Trade Policy and Poverty reduction

Lindani B. Ndlovu (PhD)
Lindani.Ndlovu@unctad.org
Division for Africa, LDCs and Special Programmes, UNCTAD

Paper for the 3rd Trapca Trade Policy Research Forum
29TH TO 30TH JULY 2010
Arusha, Tanzania

1. INTRODUCTION

This paper outlines and suggests trade policies that could help in the economic development of least developed countries (LDCs) and improve trade's contribution to poverty reduction. Its aim is to explore how trade policy based on the development approach can improve the performance of the trade sector and its contribution to poverty reduction. The highlight in the development approach to analysing the contribution that trade can make to poverty reduction is the argument for developing productive capacities. The approach analyses the process of development and how it occurs and examines the role of trade in the process. This is the basis of understanding how trade affects poverty. The paper is divided into 5 sections. After this introduction, section 2 outlines poverty issues and the development approach including the emphasis on development of productive capacities as a mechanism bringing the poor into production and trade. Section 3 outlines the suggested policies for consideration to achieve improved participation by the poor and generate growth in the process contributing to reduce poverty. Section 4 outlines challenges that arise from implementing the policies and sections 5 draws conclusions.

The approach to analysing the role of trade in economic development has been contested between international trade theory foundations and growth theory. International trade theory, representing the Neoclassical school, views trade occurring as a result of comparisons of the opportunity cost of producing a product and the cost of importing or exporting it. From this perspective, the issues of efficiency and the principle of comparative advantage underlie the decision to produce or trade. The benefits of trade are general welfare improvement where governments can intervene to effect distribution compensating the disadvantaged with a view to improving welfare. These principles have been applied and dominated the design of policies of developing countries in the last three or so decades. By contrast, the growth theory approach is more concerned with the sequence of production expansion and the use of factors in production by sector. It also exposes how endowments which lead to comparative advantage are created. The two are in obvious conflict which was first highlighted by Chenery (1961). More importantly there are limitations in using the international trade approach in the design of development, an argument as old as the subject of development economics.

There appeared to be convergence and acceptance of the dominance of the international trade theory approach. More recently economists and policy analysts such as Rodrik (1995), Helleiner (1994, 2003) and UNCTAD (1994 and 1996) have revisited the debate and started their analysis of the trade and development relationship from development end, working to highlight how trade can be at the service of development. However, challenges appear to continue that necessitate revisiting the issues in the development debate. The biggest challenge facing development is the existence and prevalence of poverty in both rural and urban environments even in countries that religiously implemented and embraced the dominance of the international trade perspective especially since the 1980s. While a number of economies experienced growth and their trade expanded, there are vulnerable people, living on less than US$1/day. The numbers change but with the global food crisis of 2006 and 2007 and the global financial and economic crisis of 2008, it is argued that an additional … million people joined the ranks of poor people. The largest proportion of people living on US$1 a day is in sub-Saharan Africa (46%), followed by South Asia where estimates put the proportion of population at 40%.

Prior to global financial and economic crisis, LDCs economic performance was impressive with real GDP growth averaging 6 percent per annum for 5 consecutive years. This ended with several countries recording negative per capita income for the first time in over a decade.

Structure and Composition of LDC trade

LDC exports and services grew by 7.9 percent in the period 1990-2000 and even further by 11.2 percent per annum up to 2007. This performance is significant when compared against that of the period 1980-1990 when it grew by a paltry 1.9 percent per annum. This performance masked the variable performance of various regions among the LDCs. The performance was attributed to developments on the commodity markets where high prices delivered the sterling performance.

LDCs' export structure remains concentrated on few primary commodities and low-skill labour-intensive manufactures. However, recent high rates of export growth were critical in driving strong GDP growth performance. Consequently, international trade accounts for about 50 per cent of the GDP of LDCs as a group. LDCs total merchandise exports grew from US$ 83.5 billion in 2005 to about US$ 172 billion in 2008 (nearly 107% increase). Over the same period total merchandise imports grew significantly from nearly US$ 88 billion in 2005 to US$ 153 billion in 2008. Their trade balance experienced favourable growth from a negative balance of US$ 4.5 billion in 2005 to US$ 19 billion in 2008. The improved export performance was largely attributed to rising international commodity prices. With oil and mineral prices rising, exports from African LDCs (plus Haiti) increased from US$ 58.5 billion in 2005 to US$ 132.2 billion in 2008, whilst they increased from US$ 24.5 billion to US$ 38.9 billion in the Asian LDCs during the same period.

The collapse of the commodity prices marking the end of commodity price boom (that began in 2002) in early 2009 affected the performance of LDCs. It turned into a sharp decline during the second half of the year, reflecting the decline in global demand, largely due to global economic crises. Export earnings of LDCs fell sharply (by up to 50 percent) over the first half of 2009 and their combined share in world trade, though marginally improved, remained negligible at 0.85 percent during the same period. According to estimates by the World Bank, as many as 53 million more people in developing countries -the majority of which are in LDCs - could be trapped in poverty as a result of economic slowdown around the world. Out of some 40 per cent of developing countries identified by the World Bank as "highly vulnerable" to the effects of the global economic crisis, over 95 per cent belong to the LDCs' group.

