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Trade liberalisation, poverty and livelihoods: understanding the linkages

A Review for the Africa Policy and Economics Department, Department for International Development, UK

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Summary

The main purpose of this paper is to review and assess key analytical approaches that are used to understand the linkages between trade, poverty and livelihoods, with a view to better understanding their linkages in the context of sub-Saharan Africa (SSA). We explore two main perspectives: mainstream economics takes an aggregate approach, measures poverty primarily on the basis of income, and is generally positive about the impacts of trade liberalisation on poverty. A wider socio-economic, livelihoods perspective focuses on micro-level complexity, employs multi-dimensional concepts of poverty and is less positive about the impact of trade liberalisation on poverty. The two perspectives occupy different "domains" and are not easily integrated.

In the context of SSA it is difficult to isolate the effects of trade liberalisation, and its effects (income and non-income related) are likely to be influenced by a range of policies. A broad approach is of particular importance for SSA where the livelihoods of the majority are still largely dependent on small-scale agriculture and the natural resource base, investment is low, markets are weak and segmented and institutions are fragile but are increasingly exposed to international market forces through trade liberalisation (in both rural and urban areas).

Integrating social and economic, market and non-market factors into an analysis of trade and poverty is an important challenge facing development analysts and practitioners. From an analytical perspective, we examine three separate approaches that have begun to do this – value chain, gender and sustainable development perspectives. Each of these has been developed within its own sphere of interest, but each provides insights into the more complex interaction between trade and poverty at a macro, meso and micro level. Ongoing and further work can help to develop each of these approaches, and give more consideration of the overlaps between them, and how they can contribute to a more comprehensive understanding of trade and poverty in SSA.

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Introduction

The main purpose of this paper is to review and assess key analytical approaches that are used to understand the linkages between trade and poverty, with a view to better understanding their linkages in the context of SSA. We explore two main perspectives: mainstream economics takes an aggregate "universalist" approach, measures poverty primarily on the basis of income, and is generally positive about the impacts of trade liberalisation on poverty. A wider socio-economic, livelihoods perspective focuses on micro-level complexity, employs multi-dimensional concepts of poverty and is less positive about the impact of trade liberalisation on poverty. The two perspectives occupy different "domains" and are not easily integrated.

Structural adjustment brought to the fore debate over economic liberalisation and poverty. Economists coming from an aggregate economic perspective argued adjustment would have beneficial effects (at least in the medium term) for poverty. Critics, focusing on the wider socio-economic impacts of structural adjustment, highlighted the negative effects of adjustment on the poor (particularly in the short term or from an environmental perspective, in the long term). However structural adjustment combines a package of economic and social policies, and it is difficult to isolate the specific effects of trade liberalisation on poverty. The increasing importance of WTO, combined with international development targets for poverty alleviation, have shifted attention to the specific linkages between trade liberalisation and poverty.

The main focus of this paper is on underlying analytical rather than empirical arguments that inform policy debates over trade liberalisation and poverty within SSA. It focuses on macro-micro linkages between trade and poverty at a national level, and not the more generic international debates over trade liberalisation at a multi-lateral level (such as the WTO). Given the breadth of the potential literature, it also beyond the scope of this paper to review the broader linkages between poverty and structural adjustment and economic liberalisation (of which trade reform is often only one part).

Economic approaches to trade and poverty

The economic argument for more free trade is based on the assumption that the international liberalisation of markets will enhance growth and the economic welfare of countries. Trade liberalisation enhances the free movement of goods, increases specialisation in the production of those goods in which a country has a 'comparative advantage', boosts output and incomes with benefits to all consumers within the country. Economic analysis of poverty at an aggregate level is based mainly on aggregate market measures of consumption and income. Poverty lines are used to make comparisons across countries and over time, and measure the proportion of the population in poverty.

Economic models linking trade, growth and poverty have been developed to show the advantages of trade liberalisation for potential poverty reduction, if the poor benefit from consequent increasing incomes proportionately to the non-poor. However some economic studies have shown that the results of these models depend largely on the way they are specified, and the effect of other economic variables, making it difficult to isolate the relationship between trade and poverty. Universalist general equilibrium models can thus yield different results, sending contradictory messages to policy makers. Economic models focus primarily on market measures of trade and income, in isolation from broader social and institutional factors. They are based on aggregate analysis, and do not take account of the specifics of micro-level poverty.

However, debates around trade liberalisation are beginning to take account of the role of politics and government. McCulloch, Winters and Cirera (2001) have made an important contribution to analysing the linkages between trade and poverty. They identify three key channels linking macro level trade liberalisation and poverty at a micro household level. These three channels are:

- Enterprise
- Market
- Government

They recognise that institutional and social factors can affect the mediation of trade and poverty. They acknowledge the importance of livelihoods and vulnerability in analysing poverty, but the primary focus of their analysis remains economic and market based, with poverty analysed in terms of the income/consumption responses to trade shocks by households.

Socio-economic perspectives on trade and poverty

From a socio-economic perspective the concept of poverty has broadened and become more multi-dimensional, at least partly in response to poor people's own perceptions, to include vulnerability and insecurity, isolation and powerlessness.

The concept of livelihoods is increasingly used in development debates, in which people's capabilities, and social as well as material assets, are important as a means of living. Livelihoods are sustainable when they are resilient to shocks and may be enhanced without undermining the natural resource base. It follows that a range of policies, and their interaction, is significant to reduce poverty in its broader sense. Desirable outcomes go beyond increased income to include well-being, reduced vulnerability, improved food security and more sustainable use of natural resources.

However, the way in which micro-macro linkages between trade and poverty actually work is under-developed in both the economics and livelihoods perspectives, and there is currently a gap between bottom up contextualised livelihoods analysis and top down trade policy analysis.

Agricultural trade liberalisation and the livelihoods of smallholder farmers

The effect of trade liberalisation on the livelihoods of smallholder farmers demonstrates the challenge of understanding the linkages between trade and poverty in the context of SSA. Trade theory emphasises increased specialisation whereas diversification has been a more common response of poor people to reduce risk and vulnerability and increase security. A livelihoods approach to the linkages between trade liberalisation and poverty provides an understanding of decisions that poor people make to specialise or diversify their livelihood sources.

The reality of weak and segmented markets in SSA context makes it difficult to isolate the effects of trade liberalisation, and its effects (income and non-income related) are likely to be influenced by a range of policies. Short-term compensatory policies for the losers of trade liberalisation are unlikely to be effective given the high incidence and spread of poverty and the weakness of institutions.

A broader approach is of particular importance for SSA where the livelihoods of the majority are still largely dependent on small-scale agriculture and the natural resource base, investment is low, markets are weak and segmented and institutions are fragile but are increasingly exposed to international market forces through trade liberalisation (in both rural and urban areas).

An economics approach that focuses on the effect of trade liberalisation on prices and markets for goods, ignoring the broader social and institutional context at a local level, provides a limited means of understanding the complex effects on poverty and the well-being of the poor. The livelihoods approach has potential for exploring linkages between trade and poverty working up from the micro to the macro. But it is stronger on horizontal linkages at the micro-level than for some of the vertical linkages that influence the effects of trade liberalisation on poverty. Further, its analysis of markets remains very limited. A combination of approaches is therefore needed to develop the linkages between trade and livelihoods of the poor.

Contributions to a more integrated approach to trade and poverty

Alternative methodologies are being developed which provide some of the missing elements identified in the market-based economics and the sustainable livelihoods approaches. These are in the areas of:

- ***Global value chains:*** in a global economy trade is increasingly taking place via global supply networks or value chains, that facilitate the sourcing of components and finished goods by large global buyers. Dominant firms control standards, quality, production criteria and employment conditions suppliers need to meet. Exports from developing countries in some sectors depend on accessing these chains or supply networks, with consequences for policies designed to support such producers. This framework can be extended to understand how small producers and informal economy workers are included in or excluded from global trade, with important consequences for poverty amongst these groups.

- ***Gender:*** gender analysis is a field where interconnections between "market" and "non-market", "economic" and "social" have been developed over a long period of time, which are critical for understanding links between trade and poverty. Gendered analysis of poverty has long produced conceptual and empirical work to support a multi-dimensional view that includes but goes beyond material deprivation. Within this approach a framework of the economy as a gendered structure has been developed. It links the macro and the micro through meso level institutions, which include public services and markets, and disaggregates each level by gender. Building on the gendered economy approach, there is promising recent work to developing trade-specific linkages with poverty.

