Rohinton Medhora

As events in Southeast Asia demonstrated, the fragility of a country's financial sector can have severe macroeconomic consequences, affecting its ability to manufacture, import, and export. This book addresses this vital issue by examining the interaction between trade and financial development through a combination of case studies and theoretical papers.

IDRC 2002
web.idrc.ca/en/ev-9331-201-1-DO_TOPIC.html

AFRICAN VOICES ON STRUCTURAL ADJUSTMENT

A Companion to *Our Continent, Our Future*

*Edited by Thandika Mkandawire and Charles C. Soludo*

This book presents 14 in-depth studies on the history and future of structural adjustment in Africa. Each study appraises the performance of structural adjustment policies (SAPs) with respect to a particular sector or issue. Each evaluates the compatibility of SAPs with the requirements for long-term development in Africa and, most importantly, each presents a truly African perspective. The book's contributors are an outstanding group of leading African economists and development experts.

IDRC/CODESRIA/Africa World Press 2002
ISBN 0-88936-888-0
web.idrc.ca/en/ev-9309-201-1-DO_TOPIC.html

More information about these books and others can be obtained at www.idrc.ca/books, where you will also find free full-text versions of many IDRC books.