Economic growth and poverty levels in LDCs

Another area of concern is the sustainability of growth that has been achieved so far given that it depended on commodity prices, increased external finance and market preferences for manufactures exports. However, questions regarding sustainability of trade performance arise since LDCs mainly produce and export commodities. A fundamental question is: Can LDCs continue to deliver on a sustainable basis the kind of performance seen in the period 2000 to 2007 given that the composition of their trade is dominated by unprocessed commodity exports? Lower economic growth returned with the global crisis and LDCs will take some time to return to pre-crisis performance which will undermine efforts to reduce poverty. In principle, for economies to reduce poverty, they must be growing faster than the rates of their population growth. This does not to suggest that all economic growth leads to poverty reduction. However positive economic growth provides scope within which poverty can be reduced. Trade has been a significant force in the development of economies and was in cases viewed as the engine for economic growth and development which warrants an interest in the role it can play in the development of LDCs. The fluctuating economic performance due to crises suggests that performance is not sufficiently deeply rooted and the structure of LDCs economies has not substantially changed to deal with changes in the environment and especially to address poverty. For that reason, it is necessary to look at the development approach in order to understand how trade can make a contribution to economic growth and assist poverty reduction. LDCs governments face the challenge of a large and growing unemployed population for whom the creation of productive jobs and livelihoods are central development needs.

2. TRADE AND POVERTY IN THE DEVELOPMENT APPROACH

2.1. Defining Poverty

There are many definitions of poverty. However, from among the many definitions, the one by the World Bank (2001) paints a complete picture of the make-up of poverty. According to the Bank's conception of poverty, there are three key characteristics:

- Lack of opportunity;
- Insecurity and vulnerability; and
- Powerlessness

Lack of opportunity includes broader access to additional income and consumption levels exacerbated by lack of assets required to achieve and secure basic necessities. The assets required for survival are human assets, natural assets, physical assets, financial and social assets. Absence or lack of access to each of these represents deprivation. Land and livestock are the natural assets while physical assets are mainly infrastructure such as roads, houses, irrigation, etc. Financial assets are in the context of poverty easiest to understand in that the poor have no access to credit. On the other hand, social assets are the networks of contacts and reciprocal obligations that can be called upon in times of need.[1] These are the basic labour skills and good health and productive capacities that help households earn income and increase their consumption. A lack of opportunity in these areas describes poverty because without these assets, it is difficult for affected people to provide for their needs.

Insecurity and vulnerability refers to households' inability to respond to a broad range of risk levels such as illness, injury, crime, death, old age, etc experienced simultaneously by many households across regions or across the nation. This is the case with natural disasters, epidemics, civil wars and macroeconomic shocks. The lack of capacity of the affected population to respond and survive or inability to act to reduce vulnerability qualifies them as poor in this regard. Normally, mechanisms for household response to reduce vulnerability or improve security are risk reduction, insurance and coping. Coping is the responses by the affected population through for example increasing output or greater involvement in the labour market. Alternatively, the households' response may rely on savings, disposal of assets or borrow to deal with difficult situations. Other circumstances may dictate that the affected population move away from the particular circumstance i.e. migrate as a response. The poor are unable to access credit, have no savings or assets and are unable to move underlining how vulnerable they are. Poverty is the unavailability of these options highlighting the extent of vulnerability.

Poverty represents disempowerment. The poor are disempowered; they are unable to deal with negative and adverse treatment from more powerful sections of society. There is discrimination against groups such as along gender, race or ethnic lines. The imbalance in power relations between stronger and weaker ones has the poor always facing bad treatment; they are consigned to a life of relegation and down trodden. This applies in all aspects of people's lives, in social, economic and health spheres.

[1] These go beyond mere numbers otherwise some of the poor would not be considered to lack human assets.

There is a need for anti-poverty initiatives to tackle the many barriers to poverty alleviation.

The majority of the poor live in rural areas generally in poor or marginal conditions where they also have little, limited or no access to utilities and services; members of poor households are more often poorly educated; their households tend to be larger with high dependency ratios; and in their circumstances face high unemployment and are prone to illness. There are differences in patterns of poverty among regions and countries. In Africa, the majority among the poor derive their income from small holder agriculture and some rural non-farm labour while agricultural labour markets are more important in South Asia because large numbers among the poor are landless.