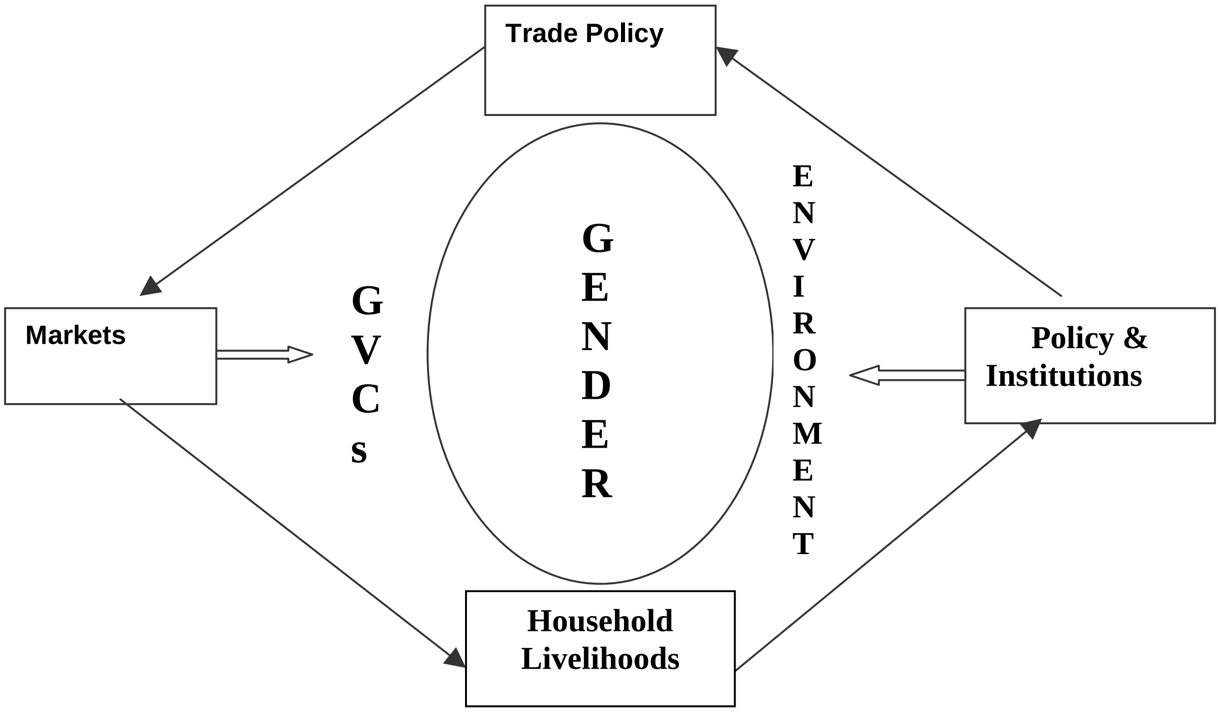
- ***Environment***: current work on the environment and trade is beginning to develop methods which allow a costing of the effects of trade liberalisation policies on the environment and the use of natural resources. The recent development of 'sustainability impact assessment' attempts to integrate social and economic with earlier environment-focused assessments of trade impacts. It has been developed to assess the new round of WTO negotiations, with a potential to be made more relevant to national level work.

Operational and policy implications

To date, no single approach has provided all the information and insights to inform policy and a combination of approaches and methods are needed. The complexity and inter-relationship of factors to be assessed imply that an overarching framework would be too unwieldy to be of real operational use. Instead, it may be better to provide policy makers with a range of approaches and tools, on which they can draw. A combination of the approaches reviewed here can enhance a more comprehensive and disaggregated analysis of the links between trade and poverty in specific contexts.

The need for more democratic processes of policy making are increasingly recognised, to include in particular, the voices and views of poor groups. Although the participation of organisations of civil society is increasing in relation to some areas of policy on poverty, this has not happened in relation to trade policy. Initiatives to widen trade policy reform processes have much to learn from a critical assessment of the experience of Poverty Reduction Strategy Papers (PRSPs) processes to date. The time, resources and terms of engagement of the different stakeholders in such processes of dialogue are important, if initiatives are not to be dismissed as public relations exercises. This is particularly true in SSA, where the institutions and organisations that *do* represent groups living in poverty do not always have the capacity to engage effectively with more powerful stakeholders. Information from poverty and livelihood assessments, combined with information from the trade-focused approaches we have outlined, can be used to identify the key stakeholder groups who are important in the development of pro-poor trade reform.

Figure ES1 Combined approaches



Concluding remarks

The economic and livelihoods approaches each provides the opportunity for moving beyond the limits of its own methodological stance as a means of analysing trade and poverty linkages, yet neither actually straddles the gap that exists between them. Alternative approaches partially address this through their integration of social and economic factors at macro, meso and micro levels.

Integrating social and economic, market and non-market factors into an analysis of trade and poverty is an important challenge facing development analysts and practitioners. This has begun to be done by the alternative perspectives of value chains and gender as well as environment and sustainable trade. Trade reform needs to be flexibly adapted both to the context of each particular country, and to incorporate participation of civil society organisations at all levels, if it is going to have a more positive role in achieving international development targets for poverty reduction.

1 Introduction

Trade liberalisation is increasingly advocated as a critical policy for poor countries to promote economic growth and to reduce poverty. This view underpins the work of leading multilateral institutions, including the World Bank, IMF and WTO, as well as many Northern governments including DFID. The case for trade liberalisation in developing countries is based on economic arguments that trade liberalisation promotes growth, which leads to poverty reduction. This view is largely based on aggregate income and consumption measures of poverty.

Analysis of poverty has moved beyond aggregate market-based indicators, to include a range of material and social outcomes which go beyond income. Greater weight is now given to the assets, capabilities and vulnerabilities of poor groups that influence how people make a living. This wider approach underpins the sustainable livelihoods perspective promoted by the Department of International Development and has more recently been incorporated into the thinking of the World Bank (DFID 2001b; World Bank 2001). Whilst there has been a significant shift from an income to a livelihoods perspective within the analysis of poverty, this shift has not been incorporated into aggregate economic approaches to the *linkages* between trade liberalisation and poverty. A gulf remains between those who focus on the broad economic benefits of trade liberalisation for aggregate poverty reduction, and those who critically examine the micro-level effects of trade liberalisation on poverty from a livelihoods perspective.

Concern with trade liberalisation and poverty became prevalent as a result of the implementation of Structural Adjustment Policies (SAPS) from the 1980s onwards. SAPs were composed of combined policies of economic liberalisation aimed specifically at enhancing economic efficiency and growth in order to address the international debt burden of countries. SAPs combined a number of policies including the liberalisation of financial, goods and factor markets, fiscal and institutional reform, and trade liberalisation that was only one element within them. The implementation of structural adjustment policies triggered a significant debate in the literature regarding their effects on poverty in developing countries.

From a positive perspective, the World Bank argued that adjustment policies were working, and that adjustment-led growth had probably helped the poor (World Bank 1994). This view reflected a more aggregate economic assessment of structural adjustment. A number of writers took a more critical perspective of the effects of adjustment on the poor. Problems highlighted included the negative social impact of SAPs, particularly in Africa. These included declining access to social services (particularly health and education); shifts in the provision of care from the public sector to the household, an increase in women's workload because of their increased labour force participation while shouldering increased responsibilities for domestic work and childcare (Cornia *et al.* 1987; Elson 1991; Ghai 1991; Stewart 1995). These views tended to reflect wider socio-economic concerns with the effects of adjustment, particularly at the micro-level.

It is beyond the scope of this paper to summarise this literature, which has already been covered in wide ranging reviews, with reference to SSA (Killick 1995; White 1996; 1997). These have highlighted a number of problems in assessing the impact of structural adjustment on poverty. For example, countries implementing SAPs were already in economic crisis prior to their implementation with adverse affects on poverty. There are difficulties in determining the "counter-factual" (i.e. potential poverty levels if SAPs had not been introduced). There are problems of isolating the effect of SAPs from other prevailing conditions that could affect poverty. Empirical studies on the impact of SAPs usually cover the combined effect of adjustment policies, and do not isolate trade alone, which is the focus of this review.[1]

It was clear by the end of the 1990s that the effects of both trade reform and poverty were of particular concern in the case of SSA. A review of economic performance in SSA by UNCTAD (2001) amongst other reports have shown that whilst SSA countries have become more exposed to international trade, the numbers in poverty have also increased:

- SSA dependence on trade, measured as a share of GDP, increased from 38 to 43 per cent between 1988–89 and 1999–2000 (UNCTAD 2001: 26). At the same time SSA has become increasingly marginalised through a declining share of total world trade (G8 Genoa Summit 2001; Killick 2001; UNCTAD 2001).
- SSA dependence on primary commodity exports is an important factor in the marginalisation of SSA countries in world trade. Approximately 80 per cent of SSA's exports are composed of oil and non-oil commodities.
- Primary commodities are subject to price volatility (that compounds vulnerability to unpredictable shocks), as well as declining terms of trade. The terms of trade for SSA at the end of the 1990s were 21 per cent below those attained in the 1970s.
- UNCTAD estimates that if non-oil exports had not suffered this decline in the terms of trade over the previous two decades, GDP per capita would have been 50 per cent higher (US$478 instead of $323) as a result.
- The proportion of population living below US$1 per day (at 1993 prices) poverty line remained approximately the same in 1998 as in 1987 (46 per cent) and SSA has the highest proportion of population in this category for any region in the world. Population growth in SSA has meant that from 1987 to 1998, the number of poor people increased from 217 million to 291 million, leaving almost half of the residents of that continent poor.
- Social indicators for SSA also show high levels of social deprivation relative to other developing countries, with low life expectancy, high infant mortality and high levels of illiteracy (UNDP 2000; World Bank 2001).

This has important implications for the policy of trade reform and poverty reduction at both an international as well as a national level. The focus of this review is on trade and poverty linkages at a

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[1] McKay *et al.* (2000) provide a more recent empirical review of the specific evidence on trade and poverty, and also highlight the problem of isolating trade from other effects of adjustment. We examine the specific trade-poverty literature in Section 2.

national (macro and micro) level, and does not deal with international debates around trade policy at the multi-lateral level of the WTO. Its aim is to examine different approaches to the linkages between trade and poverty and to inform policy debates on trade reform and poverty at a national level, which underpins debates over trade liberalisation at an international level. The paper concentrates specifically on trade and poverty linkages, even though trade liberalisation rarely takes place in isolation from other economic reforms. From a broader policy perspective of addressing the multiple causes of poverty, this should not be lost sight of. Nevertheless, trade has become more central as a result of the increasing importance of the WTO, leading to the current attention to the specific connections between trade and poverty.

The primary aim of this review is to assess the different analytical perspectives that underlie the debate over trade liberalisation and poverty. It considers these approaches in the light of the problems facing countries in SSA, only making reference to empirical examples from those countries. The main focus of this paper is to understand the underlying analytical approaches themselves rather than empirical impacts, in order to inform policy debates better on trade reform and poverty in SSA.