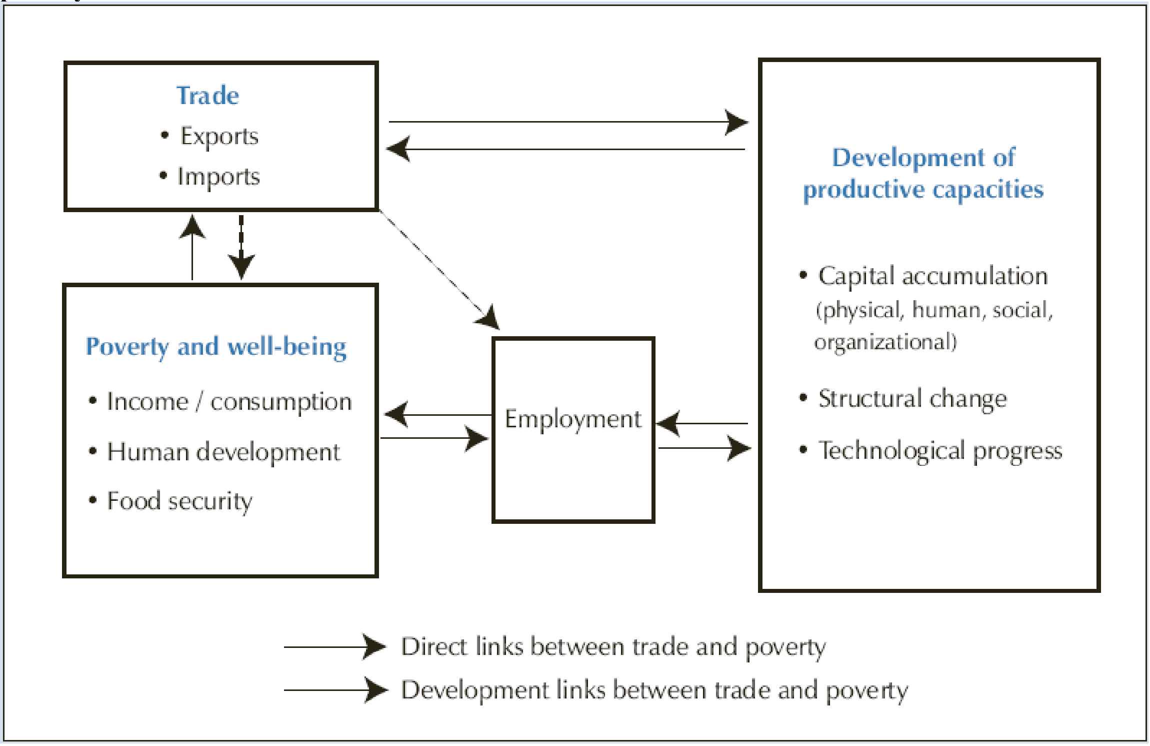
2.2 Development of productive capacities

UNCTAD (2004) provided a framework within which to understand the role of trade in economic development within a development context. It outlines seven basic elements of the development approach. The main emphasis of the approach is that sustained poverty reduction can be brought about through efficient development and utilisation of productive capacities where the population is fully employed in production. This is an important element that guides the design of trade policies in order to engage the unemployed or under-employed population. In most LDCs the population is partially engaged and unemployed. The other are elements are that:

- International trade does not only have positive roles to play in poverty - it can facilitate, hinder or modify the process of utilising labour to the full
- The relationship between trade and labour is a function of the composition of international trade
- The relationship between trade and poverty varies with the level of development and the structure of its economy and thus LDCs being less developed are already in a weak relationship
- The interdependence between trade and debt, and between trade and technology affects the relationship between trade and poverty
- Sustained development and poverty reduction expand international trade

Some of these elements are reflected in the model of the relationship.

The relationship between trade, the development of productive capacities, employment and poverty



Source: UNCTAD (2004):77

The model shows that there are direct and indirect links between trade and poverty. Trade affects poverty directly through its impact on the cost of living, jobs and wages, and government revenue for public goods provision. Indirect links between trade and poverty occur through the development and utilisation of productive capacities. Development of productive capacities involves accumulation of physical, human and organisational capital (which naturally entails investment); structural transformation (changes in the economy especially the importance of sectors); and technological progress (improvement in productivity). All these contribute to improved or better performance for an economy. These indirect links are important for sustained poverty reduction.

The first set of productive capacity development basically requires investment in capital equipment, education, health and human skills. The second type require that involves specialisation which is the basis on which shifts in production from primary activities occurs. The third offers scope for LDCs to capitalise through catch up and quickly build solid productive capacities borrowing from technology already in existence because there is a gap.

The development of productive capacities very much depends on availability of surplus for investment over basic consumption requirements which can also be motivated by incentives offered to private investors (entrepreneurs). The level of development of productive capacities is a constraint on what goods and services a country can produce and therefore trade efficiently. However, international trade offers an opportunity for breaking out of the constraint in that it can support the efficient development and full utilisation of productive capacity. Trade enables the importation of unavailable requirements for production or importation of goods and services which if they were sourced locally would make production more costly and therefore less efficient. Trade enables increased capacity utilisation and realisation of "vent for surplus" where external demand makes it possible for previously unemployed labour and land to be employed. It can relieve on the balance of payments constraints to development. Trade can also improve returns to investment by reducing production costs or enabling economies of scale. External competition brought about by exposure to international trade can spur greater efficiency and exports and imports can be instrumental in technology acquisition.

This provides a context for our understanding the role of trade in poverty reduction. The major drive should thus be to develop productive capacity as a major trade policy thrust which can achieve poverty reduction. This is the thrust of this paper that the development of productive capacities enhances the contribution of trade to poverty reduction.