It explores two key perspectives, and three "alternative" approaches to trade and poverty linkages:

- An aggregate economic perspective
- A context-specific livelihoods perspective
- Value chain, gender and sustainable environment approaches

The paper is divided into seven further sections:

- Section Two examines mainstream economic approaches to the analysis of both trade and poverty, and recent economic analysis of the linkages between the two based primarily on an aggregate market-focused analytical framework.
- Section Three examines a broader livelihoods approach to poverty, that focuses on understanding the capabilities, well-being and vulnerability of the poor, taking a largely micro level focus.
- Section Four examines more contextualised assessments of trade liberalisation and poverty in SSA, by discussing issues facing poor small holders farmers who represent a large proportion of the poor. It makes the case for further integrating a broader socio-economic livelihoods perspective into the process of trade reform, of giving greater emphasis to the specific country context and interests of poor groups in designing trade policy.
- Section Five then examines alternative approaches that have attempted to link macro and micro issues. The three under review are a value chain, a gender and a sustainable environment approach. Each has to a large extent been developed separately, but between them begin to address gaps in the analysis of trade and poverty linkages.
- Section Six examines operational implications of this review and the need to use combined approaches and more inclusive policy processes to identify better key stakeholder groups and to inform the design and implementation of trade reform in SSA.

2 Economic approaches to trade and poverty

2.1 Trade

From an abstract analytical perspective, the essence of the economic approach to trade is grounded in free market economic analysis. The original focus of pure trade theory has been on examining the maximisation of economic welfare within an abstract general equilibrium situation with no market imperfections. The theory of comparative advantage in trade, which was extended by neo-classical economics based on the Hecksher-Ohlin (H-O) model, argued that all countries should specialise in producing goods using their factor abundance. Countries with a high abundance of capital should specialise in producing/exporting capital intensive goods, labour abundant countries in producing/exporting labour intensive goods. Developments within trade theory have analysed situations of imperfect markets (such as the effect of oligopoly, intra-firm trade etc), and have formed part of new trade theory (Bliss 1989; Stewart 1992).

Early trade policy was also informed by the neo-classical economic view that trade distortions (such as tariffs, quotas, and subsidies) led to specialisation in less efficient production, reducing the level of output below its maximum potential. Trade liberalisation, and an opening up to world prices, reduce protection of inefficient goods and opportunities for rent seeking, diverting resources to the production of more efficient goods with higher levels of output. During the 1960s–70s Keynesian and Structuralist economists shifted the focus to the role of trade in a state-led industrialisation process (for example through infant industry protection), and for economic planning and/or growth.[2] The dominance of the "Washington Consensus" underpinning structural adjustment in the 1980s reverted the trend back towards a more neo-classical, free market perspective as reflected in the original comparative advantage analysis of pure trade theory.[3]

2.2 Poverty

In reality, enormous differences have persisted in both average per capita incomes and poverty levels between low income developing and high income developed countries, and poverty has thus continued to be an important concern within development economics.

2 Within development economics, there has long been a large literature examining the role of trade in developing economies, which it is beyond the scope of this paper to explore. For a survey of this literature see for example Bliss (1989) and Evans (1989).

3 Stiglitz (2001) argues that whilst trade theory itself incorporated issues such as market imperfections and inter-firm trade, the Washington Consensus adhered to a more free-market interpretation of trade.

Economic definitions of poverty in development-related literature have been primarily based on the ability to purchase goods and services, that is, on income and consumption, and on material possessions or assets. From such calculations, the income poverty line can be calculated, and used to assess the proportion of people living below this threshold. In developing countries, where subsistence production is also significant, imputed values are calculated for income in kind from own farm production in order to convert this into equivalent monetary value. The dollar a day poverty line, introduced in the 1990 World Development Report, refers to household expenditure per person and although it has been criticised extensively, it still serves as an easy yardstick to compare poverty levels across countries and over time. Economic definitions of poverty thus focus on goods and services as measured through market (or imputed market) prices and the corresponding policy thrust in poverty reduction is on increasing incomes and consumption.

2.3 Linking trade and poverty

From an aggregate economic perspective there is a strong body of opinion that sees trade liberalisation as central to enhancing economic growth, and growth as the key to alleviating poverty (by increasing the incomes of the poor). This view has been explored in depth using different models of economic growth based on varying economic assumptions.[4] From the standpoint of the consequences for poverty, a lot will also depend on the effect on income distribution, and whether the poor reap the same benefits from growth as the rich. An important and influential recent contribution on this has been made by the work of Dollar and Kraay (2000) at the World Bank. They argue that growth is good for the poor, because growth is normally (using regression analysis) distribution neutral, and therefore the poorest will benefit from growth as much as the rich. They extend their argument by analysing the "post-1980 globalisers", to support the view that openness to international trade (measured by the trade to GDP ratio) stimulates faster growth. Whilst they accept there are "winners" and "losers" in the process in the short run, they argue that the losers do not come disproportionately from the poor. Hence 'trade generally goes hand-in-hand with more rapid growth and . . . with improvements in well-being of the poor'.

However, a number of economists have also taken issue with the view that openness per se induces growth. These include an influential paper by Rodriguez and Rodrik (1999). It questions the measurement of trade openness used in many economic models, and argues that there is no clear cut relationship between trade openness and growth, rather it is contingent on a number of external and country specific factors. Rodrik (2000) extends his approach to a critical review of Dollar and Kraay, arguing that they only arrive at their results by applying a suitably arbitrary set of selection criteria to their sample of countries. White and Anderson (2000) also question the definition of "pro-poor growth" used, and instead decompose the growth of the poor's income into a growth and distribution effect. They argue that there is

[4] It is beyond the scope of this paper to go into the large literature on trade and economic growth, and we only touch on it briefly in this review.

evidence of a trade off between growth and distribution, and suggest that paying attention to distribution could be better for the poor than growth.

A review of key issues in the debate over trade, growth and poverty is provided by Ravallion (2000: 4). He argues that both approaches have a point, depending on how they treat inequality. Those that take a positive approach look at averages over diversities in initial inequalities and how they are changing over time, whilst more critical approaches focus not on averages, but how high or rising inequality 'dulls the gains to the poor from growth'. This highlights problems when using aggregate general or partial equilibrium models, in that the results can depend on how the model is specified, and which variables are taken into account, yielding potentially contradictory policy advice (Bussolo and Lecomte 1999). An aggregate economic modelling approach to trade and poverty also fails to differentiate outcomes for different groups at a more micro level.

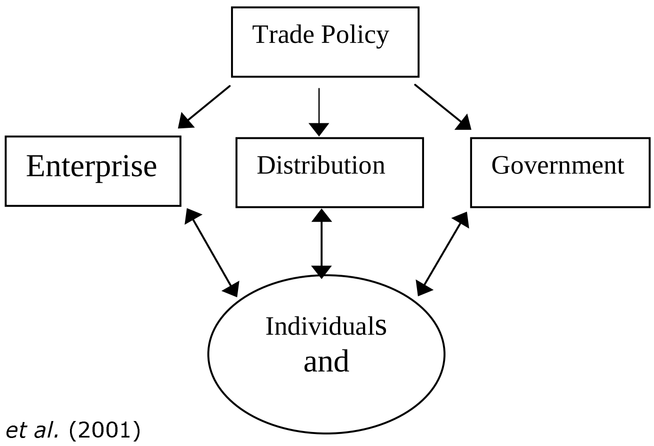
The relation between trade liberalisation and poverty has been further analysed in a recent seminal work by McCulloch, Winters and Cirera (2001). They also argue that modelling approaches are stylised with the outcomes depending heavily on the original assumptions and design of the model. Modelling examines the aggregate effects of trade liberalisation on poverty, giving positive results that trade liberalisation is good for the poor overall, but it fails to examine the more detailed specifics of trade liberalisation and poverty. In contrast descriptive analysis of trade and poverty tends to have a micro perspective specific to particular contexts but lack a more general theoretical framework. McCulloch *et al.* (2001) seek to develop a framework that falls midway between these two extremes, that helps to trace and analyse the linkages between trade reform at a macro level and poverty at a household or individual level, that is flexible enough to adapt to different contexts, and is able to provide a tool for assessing pro-poor policy interventions.[5] They start from the premise that trade liberalisation is good, and in aggregate beneficial, but that there will be winners and losers, and the aim of trade reform and complementary poverty policy should be to minimise adverse effects on the poor, who are often the most vulnerable to trade shocks.

The framework they elaborate (Figure 2.1) identifies three key channels through which trade policy affects households and individuals: enterprises, Distribution and Government. They then trace how changes in border prices, tariffs and other trade reforms will be transmitted through each channel. With regard to enterprises, what are the likely effects based on changes in profitability, production, employment and wages, which then affects household income and poverty. With regard to distribution, how are changes in border prices transmitted in terms of their affects on wholesale and retail prices, which then affects household purchases and consumption. With regard to government, how could trade reform affect government revenue, and consequent government spending which could have important implications for

[5] The following summary draws on McCulloch *et al.* (2001); Winters (1999; 2000). However the first is the most comprehensive, and will thus be primarily cited.

poverty-related programmes to support poor households.[6] The households themselves are treated as 'farm-households' which make production (including subsistence) as well as consumption and labour-supply decisions, an economic category that encapsulates urban as well as rural households. The framework then facilitates an analysis of the responsiveness of households to price shocks, mediated through the different channels. The net effect in relation to household income and consumption indicates the welfare outcome, and the implications for poverty.

Figure 2.1 The analytical scheme: trade and poverty



Source: McCulloch *et al.* (2001)

An important aspect of McCulloch *et al.* (2001) is their recognition of the role of institutions, political and social factors in mediating the linkages between trade and poverty. They recognise market imperfections, non-market factors, institutions, and gender relations as having an affect on trade-poverty linkages. They acknowledge advances in poverty analysis to incorporating livelihoods and vulnerability, and that the demography and context of poor households will affect their response to trade liberalisation. But despite these important advances, the underlying focus of their framework remains the way trade liberalisation is mediated through the channels in terms of prices and its effects on household income and consumption. They trace the connections from the macro down to micro level, but do not unpack the complexities of poverty at the micro level in terms of livelihoods. This broader concept of poverty is thus not integral to their framework.[7]

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6 There is a wide literature focusing on more detailed parts of these channels, which it is beyond the scope of this review to examine. See for example: Kaplinsky (1999); Wood (1977) on wages; McIntire and Varangis (1999) on distribution channels; and Stiglitz (1986) on institutions.

7 Whitehead (2001: 3) makes this point in regard to gender: 'Winters specifically comments that "Gender and intergenerational issues must be taken seriously". However, because this is interpreted as a task involving econometric modelling (in which it "is difficult to specify how to proceed"), Winters misses the opportunity to be more systematic with respect to gender and women.'

3 Socio-economic perspectives on trade and poverty

3.1 Multi-dimensional concepts of poverty

The current debate over trade liberalisation is taking place within a context of important shifts in development thinking on poverty. There have been significant changes over the last 25 years and a much broader, multi-dimensional and more dynamic concept of poverty has become acceptable to most actors in the international development arena. Whilst income-consumption measures of poverty are still often used as a quick and ready means of measuring poverty, there is greater consensus that poverty requires more comprehensive socio-economic analysis, which includes the views of poor people themselves, if poverty reduction policies are to be successful. Social dimensions of living standards, particularly longevity, health and education, are more regularly integrated into concepts of poverty.

The more profound shift is exemplified by the work of Robert Chambers (1983; 1989; 1995).[8] His work on poverty, vulnerability and livelihoods, based on participatory research methods, drew attention to the multi-dimensional nature of poverty including social and physical isolation, powerlessness and lack of voice, low social status and physical weakness. In addition, it introduced the concept of vulnerability to shocks of various kinds. Vulnerability relates to risk and people are vulnerable to poverty when they are more at risk than others, due to factors at different levels: household (e.g. due to ill health), community/regional (e.g. due to drought) and national level (due to particular policies). To take an example of the difference between income poverty and vulnerability, borrowing may reduce income poverty in the short term but such debt makes the poor more vulnerable in the longer term. Maximising incomes may be less of a priority to poor people than increasing the security of their livelihoods and decreasing vulnerability.

Through the 1990s, acceptance has grown of the need for this broader conceptual and methodological approach to the assessment of poverty, which takes into account vulnerability, isolation and powerlessness and includes the views of poor people themselves. This is best illustrated by the huge increase in participatory poverty assessments (PPAs) carried out in developing countries, to improve the effectiveness of public policy aimed at poverty reduction.[9] It is also illustrated by the World Bank's most recent World Development Report (2001), which acknowledges that both market and non-market factors are important and that a wide range of policies are significant for poverty reduction.

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8 In a similar vein, Amartya Sen (1999) has developed the notion of capabilities as substantive freedoms people enjoy in order to lead the kind of life they have reason to value including social functioning, better basic education and healthcare and longevity. Poverty is therefore seen as a deprivation in capabilities. Low income is not the only influence on capability deprivation and outcomes are important, not the income itself. His recent work has suggested that freedom and dignity may be first order outcomes of importance, rather than the reduction of material deprivation.

9 Norton *et al.* (2001a) provide an excellent overview of the evolution of these assessments which can not only enrich the knowledge base for designing policies to reduce poverty, but also create new political spaces for negotiation, empowerment and influence. They also provide a summary of the critiques of PPAs, which are outside the scope of this review.

3.2 Trade liberalisation and poverty from a livelihoods perspective

The concept of livelihoods is closely related to multi-dimensional and dynamic analyses of poverty. DFID's sustainable livelihoods framework is one of a number of conceptual frameworks that take an asset/vulnerability approach to the analysis of poor people's livelihoods.[10] It defines five types of asset: human capital, social capital, natural capital, physical capital and financial capital that are influenced by a particular vulnerability context, including shocks, trends and seasonality. It depicts a set of policies, institutions and processes that influence and are influenced by people's livelihood strategies. Based on the various interactions, the framework delineates a set of desirable livelihood outcomes, which include increased income and well being, reduced vulnerability, improved food security and a more sustainable use of the natural resource base.

A livelihoods approach to analysing trade liberalisation draws attention to the context-specific *assets, vulnerabilities and capabilities* of particular groups of poor people to take advantage of trade liberalisation, and to the *institutions, processes and accompanying policies* which are favourable to success in the market. The analysis of people's assets and vulnerability provides a starting point to assess the opportunities and risks of trade liberalisation for different groups in particular contexts and the analysis of institutions and processes provides an understanding, at least at the local level, of both market and non-market factors which affect poverty outcomes. Non-income outcomes such as food security and the sustainable use of natural resources are given importance. The growth of exports, which may be seen as a desirable outcome from an economic perspective, can entail costs in terms of household level food security, environmental degradation and resource depletion, which need to be taken account from a wider poverty perspective.

The livelihoods approach has been used to structure micro-level studies and to assist programme and project planning. However, there remains a wide gap between bottom-up livelihoods analysis and top-down policy analysis, with the former being too context-specific to guide policy making and the latter being too highly aggregated to reflect the complexity of livelihoods (Norton and Foster 2001; Shankland 2000). In order to explore the complexities of trade and poverty linkages, the next section examines the effects of agricultural trade liberalisation on smallholder farmers, who represent a large proportion of the poor in SSA.

4 Agricultural trade liberalisation and the livelihoods of smallholder farmers

In SSA, in particular, the small-scale agricultural sector accounts for more staple food production and more employment than large commercial concerns. Areas of smallholder agriculture are also areas where

[10] Other agencies, such as CARE, Oxfam and UNDP also use a livelihoods approach. A useful overview is provided by Carney *et al.* (1999). The assets/vulnerability approach is also reflected in parts of the World Development Report of 2000/2001 and in the Bank's recent work on social protection (see Holzmann and Jorgensen 1998; and World Bank 2001).

the majority of the population, usually estimated at between 60 per cent and 90 per cent, are poor or very poor (Whitehead and Kabeer 2001).

Structural adjustment led to a significant emphasis on free trade and export specialisation based on a country's perceived "comparative advantage". This has been the basis of much trade liberalisation over the past decade, reinforcing the focus on primary commodity and agricultural specialisation and exports, especially amongst poorer developing countries since the 1980s. Proponents of liberalisation argue that dismantling protectionism, such as tariff barriers or quotas, in this sector will increase access to domestic and international markets, increase producer prices and redress urban bias, since controlled prices often benefit urban consumers. Freer trade should increase global demand for developing country exports with relatively large inputs of unskilled labour, increasing employment, raising wages and reducing income poverty.

Important shifts are taking place in the global structure of demand for agricultural goods, including industrial country demand for tropical fruits and vegetables (see example in Box 5.2). While farmers in some regions and countries have adapted fast to take advantage of these opportunities, the capacity to adapt and compete (and the welfare of those who do not) is of particular concern in SSA. This has been characterised from an economic perspective as a weak supply response to liberalisation. Africa's exports have grown at less than half the rate of other developing countries (G8 Genoa Summit 2001) and its share in world exports has declined.

At an international level, "free" trade in the agricultural sector has not been achieved and there is extensive continued protectionism in OECD countries. In many SSA countries, too, liberalisation has been partial. Although the trade-related causes of the situation may be disputed (too much or too little liberalisation), there is consensus that small-scale agriculture and rural development, particularly in SSA, is in a troubled state, as evidenced by high levels of poverty in rural areas and declining flows of investment (private and public) to this sector, with the situation worsened by environmental degradation (Killick 2001; Oxfam 2000).

Detailed case studies have shown recent increases in the extent of livelihood diversification. Rural livelihoods are ever more dependent on a variety of sources: small-scale farming, agricultural labouring, petty trading and service provision, migration and remittances (Bryceson 1999; Francis 2000).[11] Francis argues that the aggregate result of diversification is to reduce still further the growth potential of African economies because it takes energy and resources away from any particular activity and reduces willingness to innovate. However, diversification into several income sources can be seen as a major strategy to decrease vulnerability, by allowing households to spread the risks they face. As Whitehead and Kabeer (2001) argue, maximising the marketed output of a particular crop, as economic efficiency arguments may assume, is not always the priority. Food security may be prioritised over maximising income and/or longer-term security and the possibility of accumulation.

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11 Income diversification has also taken place in urban poor populations with income deriving from a variety of sources including trade, services, manufacturing and agriculture. (For an overview see Beall and Kanji (1998) and Tacoli and Satterthwaite (1999)).

Critics of liberalisation argue that small-scale farmers, particularly in SSA, are ill-placed to withstand competition: they have limited land, limited access to technologies and market information that would allow them to comply with the stringent quality specifications which increasingly apply to agricultural trade or to respond to shifts in external demand. Many are faced with high transport and input costs, which also reduces their ability to compete, nor do they have access to credit and other financial services. Poor roads and infrastructure in SSA compound the difficulties of market access.

In some contexts, liberalisation has meant that government marketing boards ceased to exist very suddenly with nothing to replace them. Where the private sector is still weak, a few traders or companies hold monopolies and farmers lack bargaining power on the prices they receive for their goods. In a more general sense, poorly developed markets may not deliver the consumption goods that poor households need, particularly in more isolated areas. In these contexts, markets represent sources of uncertainty that increase the risks which poor households face.

Price incentives, triggered by trade liberalisation, may be inadequate to promote pro-poor rural development if other conditions of high risk, low productivity and low assets are not addressed. This is illustrated by a study in Mozambique (Box 4.1).

Box 4.1 Agricultural supply response and poverty in Mozambique

Mozambique, one of the poorest countries in the world, is at a relatively early stage of commercialisation, population density is only around 20 per sq. km and social and physical infrastructure is totally inadequate as a consequence of colonial heritage, war and policy failure. Market segmentation is widespread and the large peasant population is poorly integrated into food markets. Agricultural production systems are characterised by labour-intensive and low-productivity farming methods. Problems of poverty, food insecurity and aid dependence are widespread, even by SSA standards.