The global economic crisis, which started in 2007 adversely impacted the export earnings of a number of LDCs. These could also affect the production set ups by under-cutting investible capital and undermining the development of productive capacity, upon which countries have based their development and poverty reduction strategies. A common feature of the responses to crises has been job losses through retrenchments resulting in unemployment and loss of income. However, employment creation is the key link, connecting economic growth and development of productive capacities on the one hand and poverty reduction on the other. Development of productive capacities must be viewed as broader than a narrow focus on exports. The number of people falling into poverty in LDCs is expected to rise owing, particularly to the global economic meltdown which will undermine their growth and development prospects. Key areas in the development of productive capacities that require policymakers' attention in productive capacity development for LDCs in view of the global developments include:

- Investment in the development of physical infrastructure;
- Innovation and technological up-grading for value-addition;
- The importance of horizontal diversification; addressing institutional weaknesses of the private sector and the financial and knowledge systems to facilitate investment and innovation. Otherwise, LDCs are facing a "permanent credit crunch"
- Exploiting existing demand and domestic, regional and or international market opportunities

UNCTAD (2009) showed that FAO estimated that the number of people suffering from chronic hunger was 854 million in the period 2001-2003. The proportion of the undernourished in LDCs declined to 34 per cent in 2003-2005 from 39 percent (1990-1992). More people and the proportions are likely to have been changed by the adverse developments of the food crisis and the global financial and economic crisis. It is estimated that the food crisis added another 40 million to the hungry increasing the number of people undernourished to 963 million. This will have come out as a result of higher food prices.

3. TRADE POLICIES FOR PRODUCTIVE CAPACITY DEVELOPMENT

3.1 Essential features of trade policy for productive capacity development

Designing successful trade policies recognises that it should be part of overall development strategies. This has major implications for how trade policy is viewed, designed and implemented in these countries. Trade policy making must take account of these features in order for it to generate economic growth, transform economic structure and contribute to poverty reduction. There are nine general features that the design of trade policy must take account of in order to improve the chances of growth and poverty reduction. The key features relate to

- Objectives of trade policy
- Coherence of trade policy with other policies

- National ownership
- Specificity or targeting
- Articulation between external and internal integration
- Growth and diversification of exports
- Quality of trade
- Domestic institutions and the role of the state
- Rhythm of trade reform and flexibility of policies

3.2 Identifying productive capacities development issues

The process of designing trade policy for the development of productive capacities follows the steps outlined below:

a. Setting national goals for trade development and poverty
b. Assess how trade can contribute and where productive capacities could be developed to achieve trade growth and poverty reduction
c. Identify sectors whose productive capacity development would help achieve trade targets and where these could come from
d. Consider the range of policy interventions that could spur productive capacity development in the identified sectors
e. Identify target market and the possible range of standards, barriers and requirements to be fulfilled as conditions for entering the target market
f. Devise market entry strategies for the goods being produced

Trade is mulitsectoral hence the formulation of policies to develop productive capacities should be formulated to cater for selected sectors since it is not possible to cover all the possible sectors. The selection process must encompass government objectives of growth and poverty reduction and choose sectors that will help the realisation of the objectives. It is necessary to know the possibilities and potential that each sector holds for delivering on the government's selected emphasis. In this regard, the twin objectives of increasing trade and reducing poverty must be at the top of the issues for consideration. Both might be met if production by all stakeholders improves.

The identification of sectors to be targeted is followed by the issues consideration and prioritising among them. Each sector has different lines of possible activities which would require different interventions to stimulate the development of their productive capacities. It is necessary to split them into various subsectors in order to consider what needs to be done to develop productive capacity and how much return this might bring.

Some of the sectors that could be targeted for development of productive capacities include agriculture, manufacturing, mining, energy, infrastructure, and tourism among others. These are suggested because of their trade potential and the possible participation and reach for the poverty reduction potential. These sectors have their own mandates which trade can only influence through mainstreaming trade in national development plans and policies.

3.3 Trade sector policies for productive capacity development

The trade sector is at the centre of the development of productive capacity. From a trade perspective, the policies must be across sectors so that production that increases trade can occur. The policies seek to stimulate sectors, individuals and corporations in the private sector to act to increase production, trade and incomes. However, given that the private sector in LDCs is small and on its own cannot confront the force of established international businesses seeking to supply domestic markets in which these operate, it is essential that ways of ensuring their establishment and growth be explored.

It is the role of trade to develop strategies that draw benefits from existing trade opportunities which must encompass import and export strategies. The desire is to increase exports, for many LDCs which rely on the continued availability of essential imports. Therefore planning for imports must be a necessary part of planning to increase exports. Existing opportunities are often not exploited because they are not known; information systems and flows between government and the private sector or potential investors are not very efficient. This makes information supply and interactions between policy makers and the private sector are an important element of the policy to develop productive capacity.

Business enterprises face difficult environments which do not facilitate their development and growth. The annual surveys published by the World Bank show that in a number of countries including LDCs, businesses face many hurdles including numerous administrative requirements, taxes and regulations which do not support development.

Targeted policies for productive capacity development in agriculture

Agriculture is a dominant sector in many LDCs. It contributes about 25 percent of GDP, provides more than 50 percent of employment and is a significant source of exports. It has the potential to reach the majority of the poor. In this regard, trade policies for productive capacity development seeking to reduce poverty must as a necessity target or address productive development of agriculture with a view to increasing productivity, increasing the contribution of the poor and increasing exports from the sector.