The most important commercial crops are basic food crops, such as maize, beans, cassava and rice followed by cash crops, mainly groundnuts and cotton. Heltburg and Tarp (2001) identify the key causal factors behind farmers' marketing decisions using data from the national, representative 1996/97 living standards survey. The study used the Heckman or switching regression framework to model a two-step decision-making process: whether to participate in the market and how much to market. The key importance of non-price factors such as technology, transport infrastructure, farm environment and area characteristics emerged clearly. The price of maize, the most important food crop, does not have any significant effect on sales. The mean price of groundnuts, the most important cash crop, has a significant effect on the quantity of total sales, while other parameters for groundnut price are not significant.

The marginal effects for the poor are not substantially different from those of the non-poor, suggesting that difference in assets and area characteristics are more important than differences in underlying behaviour. It is primarily farmers who are well endowed with agricultural capital and land who commercialise. Ownership of radio, TV or telephone has a significant positive effect on food crop market participation while education of the household head and district population density are not significant.

To achieve pro-poor rural growth, improved agricultural technology, access to markets, better risk management and expansion of physical and human capital appear to be crucial, along with appropriate price signals.

Source: Heltberg and Tarp (2001).

Gender disaggregated analyses of rural smallholder households point to women's even more limited access to a range of assets than men. Labour, good and credit markets are often biased against women and do not function in a neutral way through neutral organisations and services. For example, Wold's study in Zambia shows how women farmers are less able to use new market opportunities due to a combination of intra-household inequalities and biases in wider institutions (Wold 1997). Gendered economic and social analysis has much to contribute to trade debates and we will return to this when we suggest combined approaches in Section Five.

A range of agencies and researchers (Bryceson 2000; Ellis and Seeley 2001; Oxfam 2000) argue that since it is inconceivable in the foreseeable future that cities or commercial agriculture can offer employment to vast numbers of poor people in the countryside, attention to and support for small scale agriculture is essential for progress on development targets for poverty reduction. It follows that a wide range of national policies favouring small farms and related rural industries (the non-farm economy) are needed for rural poverty reduction, for coping with domestic and international competition in the home market and for taking advantage of export opportunities.

4.1 Implications of contextual assessment for approaches to trade and poverty

This more contextual assessment of the linkages between trade liberalisation and poverty, for one large group of poor people in SSA, provides a number of insights into the links between trade and poverty and the need to integrate a livelihoods perspective:

- ***First,*** it shows that an asset/vulnerability analysis is critical in the decisions that poor people make to specialise or diversify their livelihood sources. Trade theory emphasises increased specialisation whereas diversification may be the more appropriate response of poor people to reduce risk and vulnerability and increase their security. A wider livelihoods perspective is therefore important in understanding unexpected outcomes, from an economics perspective, of trade liberalisation.

- ***Secondly,*** the impact of trade liberalisation on poverty is going to be determined by the implementation of a range of policies, particularly in the SSA context, where markets are weak and segmented.[12] Contextual assessments show that it is difficult to isolate the effects of trade liberalisation, and effects on poverty (income and non-income related) are likely to be influenced by a range of policies.

[12] These are not simply shorter-term compensatory policies for the losers of trade liberalisation. The high incidence of poverty, the large numbers of potential beneficiaries (and therefore high financial requirements) as well as the weaknesses of institutions to deliver compensation, hinder the effectiveness and sustainability of safety nets.

- ***Thirdly,*** markets and institutions reflect the interests of more powerful groups (e.g. traders) that may work against poor and marginalised groups. Although focusing at the international level, a DFID document points out that 'an unfettered global market can fail the poor just as much as protectionism can' (DFID 2001b: 10). It is also difficult to see how trade reform in Africa, where agriculture is so important, can be pro-poor without corresponding reforms in agriculture in the North.

5 Contributions to a more integrated approach to trade and poverty

What we see from separate examination of the more universal economic and more context-specific livelihoods approaches is that both take advances towards each other's perspectives, yet neither ultimately straddles the gap that divides their analytical terrain. McCulloch *et al.* (2001) take an important step in bridging the gap between the economic and wider socio-economic perspectives.[13] However, the integration of a range of assets and of vulnerability into their framework is constrained by their focus on income and consumption alone. Sustainable livelihoods provides rich analysis of the former, and has moved in the direction of exploring macro linkages from micro livelihoods, but its analysis of markets remains limited. Neither approach is adequate by itself and an important gap remains in the analysis of the linkages between trade and poverty.

Alternative approaches are being developed around different aspects of the linkages that are beginning to bridge the divide between economic and social analysis, between market and non-market factors and between local, national and international levels. These are around specific areas of:

(i) global value chains,
(ii) gendered economic and social analysis,
(iii) environment and sustainable trade which we will now explore.

Each approach has largely been developed separately, but each in different ways makes a contribution to enhancing our understanding of the relationship between trade and poverty by integrating more macro, meso and micro level perspectives.

5.1 Global value chains

Global value chain (GVC) analysis has its origins in industrial sociology and new institutional economics.[14] It focuses on transactions between firms operating within the supply chain, and how relations between buyers and sellers are based on more established supply networks that constitute the value chain.[15] It takes

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13 Evans (2001) explores bridging the gap between general equilibrium models and country case studies using the GTAP dataset for scenario calculations and a common sectoral classifications. He notes, however, that further work is needed to develop a bottom up approach to trade and poverty analysis.

14 For a review of the relevance of New Institutional Economics to development see: Bardhan (1989); and Harriss *et al.* (1995).

15 Gereffi originally developed this approach based on an analysis of global commodity chains. See Gereffi (1994).

a different perspective to standard trade theory on the nature of trading relations. Orthodox trade theory works from the assumptions of free markets, in which buyers and sellers in different markets meet each other as independent agents, in which no single buyer or seller has a monopoly. New trade theories have modified some of these assumptions to take account of intra-firm trade, and market imperfections, but continue to use adaptations of the free market model.

Value chain analysis focuses on the increased integration and control of commercial and trade relations between inter-connected firms within a sector that remain formally independent of each other. It describes the full range of activities required to bring a product from conception, through the different phases of production to final delivery to the consumer (Kaplinsky 2000; Kaplinsky and Morris 2001). The networks of producers and firms can vary between tightly knit and integrated supply chains, to loosely coordinated and fragmented chains. The supply relationships between firms are governed by more dominant buyers at different points along the chain. The specific functioning of the chain allows certain (especially dominant) firms to "upgrade" and acquire economic rents. In global value chains large overseas buyers often play the most dominant role, and are able to acquire higher economic rents. The analysis is usually used for global chains but can also apply to domestic chains. An example of a global and a domestic value chain in the Kenyan garment sector is given in Box 5.1. Although they involve separate firms, governance within the chain allows buyers to directly influence production activities, including the types of good produced, the timing and quantity of supply and the standards that suppliers have to observe in terms of their production processes and product quality.

In complex global markets, whether or not local producers can gain access to global value chains, and at what point they can gain access is likely to be an important factor in whether they are able to benefit from trade liberalisation. This will depend on a number of factors beyond the competitiveness of an individual producer. These will include the supply networks that operate locally, their connections to wider value chains and the forms of governance within those chains, the opportunities available to upgrade and enhance economic rents, and whether producers are able to adapt to the specific requirements and standards of those value chains.

Global value chain analysis is now being extended as one means of analysing poverty connected to the global economy. It can help:

- To acquire information on a sectoral and cross-sectoral basis about the nature of supply chains, and what is needed to upgrade and access the networks necessary to enter these supply chains and benefit from trade liberalisation.

- To identify private sector standards existing within GVCs. These now cover a range of issues including food safety, management systems, the environment and employment conditions (Barrientos *et al.* 2001; Nadvi and Waltring 2001). Understanding their requirements is important for compliance and up-grading in order to access many export markets.

- To identify different forms of employment, subcontracting and homeworking that operate at different points along the value chain. This can include the use of casual labour, seasonal labour, migrant workers, smallholders, family labour and home workers.[16] These groups are often exposed to poverty, and are vulnerable to changes in GVCs as well as trade reform.

- To understand the relationship between small and medium enterprises (SMEs) and small-holders in networks linking up to large global buyers (Dolan and Humphrey 2000; Kaplinsky 2000), and the effect of trade reform on smallholders given the operation of GVCs. This is an area that could be developed further, not only to assess how SMEs and small holders are included, but also excluded from value chains, with important poverty implications (see Box 5.2).

- To analyse how risk and uncertainty is passed along value chains, with dominant firms offsetting risks onto weaker firms (especially smallholders), which affects the employment strategies they adopt and increases the vulnerability and risks of those linked to value chains (Barrientos 2001). This type of analysis could play an important part in understanding how trade affects not only incomes but livelihood strategies of producers, small holders and workers linked to particular export and domestic sectors.

- To explore new policy levers involving different stakeholders linked to value chains (including private sector and civil society actors) that could improve labour and environmental standards and social protection, enhancing the livelihoods of the poor linked to the global economy.

The GVC approach does not displace economic analysis of price determination (Wood 2001), but complements it by examining transactions based on a more integrated set of supply relationships between firms and final consumers than price alone. It can be used for more detailed exploration of the linkages between trade and poverty, and helps to fill out the "enterprise channel" identified in the McCulloch and Winters' framework. GVC analysis is limited to a sectoral analysis of any particular chain and its offshoots, but it could play an important role in examining trade and poverty linkages in countries in SSA with a high dependence on a few primary product exports, that themselves feed into high value added chains externally.[17]

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16 Research is currently being undertaken on this by WIEGO and the DFID/SSR Globalisation and Poverty Programme. See their websites www.wiego.org and www.gapresearch.org

17 The approach is fairly new, but two important handbooks and a paper have been produced which provide detailed guidance on how to undertake value chain mapping, and draw out the connections to smaller producers and informal economy workers, which would benefit policy analysts undertaking this exercise. See: Barrientos (2001); and Schmitz and McCormick (2002).

Box 5.1 Value chains in the Kenyan garment sector

An idealised value chain examines the linkages between:

Stage	Export V.C.1	Domestic V.C.2
Design	US Importer	Kenyan
Supply	E, S Asian	Kenyan
Production	Kenyan	Kenyan
Distribution	US Importer	Kenyan

Value Chain 1 (V.C.1) consists of three exporting firms that are inserted into a global value chain for garments. These producers take advantage of special concessions granted by the Kenyan government to encourage exports. Two of the firms are Export Processing Zone (EPZ) producers, and the third Manufacturing Under Bond (MUB). These firms mostly make shirts, shorts, trousers and occasionally simple cotton dresses. They tend to be large, with between 500 and 2,000 workers each, but production is the only function carried out in Kenya. Designs come from the US importer, the local firm then makes and grades the patterns. The importer also sources fabric and most other inputs from Asia and has them shipped directly to the Kenyan producer. The main items bought in Kenya are packaging materials.

Value Chain 2 (V.C.2) is the domestic knitted-shirt chain. The products include T-shirts, polo shirts and sweat shirts. Some are plain others screen printed or embroidered. They are made both in sewing units attached to knitting mills and in separate manufacturing facilities. In some cases the screen printing is done by a different firm. All producers use fabric made in Kenyan knitting mills of cotton grown mainly in Tanzania and/or Uganda. Distribution is either directly to companies ordering shirts, or to wholesalers and retailers.

V.C.1 is production for export, and V.C.2 for the domestic market. However, domestic producers have faced a major problem of competition from the import of second-hand and new clothes. In this case study respondents agreed that second hand clothes benefit the poor, and do not advocate banning them, but argued that their importation should be controlled. More damaging, in their view, are the imports of new clothes, some in the suitcases of small traders who travel to Dubai. In other cases, whole container loads are brought in by well-connected individuals. Rejected shipments of items produced for export can also find their way onto the Kenyan market. Duty free items are then sold at prices below the statutory duty and well below the cost of producing a comparable Kenyan product. The situation is aggravated by the Kenya Bureau of Standards' (KBS) double standards. KBS enforces its labelling requirements, including country of manufacture, on Kenyan goods, but not on imported items.

Excerpts from: McCormick (2001)

Box 5.2 Horticulture value chain and smallholders in Kenya

Kenya and Zimbabwe are important suppliers of fresh vegetables to UK supermarkets on a year round basis. Value chain analysis helps to understand the ways in which supermarkets are increasingly using their dominant position as buyers to control production, innovation, quality and standards within this chain, leading to changes in the supply base.

There is clear evidence from Kenya there is a decline in smallholder production. In 1992, close to 75% of fruit and vegetables in Kenya were grown by smallholders. By 1998, four of the largest exporters in Kenya sourced only 18% of produce from smallholders, and it is unclear what portion of this output was destined for supermarket shelves. There is also evidence of vertical integration by exporters, with several acquiring their own growing capacity.

Smallholders face logistical problems, which means that they are unable to maintain the quality required for UK supermarkets. The types of standards exporters have to meet are:

- Consistency across production units and through the season
- Maintaining post harvest quality requiring local cold storage facilities
- Ensuring compliance with health and safety requirements,
- Ensuring compliance with ethical trade with respect to labour conditions
- Communicating product or growing innovations to all producers

Two of Africa's largest horticulture exporters have shown that smaller producers can meet these standards if the exporter assumes responsibility for organising growers, arranging finance, providing technical support and ensuring traceability. However, UK supermarkets remain wary of sourcing from small farmers, as failure to meet safety or ethical standards could result in bad publicity and undermine their market position. Because of this, supermarkets believe that concentrating their grower base will reduce their exposure to risk by giving them greater control over the production and distribution processes.

Excerpts from: Dolan and Humphrey (2000)

5.2 Gender, trade and poverty

Gender analysis is a field where interconnections between "market" and "non-market", "economic" and "social" have been developed over a long period of time, which is of particular importance in developing alternative frameworks on trade and poverty. There is a wide literature on gender and poverty, partly because oft quoted statistics highlighted a greater incidence of poverty experienced by women, and also because much analysis of poverty takes a social perspective that has an empathy with gender issues (Baden with Milward 1995; Cagatay 1998; Jackson 1996; Kabeer 1997, 2000; Razavi 2000; Whitehead and Kabeer 2001). Gender analysis encourages a broader conception of poverty, which transcends material deprivation based on income and consumption measures, and involves an analysis of social relations, power and entitlements.

Gender has featured little in work on trade analysis or policy by multi-lateral organisations, especially the WTO, which is clearly the most important organisation in the trade field.[18] There is a significant

[18] Important exceptions to this are publications by: UNCTAD (1999); UNIFEM (Joekes and Weston 1994); and a BRIDGE Report for DFID (Fontana *et al.* 1998).

academic literature on gender and trade, but it is far more limited than that on poverty (BRIDGE 2001; Fontana and Wood 2000; Fontana et al. 1998; Grown, Elson and Cagatay 2000; Hale 1998; Joekes and Weston 1994).[19] The influence of this literature tends to remain marginal to mainstream debates on trade analysis or policy. This is partly because trade is largely seen as a "technical" issue divorced from more "social" gender issues, and partly because trade analysis is largely dominated by an economic approach that assumes trade is "gender neutral". Exploring trade, and the linkages between trade and poverty, from a gender perspective necessitates a direct challenge to this view.

A gendered economy approach starts from the premise that the "economy" as defined by mainstream economists provides at best only a partial analysis of reality. Economics focuses on the monetarised commodity or productive economy, but fails to analyse the non-monetarised reproductive economy. Productive activity involves the production of goods and services that enter the market at a price. Reproductive activities are usually undertaken at the level of the household, and involve domestic work, water and fuel collection, food preparation, cooking, cleaning, care of children, elderly and sick, and (importantly for developing countries) household production that is for direct subsistence and not the market. Economic (and trade) analysis prioritises the former, largely ignoring the latter. From a gender perspective, neither the productive nor the reproductive economy is a "gender neutral" terrain. They are both socially constructed on the basis of a gender division of labour, which assigns primacy of men in productive and women in reproductive activities. The inter-relation between these two activities is particularly important in SSA given the high predominance of household and smallholder based economic activity.

Extensive conceptual and empirical work has been carried out to show that the household is not an undifferentiated utility optimising unit. Nor does it have a joint welfare function in which equitable or rational distribution among members is guaranteed on the basis of family altruism, by a (usually male) household head (Folbre 1986; Kabeer 1994; Kandiyoti 1998; Sen 1990). At the household level, gender inequalities in the division of labour which act as barriers to efficient reallocations (from an economic perspective) have been highlighted by studies on the gendered impact of structural adjustment (Afshar and Dennis 1992; Kanji 1995; Moser 1996).

In order to develop analysis of the linkages of trade and poverty, we have highlighted the need to explore the connections between the macro and micro levels, and to draw out the ways in which these linkages are mediated. Gender analysts have emphasised that the strategic behaviour of individuals within households must be linked to wider social processes, institutions and power structures. Even where formal equality before the law exists, public services and markets operate according to rules and norms, which afford different access to women and men (Goetz 1997). Elson *et al.* (1997) have developed a

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19 There is an extensive literature on gender and employment in export industries, and on gender and structural adjustment, that it is beyond the scope of this review to cover. This includes analysis of trade liberalisation in conjunction with the wider range of policies that constitute adjustment, and its gender implications. See for example: Afshar and Dennis (1992); and Elson (1991).

framework of the economy as a gendered structure, which links the macro and the micro through meso level institutions which include public services and markets, and which disaggregates each level by gender.

Box 5.3 The economy as a gendered structure

Macro-aggregates

Market-oriented Economy AND Domestic Economy
System of National Accounts: Satellite Account or
GNP Time Budget
Gender Divisions in Paid Employment and Unpaid Time Use
- Male-labour intensive sectors
- Female-labour intensive sectors

↓ ↑

Meso – Linkages – Institutions

Public services Markets
Gendered laws, norms, rules, systems
Gender-differentiated entitlements and access
Gender-based price distortions and institutional biases

↓ ↑

Micro – Agents

Men and women, boys and girls, in households and firms
Production AND Domestic Reproduction
(paid work) (unpaid work)
Gender Divisions in Roles, Responsibilities and Power

Source: Elson et al. 1997.

An important aspect of their framework is that the macro level influences, are influenced by the micro level and meso levels. Particularly relevant for trade liberalisation, a gendered approach highlights the weakness of the assumption that labour can and will be reallocated from non-tradables to "tradables" and that no structural or cultural barriers exist, either at the level of the household or in mediating institutions.

Elson and Evers' work on structural adjustment highlights the gender bias that exists within financial, labour and goods markets, which act as barriers to take up opportunities afforded by trade liberalisation (Elson and Evers 1996; Elson 1991). With particular reference to SSA, these include:

- *Financial markets* tend to discriminate against women, with requirements for collateral and in some contexts, male signatories. Despite the introduction of special credit schemes for women, disparities in credit allocation remain high.

- *Labour markets* tend to be segmented with women's participation in both formal and more informal activities confined to particular areas, usually the less lucrative. In the informal end of employment, women tend to be concentrated in the easy entry, smaller enterprise, low start up costs and low returns end of the market. In the agricultural labour force, women tend to be categorised as 'unpaid family workers' rather than 'self employed' which implies that women's labour is treated as a free good rather than a scarce resource.

- *Goods markets*. Tradables tend to refer to exports, rather locally traded goods and services where women may be more engaged. Men tend to control mechanised means of transport, have greater access to market information and despite women's labour inputs, in some contexts they control the cash for export crops.