Intervention policies must target the following:

- Prioritise enterprise selection targeting particular markets on the basis of potential rewards
- Inputs, technology and finance
- research and extension services
- market access and
- in some cases land reform that seeks to make land available to disadvantaged groups is an important area

Agricultural production increases can be aided by the adoption of improved inputs and technology use by farmers. However, access to land is a precondition for stimulating agricultural production improvements. Policies must aim to increase awareness of farmers and encourage their use of purchased inputs. Governments must assist in the acquisition of inputs and in the education of small holder farmers to deal with their agricultural activities as businesses can change agricultural production for the better. In addition, support to research and provision of extension services followed with a dissemination exercise of the research findings can boost agriculture production through higher productivity. If marketing arrangements are streamlined, it will be possible for government to extend credit for which farmers face difficulties accessing through normal markets. Establishing special purpose financing schemes that target certain levels of agricultural operations and granted to farmers on condition that they receive skills training would boost production. The performance of farmers supported must be regularly monitored. The funds could be used to purchase inputs with payments made directly to suppliers to ensure that they are used for their intended purpose and encourage adoption of technology in small holder agriculture. Where large established farmers exist, these could be a basis for increasing output and improving quality of production through linkage programmes that bring small holder farmers together established farmers to provide coaching and learning.

Manufacturing

The manufacturing sector's strength to lift trade lies with the small and medium enterprises and a large pool of informal sector operators. Transforming informal sector operations can improve quality of production as well as increase output. Government should target to provide assistance with marketing and awareness of market requirements among these small and medium enterprise and informal sector manufacturers. Such intervention will boost the sector's capacity to create jobs and reduce poverty. Manufacturing sector development also has the added advantage of linkages with other sectors such as processing of agricultural output and minerals. The issue about markets, quality and productivity growth, where technology and skills are major considerations, are also important determinants.

In many LDCs, the manufacturing sector faces problems among which the major ones are (a) limited analytical capacities and capabilities and inappropriate policies; (b) absence of or inadequate industrial support institutions; (c) inadequate knowledge and skills for processing agriculture products and minerals; (d) low entrepreneurial capacity and skills; (e) low technological competencies and capabilities; and (f) limited capacity to exploit and low scope for linkages. There are a large number of micro and small informal manufacturing enterprises mainly involved in metal fabrication and some basic food processing. These are an important basis for developing manufacturing productive capacity development. The policies for enterprise development must, apart from providing a structured and coordinated initiative to increase and improve growth and development of enterprise, aim to transform the informal sector operators to become formal businesses as a key part.

The process of formulating policies for productive capacity development in manufacturing should focus on six areas:

- Small and medium enterprise development;
- Transformation of the informal sector in urban areas and registration into formal businesses;
- Skills training;
- Quality improvement;
- Provision and development of infrastructure and
- Technology upgrading and innovation

Vocational skills training in the education system and upgrading of skills for those involved in production both in the formal and informal sectors would improve manufacturing production output in volume and quality terms. The aim is to create skills at technician level and increase skills at local levels to solve problems at their levels. Technology in manufacturing is an important factor in improving quality and increasing productivity. Policies must target to the increase adoption and upgrading of existing technology. This requires the strengthening of learning how to operate existing technology in order to gain from its use. It requires a strong science, technology and innovation background. For small operators, it will be beneficial to pool certain services and assist the acquisition of equipment embodying knowledge that certain sections may not know about or be able to acquire. A number of businesses are started which do not last and operate for short periods. This is an obvious waste and such efforts could be harnessed and assisted in establishing business that contributes to growth. This requires advisory services that offer guidance and facilities that are needed to grow.

Manufacturing received the most protection in the past but there was no requirement for it to prove itself. It is necessary that where assistance is provided, deadlines and benchmarks be set as conditions for support and time lines agreed.

Mining

The share of mining in total exports for seven LDCs ranged between 51 and 95 percent. Mining has high capital requirements that are generally suited to big business. However, a number of countries there are small mining operations. Policy to develop productive capacities in mining policy should be pursued at two different levels - policy for large-scale, capital intensive mining operations and that small scale mining operations. The large scale capital intensive mining operations are either state- or foreign owned. Poverty reduction oriented mining policy development should focus on small scale operations. Large-scale mining policy seeks to stimulate private sector interest in the sector through development of state capacity to implement regulatory and promotional functions, providing geological mapping information and maintaining updated data bases on mineral resources. The focus for artisanal and small-scale mining should seek to enhance productive capacity, competitiveness and protection of the livelihoods of those dependent on the sector. Upgrading artisanal mining to modern and organised small scale mining units, transparent licensing procedures for mineral dealers and strict enforcement of codes of conduct in mining and mineral processing should be pursued to eliminate fraud and protect the environment.

Protection of the environment from artisanal mining can be achieved by facilitating access to tools and equipment appropriate for the level of activities. One way of securing financing is through partnership and cooperation arrangements between miners in the formal sector and small-scale miners.

The provision of extension services in mining, mineral processing and marketing are important for small mining sector. It will be critical to ensure that the sector operates in a regulated environment to ensure sustainable exploitation of mineral resources. The introduction of new technologies, skills improvement and modern management methods in the sector are imperative for growth of productivity, output and incomes. In this respect, the design of technical assistance programmes, funded by development partners would achieve the same objective and is a way of diversifying funding of small-scale mining. Policy must seek to strengthen integration of mining with the rest of the economy and break out of the enclave operations character typical of the sector in many developing countries. Ownership in small scale development operations is an important part of improving the integration which can be assisted by local supply of inputs and development of forward linkages for the sector through beneficiation of raw ores and minerals. However, beneficiation must be pursued with clear industry competitiveness considerations.

The mining sector has high capacity to damage the environment which calls for policies to keep this effect in check. It is important to develop a comprehensive environmental management system which covers enacting environmental legislation and establishing an effective procedure for monitoring compliance; making preparation of environmental impact assessments and environmental action plans based on baseline environmental studies obligatory for approval of new projects; and establishing transparent mechanisms for determining environmental liability and adoption of the "polluter pays for such liability policy".

Energy

Energy is central to all aspects of live. It is required for production and is generally traded. Its availability and pricing have far reaching competitiveness implications for the goods produced. LDCs need to rapidly increase access to modern energy services along with protecting the environment, while ensuring energy security in order to reach the MDGs. Iit is estimated that worldwide 2.5 billion people rely on traditional fuels such as wood, charcoal, and dung as their principal source of energy for cooking and heating. Millions of households still lack access to safe and reliable energy and pay high prices for poor-quality substitutes. Almost 1.6 billion people have no access to electricity. In Sub-Saharan Africa, only 8 percent of the rural population has access to electricity while 90 percent of the population still relies on traditional fuels for cooking. Poor people spend much of their income on energy services and devote a large portion of their time, to energy-related activities such as gathering fuelwood and water, cooking, and agro-processing. Their harvesting and exploitation of forests and wood have depleted the environment and exacerbate desertification. Countries also spend money on fossil fuel imports requirements and rising prices means increased expenditure on oil imports shifting resources away from development and poverty reduction needs to maintain systems running. In many LDCs, a large percentage of export earnings (e.g., up to 40 percent in Nepal) are diverted to pay for importing petroleum fuels.

Access to affordable and reliable energy will boost competitiveness of production and contribute to poverty reduction. Energy has the capacity to release labour in backward and poorer communities which devote a lot of time to provide their energy requirements. Since energy is central to economic activities and poverty in LDCs as a main driver of production and is allocated time among the poor, alternative and dependable modern sources of energy are required i.e. sustained supply of petroleum products and access to modern energy services in the form of electricity for both domestic (especially for the poor) and industrial use. Considerable investment is required in electricity generation and its distribution to the poorer communities. Creating a conducive environment for investment ensures private sector interest and investment in energy that would increase supply reduce costs for industry and households. Thus the policy focus should be availability of electricity and a reduced dependence on environment depleting biomass fuels and reducing the energy impact in the cost of production and its potential to undermine products' competitiveness.

Defining national energy access goals and targets in macro-development strategies, policies and development programmes, and estimating the costs to meet the targets will keep this issue in focus. The access, sustainability and security of LDCs energy can be achieved by formulating policies to mobilize investment, clearly articulating the energy priorities, targets, and budgets outlined in national development strategies or poverty reduction strategies to potential investors. Investment constraints suggest that a partnership approach and the need for policies that attract investment and promote foreign direct investment (FDI) in the sector. In addition, increasing investment in energy could be a useful vehicle for developing domestic markets to mobilise savings and channelling these to create energy generating capacity. The amounts of financing required also suggest that regional cooperation in investing in energy.

Infrastructure

Physical infrastructure requirements covering a range of structures, equipment and facilities is generally not well developed and poses serious bottlenecks to the flow of goods at national, regional and international levels. Poor infrastructure escalates the costs production and distribution of goods. It constrains economic growth and impedes growth of exports. The poor state of infrastructure is a result of a combination of inadequate maintenance of existing infrastructure and under-investment. In sub-Saharan Africa, this development came about as a result of governments reducing expenditure to balance budgets required under economic reforms of the 1980s and 1990s. The costs of poor infrastructure include added costs of production, lost opportunities for transporting produce to the markets. Inaccessibility of regions of countries curtails large scale investment development by cutting sections of the population from participating in economic activity.

Policies to fix or develop trade related infrastructure at the national level should focus on district feeder roads and national trunk roads to facilitate easier and faster transportation of produce to domestic markets to achieve internal integration. The efficient flow of goods requires good roads and railways infrastructure and efficient port handling facilities. They should target improvement of transport infrastructure covering road, rail, air and water as well as telecommunications and energy.

Governments of LDCs must take the lead in the provision and development of infrastructure as their initiative to develop productive capacities. Key in the delivery is the modality providing infrastructure. The focus must be on ensuring that parts of the economy are linked. The development of trunk roads and bridges, railway and air infrastructure are high cost and means of financing their development is critical. Methods of funding have been evolving and it is also accepted that governments are unable to shoulder the burden of infrastructure development on their own. Governments must develop public-private partnership (PPP) policies to guide and handle private sector participation in infrastructure development. Approaches which include cost recovery or 'user pays' principle such as 'build-operate and transfer' would improve infrastructure provision. Capital markets are important sources of finance for infrastructure development where these exist and are indeed a source that also helps the development of capital markets. However, most LDCs have shallow capital markets that cannot mobilise adequate finances for the huge demands.