A micro and meso level analysis of households, markets and public services which focuses on social relations, inclusion and exclusion can usefully be combined with the sector specific analysis which McCulloch and Winters propose. As Whitehead (2001) argues, Winters' understanding of the household draws mainly on micro-economic modelling of household behaviour and although it is an advance in that it takes into account subsistence production, it does not provide an understanding of gendered reproductive roles and how the positioning of women and men affects their supply responses to trade liberalisation. She argues that the channels identified by Winters are not gender neutral, but reflect embedded gender inequalities in the institutions that affect the mediation between trade and poverty. She focuses particularly on the way in which price effects and employment effects work their way through institutions such as the household, enterprises and markets in gendered ways. This analysis has implications for policies which are needed to address gender imbalances, such as increasing women's access to credit, access to information and to infrastructure to participate in both local as well as export markets, directly addressing the poverty effects of trade liberalisation (Whitehead 2001).

5.3 Environment and sustainable trade[20]

The linkages between international trade and the environment have stimulated an important debate not only among academics and policy makers, but also within the media and civil society. The ascent in the public consciousness of the WTO and its mandate to further liberalisation has opened up space for discourse challenging the conventional view that 'liberalising trade helps ensure that resources are used efficiently, and also helps to generate the wealth necessary for environmental improvement, the spread of cleaner technology and for environmental goods and services' (DFID 2001a). Critics of this view argue that increased trade often comes at the cost of increased consumption of natural resources and reduced control by stakeholders over their local environment.

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[20] This section is written by Tom Fox, IIED.

Debates concerning the environmental impact of trade reform at the national level have been less politicised. It is generally accepted that trade can have both positive and negative impacts on the environment, and that the impact of trade liberalisation therefore also has mixed results. The application of strategic environmental assessment methods to trade policy issues emerged in the early 1990s. OECD (1994) describes a framework for conducting environmental reviews of trade-related measures, which has heavily influenced subsequent work. The proposed methodology starts with the identification of base-line conditions and the subsequent use of forecasting models, scenario assessment and case studies to identify the trade and environment linkages and estimate changes within this methodology.

According to the OECD Framework, the environmental effects of trade policy changes can be classified and analysed separately (see Box 5.4, which outlines a modified version of this framework). Case studies were developed which applied this framework to analyse the possible environmental impacts of trade liberalisation in various sectors (agriculture, transport, wildlife and endangered species, fisheries and forestry). These found the direct effects of trade to be both positive and negative, and the indirect environmental effects were suggested to be more significant, but more difficult to identify and isolate from other contributing factors (OECD 1994).[21]

Box 5.4 OECD Framework[22]

The OECD Framework allows analysis of the net impact on the environment of increased trade volumes, depending on the aggregate outcome of the following effects:

Scale effects: enhanced growth may lead to a reduction in poverty-driven environmental degradation and increased environmental regulation as income rises, but also increased resource depletion and emissions of many pollutants such as greenhouse gases as there is generally a failure to incorporate environmental externalities.

Structural effects: as economies develop, the shift from primary resource extraction through processing to manufacturing and then services may lead to a reduction in pollution output and resource use.

Technology effects: greater access to new technologies, which tend to produce less pollution and use fewer resources.

Product effects: changes in the mixes of goods produced and consumed and in production methods, which can be positive or negative for the environment.

Distribution effects: shifts in production and consumption between countries, which are promoted and accelerated by trade liberalisation.

The overall net impact of these individual changes in trade on the environment depends entirely on specific circumstances. In general it is likely that any positive technology and structural effects of trade

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21 For a comprehensive overview of subsequent developments of this OECD methodology see Kirkpatrick *et al.* (1999).

22 For an expansion of this framework and commentary, see Brack (2000).

liberalisation will be smaller than the large negative scale effects. The key determinant is the effectiveness of environmental policy frameworks, which have the potential to offset the negative environmental impacts (Brack 2000). The argument that increased trade leads to a more efficient allocation of resources is only valid if environmental resources and services are fully priced, governed by well-defined property rights and hence valued and traded at their real cost. In reality, this is often not the case (see Box 5.5). A review of literature on "win-win" trade and environment scenarios in developing countries concludes that 'in real world situations, both losers and gainers should be expected. ' "Win-win" outcomes may be potentially realizable but, whether this is achieved in practice, may depend on the nature and extent of the flanking and other supporting measures which are taken and the context in which they are applied' (Kirkpatrick and Lee 2001).

The usefulness of the OECD methodology is limited by its general nature, and its failure to incorporate the developmental impacts of trade measures. Building on the OECD framework is a growing body of literature on more holistic methodologies, which relate not simply to trade and environment, but to trade and sustainable development.[23] These include Integrated Assessment (IA) and Sustainability Impact Assessment (SIA) and attempt to cover economic, environmental and social impacts. In the context of this paper, it is notable that it is often argued that reducing poverty has environmental benefits, by reducing poverty-driven environmental degradation, and also that livelihoods in SSA often crucially depend on the natural resource base. Policy coherence through linking otherwise separate economic, social and environmental assessments is therefore particularly desirable when considering trade reform in sub-Saharan countries.

Box 5.5 UNEP country projects[24]

UNEP is supporting a number of developing countries to carry out systematic integrated assessment of the impacts of globalisation and related trade liberalisation policies and multilateral trade rules on the environment and the use of natural resources. The country studies cover a wide range of natural resource-based sectors which are closely linked to international trade and have included Nigeria (cocoa and rubber), Senegal and Uganda (fisheries), Tanzania (forestry). The country studies demonstrate that in the absence of appropriate environmental measures, the benefits from trade liberalisation can be dissipated through environmental impacts. For example, in Tanzania, while the benefits from timber exports amount to almost US$80m, the negative environmental impacts – loss in soil fertility, decline in forest productivity, increased rate of deforestation, etc. – amount to US$80.5m, thus dissipating all the benefits stemming from timber exports from the country.[25]

The concept of sustainable trade (see Box 5.6) has been adopted both in the environmental community[26] and among policy makers,[27] although instruments for achieving sustainable trade are still some way off.

23 For an introduction to this literature see Lee and Kirkpatrick (2000).
24 Further details available at www.unep.ch/etu
25 Cited in WWF (2001a).
26 See for example the endorsement of this definition by the WWF European Policy Office (WWF 2001b).
27 See for example European Commission (2001).

Box 5.6: Sustainable Trade[28]

Sustainable trade takes place when the international exchange of goods and services yields positive social, economic and environmental benefits, reflecting the four core criteria of sustainable development:

1. it generates economic value;
2. it reduces poverty and inequality;
3. it regenerates the environmental resource base; and
4. it is carried out within an open and accountable system of governance.

Significantly, the European Union has undertaken to carry out a Sustainability Impact Assessment (SIA) of the new round of trade negotiations at the WTO, and is supporting the development of a methodology for this purpose.[29] The SIA framework developed for the EU undertakes a basic screening procedure to identify potential multilateral trade agreements or measures that are in conflict with environmental, developmental and social objectives, and proposes flanking measures to mitigate negative and enhance positive sustainable development outcomes.

The SIA methodology is primarily intended for analysis of the potential impacts of multilateral trade negotiations rather than country-level, sector-specific or more differentiated analysis. However, it is suggested that it 'has other potential uses if adapted for other purposes. Some individual countries may wish to adapt the proposed methodology and use it to assess the likely impacts of WTO and regional trade negotiations on their own economic, environmental and social situation' (Kirkpatrick *et al.* 2002). There is broad agreement that SIA should be country-led and flexible enough to be adapted to local conditions, needs and priorities (Arden-Clarke 2000).

As it stands, SIA does not offer an established methodology for the integrated assessment of trade reform for sub-Saharan countries. Rather, it may be seen as part of a flexible range of methodologies from which the most appropriate ones can be selected by policy makers.[30] However, the development of a framework from the earlier narrow focus on the environmental impacts of trade to one that also incorporates social and economic impacts is a significant step towards a more integrated approach to trade and poverty. Crucially, it is recognised that an open, transparent and informed multi-stakeholder process, allowing for a sharing of perspectives, expertise and experience, is crucial to effective and accurate assessment, the development of the assessment tool itself, and its subsequent application (Arden-Clarke 2000).

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28 Robins and Roberts (2000).

29 For details see: Kirkpatrick *et al.* (1999); and other documents available at http://idpm/man.ac.uk/sia-trade

30 Building on its country studies, UNEP has published a reference manual on integrated assessment which is intended to provide a menu of options for policy makers. See UNEP (2001).

6 Operational and policy implications

6.1 The need for combined approaches

No single approach can provide all the information and insights to inform policy on the linkages between trade, poverty and livelihoods and a combination of approaches and methods are therefore needed. The complexity and inter-relationship of factors to be assessed imply that an overarching framework is likely to be too complex and unwieldy to be of real operational use. Instead, it may be better to provide policy makers with a range of approaches and tools on which they can draw. The extent to which different perspectives will be used, and how they can usefully be combined, will depend on the specific country context, and the particular focus of its policy makers. Combined approaches can contribute different perspectives on the effect of trade reform on poverty viewed as a complex and multi-dimensional phenomenon.

Macro-economic models assess aggregate effects of trade reform on poverty, but do not sufficiently differentiate effects on specific groups. An important step to designing pro-poor trade reform must be a better understanding of both *who* the poor are and *where* they are in relation to the trading patterns of any particular country. Poverty assessments, including participatory work, provide a wealth of data to identify groups of poor people, the causes and consequences of their poverty. These studies, along with location specific livelihoods analysis, using participatory methods, provide essential information on how particular groups make their living, their access to markets and to public services and the constraints they face to improve their living standards. The combination of approaches linking trade and poverty we have examined can enhance more complex analysis of the connections between trade reform and poorer groups in different ways:

- McCulloch and Winters framework begins with trade reforms themselves and asks what the implications are for particular channels of enterprises, border prices of goods and government policies. They also consider the effect on households in general, but do not disaggregate the complexities of trade reform at a micro livelihoods level. Identifying the channels helps national level policy makers to identify the key directions of macro trade reform towards the meso and micro levels, but the complexity has to be understood through other approaches.