It is essential to strengthen policies involving assistance and support the establishment of small contractors maintain local roads in the rural areas through training and support with procurement of equipment. This will help to secure employment at the local level and provide incomes. Such empowerment policies can be geared and targeted to employ the local poor to contribute to poverty reduction. Supporting small contractors to maintain and develop roads will give them skills, increase employment and income as well as develop productive capacities in rural areas. Their participation in local markets will boost the local economy and ensure internal integration. At another level the infrastructure so developed will help to stimulate production and keep traffic flowing and move goods into and out of all parts of the economy. Infrastructure has the effect of opening up which is necessary for both domestic and international integration.

Services - Tourism

The tourism sector offers scope for increasing services exports receipts. The sector needs to improve its capacity and ability to deliver and increase the provision of services. Policies must address the state of undeveloped facilities to remove common bottlenecks in the sector such as

- Products, range quality and standards
- State of infrastructure
- Human resources
- Financing tourism development
- Public-private partnerships and areas of responsibility for Investment in sustainable tourism development

Government policies should spearhead identification and profiling of key attractions for tourists. These must be connected by working infrastructure and served by acceptable quality and regularly serviced accommodation. They must be made known to the public - domestic, regional and international. Policies for productive capacities development should encourage and ensure investment including in human resources development. Target markets must be identified together with strategies for penetration. Policies to development productive capacities can be designed to address the following areas:

- Identify tourism products - features, sites and unique attractions
- Quality of hotels, facilities, including transport, tour operators and human resources
- Target markets and identify market entry strategies
- Promote domestic tourism and encourage tourism development at local levels
- Coordinate, establish and strengthen linkages between sector and others
- Promote eco-tourism, cultural tourism, agro-tourism, community based tourism, sports tourism
- Protect natural sites and wildlife for sustainable tourism development

Tourism exhibits advantage in its potential for creating employment opportunities which improves the sector's impact on poverty. The linkages between the sector and other sectors should be strengthened. Local supply of food could give farmers opportunities for added income if the sector buys from the domestic economy instead of importing their food requirements and equipment.

Policies must encourage communities to participate through cultural and community tourism which offer opportunities for income and welfare improvement at the community level. Communities must be assisted to identify cultural events, sites, activities and traditions that could be of interest to visitors. In some countries, traditional dances, functions, events and cultural festivals are major attractions. Other attractions can be sites, natural and manmade physical features, historical structures, wildlife, cultural events, ceremonies, festivals and activities. Raising awareness among communities, performers and consumers of tourism is an important aspect of building productive capacities in the sector.

In many countries, there exist conflicts between wildlife which governments are conserving to support the tourism sector whose benefits are not apparent to the local communities because they destroy crops and threaten people's lives. It always comes out as a curious development if the communities perceive government to be preferring animals over people and this should be avoided. There are a number of successful community based tourism cases. Zimbabwe's Communal Areas Management Programme for Indigenous Resources (CAMPFIRE) is an example of a successful model which brought benefits to the communities. The programme which in concept covered all natural resources was primarily implemented with a focus on communal wildlife management in areas where there was conflict between humans and wildlife. It replaced the old protectionist approach, by a pragmatic strategy which aimed to link protected areas with sustained utilization of wildlife on communal and commercial land.

The potential and target markets for the identified attractions must be mapped and clearly understood in order to be able to market and increase awareness of attractions.

Environmental sites and physical features can easily deteriorate or be destroyed with increased visits and measures to mitigate the impact through a managed influx for sustainable use and exploitation are necessary. The investments required differ with the level and rank of the attraction. In most cases, development is a government responsibility while investment especially in facilities is done by the private sector which would be set to profit from the investment at or around the resource. The different levels of government may be involved and the lower the level and the more local its target, the lower will be development required.

Countries that have concentrated their tourism marketing efforts on foreign visitors have experienced serious declines in times of crises. For this reason, and as part of the domestic and international integration, it is advised that tourism development must promote domestic tourism. Policies must aim to encourage locals to participate in and enjoy the facilities as a basis for growing the sector and ensuring that just like in the trade in goods, countries are not entirely dependent on foreign visitors. The policies should encourage mainstreaming of tourism development in local (sub-national) level development plans.

The quality of facilities is important. The government can pursue policies to upgrade and maintain quality of facilities through standards setting and regular inspections to give the visitor population comfort while reducing risks. However, one of the key resources in tourism and quality benchmark is the human resources employed in the sector. Government can set and determine the quality of human resources through requiring minimum qualifications for the various personnel employed by the sector. Training facilities for the sector population to reach the standards can be established by the government. In this way it will ensure the development of the capacity of the personnel engaged in tourism related services.

Tourism must integrated with the rest of the economy and be based on consumption of local amenities, goods and services to spread the benefits. This is not a suggestion to isolate tourism from the global environment. There will be imported items used and consumed by the sector and the visitors. Governments must prepare for the maximum benefits from the visitors' experiences. If those farmers supplying food were to secure permanent arrangements, they would be assured of markets hence encourage productive enterprise in agriculture. The furniture makers could also exploit the established market to improve their products knowing that their customers are committed to sourcing these locally. It will be possible, for example, for the farmers to borrow in order to buy fertiliser and other inputs designed to boost their production when they know that there is a market with some stable income expected.