- The GVC approach provides a complement to the market-based framework of McCulloch and Winters, detailing the sectoral linkages between macro and micro levels of trade. It can help to identify specific groups within a value chain and how they are likely to be affected by a specific trade reform. This can include small producers and small holders (domestic and export), formal and informal groups of workers, migrant and seasonal workers, as well as family labour (paid and unpaid), all of whom can be traced further down the chain. Through identification of stakeholders and new policy levers linked to the chain, more concrete ways can be found to increase the participation of these groups in the trade/poverty policy dialogue at a meso and micro level.

- A gender economy approach helps to disaggregate a market-based framework by examining how the different channels linking the macro and micro levels, as well as households at the micro level, embody gender inequalities that affect the responses of men and women to trade reform with gender differentiated consequences for poverty. It can help to identify different groups of women and men at the macro, meso and micro levels, and across sectors. Through this attention can be paid in the policy dialogue to ensuring greater gender equity in participation at all levels by both women and men, and to developing policies that address gender inequity in trade reform and poverty.

- The analysis of environmental impacts of trade reform allows a costing of impacts that are often left out of the equation by both economic and social analysts. Sustainability Impact Assessment, as it develops, may begin to make more explicit the links with social and income impacts. An environmental approach can help to identify stakeholders who will bring environmental concerns to the table, ensure their participation in policy dialogue at macro, meso and micro levels, and help develop policies that address the longer term sustainability of trade reform and poverty reduction.

Overall, these approaches provide important insights into how a more integrated socio-economic perspective can be incorporated into the analysis of trade reform. They also show how different aspects of the complex linkages between macro, meso and micro levels can be assessed in specific country contexts, enabling trade reforms to be developed in a pro-poor way, rather than a poverty perspective being an add-on to trade liberalisation.

6.2 Inclusive policy processes

Current approaches to policy development and implementation now pay much more attention to the need for the participation of a wide range of stakeholders, including those who will be directly affected by policy measures. This is exemplified by the inclusion of a wide range of groups in the formulation of Poverty Reduction Strategy Papers (PRSPs) [31]. Although this process is meant to yield a comprehensive cross-sectoral national strategy to reduce poverty, trade issues are barely addressed in PRSPs, and the voices of the poor are rarely heard in trade policy debates.

Increasing dialogue between different groups on trade policy reform is essential to begin to bridge the divide between economic, model-based, universal perspectives and wider socio-economic, context-specific perspectives that have been reviewed in this paper. The differences in perspective are highlighted by the following example, taken from a report of the SAPRIN (Structural Adjustment Participatory Review Initiative Network) forum to discuss the effects of agricultural sector liberalisation in Uganda.

The discussion between official government and civil society representatives illustrates the way in which the former are guided by aggregate gains in output (growth) while the latter are concerned with the

[31] The production of a PRSP is a key requirement for low-income countries and is a gateway to access HIPC debt relief, concessional IMF support and a factor in IDA and bilateral support. The aim has been to encourage a locally owned participatory process for formulating and implementing a poverty reduction strategy.

micro-level analysis of factors influencing the impact on smaller farmers (distributional impacts and poverty). A further concern expressed by civil society representatives was the lack of consultation of small producers, particularly women, which would have allowed their views to be heard in the policy reform process.

Box 6.1 Different perspectives on agricultural trade liberalisation in Uganda

Finance Ministry and other official representatives argued that the agricultural sector liberalisation policy package – which included the elimination of price controls, the abolition of marketing boards, the reduction or removal of export taxes, the elimination of import controls, and the liberalisation of interest rates and the capital account – has led to a steady growth in agricultural output (in part through expansion of land under cultivation), including food production, as well as crop diversification and increased food security. They acknowledged, however, that the terms of trade for food producers had fallen, that there have been negative effects at the local, or household, level, and that poor rural physical and financial infrastructure has limited the presumed benefits of liberalisation.

Civil society representatives pointed to other problems associated with the liberalisation of the sector. The government has not consulted local producers in the process of policy formulation, and has instead imposed policies that do not address micro-level dynamics. With the elimination of government extension programmes, farmers have been left ignorant of current world trends and prices for crops, and thus are vulnerable to exploitation by middlemen. This problem is exacerbated by the displacement of small-scale traders, which is reducing competition in the sector. In addition, with the liberalisation of input markets, private traders now play the role of extension workers, advising on the farming methods such as the use of chemicals.

Liberalisation has not turned the terms of trade in favour of agriculture, and relative prices have not improved for producers in spite of increases in farm-gate prices. Instead, agriculture and rural production are heavily taxed through high transport prices, due in part to impassable roads. Petty trading has become a more profitable pursuit, with transport owners profiting from a retail price mark-up in the capital, Kampala, which can reach ten times the farm-gate price. Reduced profitability for agricultural producers contributes in large part to the very high poverty level in villages. As a result, participants in the SAPRI forum said, liberalisation is benefiting urban dwellers but not farmers.

Meanwhile, indigenous subsistence crops, such as millet, are disappearing because of the desire, it was explained, to produce cash crops such as bananas and maize. As a result, despite the government's view that there is an abundance of food, malnutrition is increasing in Uganda, according to civil society participants. Furthermore, since women continue to produce the lower-income crops, it was argued that liberalisation and privatisation have benefited men more than women.

Excerpt from: Madeley (2000: 28–29).

Current efforts to engage previously excluded groups in PRSPs are laudable. However, it has been pointed out that their inclusion implies increasing consensus about what poverty is and the processes that should underlie poverty reduction strategies. Some analysts argue that this apparent consensus obscures still intense debates concerning how poverty should be measured and privileges particular forms of knowledge in the final construction of policy measures (McGee and Brock 2001). A recent review of African PRSPs, from a social policy and sustainable livelihoods perspective (Thin *et al.* 2001) notes that while the analysis of poverty accommodates disaggregation, the pro-poor strategies themselves do not. Another conclusion of this study is that critical engagement between government, civil society and the private sector is yet to develop, and consultations have yet to feed into the political activity of prioritising among a range of options. Similarly, a review covering Malawi, Zambia and Zimbabwe found that the Bank's poverty reduction strategies, ostensibly based on poverty assessments that included participatory assessments (PPAs), tended to pay little attention to the distribution of assets and to issues of material and social inequality which the PPAs highlighted (Tjonneland *et al.* 1998).

This discussion illustrates that although the need for more democratic processes of policy making is increasingly recognised, this is a complex undertaking. How it is undertaken and the time and resources given to such processes of dialogue are important, if initiatives are not to be dismissed as public relations exercises. This is particularly true in SSA, where the institutions and organisations that do represent groups living in poverty do not always have the capacity to engage effectively with more powerful stakeholders. Despite the limitations and risks that have been outlined, more inclusive policy processes do open up new spaces for negotiation and influence for less powerful groups.

The recent global poverty report focusing on globalised markets sees the Poverty Reduction Strategy approach offering 'an opportunity to integrate trade in country-owned poverty reduction strategies and to forge broad consensus around reforms through participatory processes' (G8 Genoa Summit 2001: 14). Any such initiatives to widen the trade policy reform processes have much to learn from a critical assessment of PRSP processes to date. Although we have focused on national processes here, the debates need to take place at every level from the international to the local, since trade reform options and implementation at each level affect the outcomes on poverty at the micro level. Identifying the groups which should be consulted, and ensuring that the voices of women as well as men are heard, is a particular challenge. They may not need to be as extensive as the groups which are consulted within participatory poverty assessments,[32] rather the information from these assessments and from the trade-focused analytic perspectives we have outlined in this review can be used to identify the critical groups from a poverty perspective.

7 Concluding remarks

The economic and livelihoods frameworks each provides the opportunity for moving beyond the limits of its own methodological stance as a means of analysing trade and poverty linkages, yet neither actually straddles the gap that exists between them. Addressing this challenge is particularly important in the case of SSA, where markets themselves are often weak, and where the institutional environment for developing "sound macro-economic policy" often has not been established. Poverty levels in SSA, by all measures, are amongst the highest in the world. SSA is being moved towards increasing trade liberalisation on the

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32 However, it is important to note that gender analysis of recent participatory poverty assessments indicate that even when poor groups are consulted, women's voices continue to be under-represented and/or their concerns not reflected in the resulting recommendations (Whitehead and Lockwood 1999).

basis of aggregate economic analysis of the perceived benefits of this policy. However there is insufficient consideration of the specific problems the region faces, or whether more flexible trade reform could be designed in ways that takes account of the specific context of different countries, and the needs and aspirations of poor groups themselves.

Integrating social and economic, market and non-market factors into an analysis of trade and poverty is an important challenge facing development analysts and practitioners. From an analytical perspective, we have examined three separate approaches that have begun to do this – value chain, gender and sustainable development perspectives. Each of these has been developed within its own sphere of interest, but each provides insights into the more complex interaction between trade and poverty at a macro, meso and micro level. Ongoing and further work can help to develop each of these approaches, and give more consideration of the overlaps between them, and how they can contribute to a more complex understanding of trade and poverty in SSA.

An important point arising from this review is that once we move from the simplified constructs of an aggregate economic approach to an acceptance of the complexities of poverty, then we move away from an analytical approach that attempts to be all-embracing and universal. In reality, poverty is experienced differently in different countries and by different groups, depending on their gender, ethnicity, livelihood base, location and other socio-economic factors. The analysis of trade and poverty needs to encompass this diversity, or it is likely to fail to provide the insights needed to inform policy. Policy approaches to poverty reduction have begun to take a more flexible approach, seeking the involvement of organisations of civil society in policy processes. Whilst this process has its limitations, such a process has not begun in relation to trade reform, since trade is insufficiently integrated into poverty reduction strategies. To be pro poor, trade reform has to become much more sensitive to the interests and needs of the poor, not as determined by high level officials, but by poor groups themselves. This requires both identification of key stakeholder groups, and far greater emphasis on internal democratic processes and the involvement of organisations of civil society from the national through to local level in both the design and implementation of trade reform in any country. Trade reform needs to be adapted both to the context of each particular country, and flexible in addressing the situation of diverse groups of poor people within that country, if it is going to have a more positive role in achieving international development targets for poverty reduction.

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