The environment provides the biggest opportunity for tourism with a combination of sites and wildlife attractions. Exploitation of tourism attractions must be sustainable. Wildlife tourism in many African countries shows that the industry is threatened by possible extinction of certain species as numbers decline through poaching. Government policies must ensure sustainable exploitation recognising that the environment is fragile and can easily break down.

4. CONSTRAINTS AND CHALLENGES TO TRADE POLICY IMPLEMENTATION

Bilateral, Regional and Multilateral Policies

Trade by its nature depends on or is influenced by the economic conditions and policies of other countries. Countries engage in negotiations as a way to influence trading conditions and secure favourable entry conditions for their goods in a particular economy. Negotiations are also underway for regional integration expected to increase participating countries' opportunities and increase economies of scale that are very important for efficiency in production. In the scheme of trade policy developments, bilateral and regional trade agreements can be concluded faster than the Doha round of multilateral trade negotiations. As such there is pressure to conclude agreements at this level in areas that have been pending under the WTO negotiations.

The focus of regional trade agreements is deeper integration encompassing harmonisation of national policies and offering greater freedom for market mechanism. Scope for developing productive capacities is improved to target the bigger market. However, locational preferences by investors may leave imbalance between participating countries.

The current negotiations for economic partnership agreements have brought together individual countries that are still trying to agree and implement their integration. These countries are negotiating among themselves and negotiating with third parties at the same time. How effective will their strategies for integration work and do they have a sound basis for negotiating with external parties? In fact, the integration has not really been given an opportunity to work and there has been no opportunity to understand their specific circumstances. The pressure for the regional integration is coming from the need to operate within and comply with the WTO rules on regional trade agreements. However, is this rally a sound basis on which to determine the future of the LDCs - rushed into integration?

Regional trade currently accounts for about 10% and the major problem is that even within regions, there is a fair amount of discrimination perpetuated by the rules of origin that the countries within the integration arrangements use as a basis for admitting goods from other regional partners. However, when higher forms of integration such as a common market are reached, these requirements will fall away providing for free movement of goods, capital and people. From this, it is important to note that LDCs in regional integration blocks are better off focusing their attention to achieve higher integration before facing regional bilateral partners. Without advocating the abandonment of current negotiations, this calls for careful analysis of what is agreed in the EPA negotiations and what capacity the LDCs have to deliver on what they promise. However, more important is what they will secure from these negotiations. The aim should be to target development of productive capacities. Negotitions themselves must be viewed as a major trading activity in terms of what is given and what is received in exchange. The major concern for LDCs is to what extent they have competences to negotiate and extract concessions. Trade negotiations capacity is required.

The international trading system

The diversity and different levels of development of developing countries under the WTO constitutes a challenge to synthesise and harmonise their interests. While the WTO seeks to liberalise trade on the basis of rules, the negotiating interests of LDCs are to secure frameworks within which they can pursue issues of development. Major among these are measures that provide commodity price stability, stronger Special an Differential treatment (SDT) in the WTO, improved access to developed country markets and secure more funding to develop their productive capacities through facilities such aid for trade. LDCs have already liberalised and there appears to be less that they can improve through liberalisation of their trade. Indeed it is the liberalisation that led to the conclusions that their capacities to take advantage of the trade opportunities were not entirely in tune to benefit from liberalisation. This exposed limited capacity to supply the markets and exposed weaknesses in supply capacity. Thus for the LDCs to develop through trade, what is required is enhanced and equitable market access for commodities where prices are stable; strengthening national supply through development and improvement of productive capacities together with institutional support for market entry.

Inter-ministerial coordination

Trade cuts across many sectors and a number of the trade policies must be adopted and implemented by other sectors. How does trade communicate trade issues for implementation by the productive sectors whose capacities it is encouraging? Trade policy may not stand out as a core mandate; other sectors have their own mandates on which are already pressing without trade responsibilities and their performance will be evaluated on this. The issue calls for strong coordination and mainstreaming of trade policies in the development strategies of the identified sectors. Mainstreaming of trade policies must be accompanied by an allocation of resources for implementation. Care must be taken manage budgetary allocations so that no bias or preference appears when other sectors strive to secure funding for their core business. Saner (2010) recommends establishment of an Advisory Commission on Policy and Programme Coordination that has representatives from different ministries. The commission would monitor effectiveness of programmes and the extent to which the budget supports its policies. The experience in many LDCs and developing countries shows that all sectors are affected by budgetary constraints. However, hard choices must be made on the basis of potential to generate growth, transform the economy and contribution to poverty reduction.

Implementation capacity and resource limitations

Governments are faced with huge responsibilities and high expectations from the public. Yet the resources and capacity to implement well planned policies to develop productive capacities to lift the performance of trade and lift the development profile of the country are limited. This is generally the case with many LDCs and some developing countries. It is important that the capacities of government to negotiate, to plan and implement policy be strengthened. Poverty reduction thrives in growing economies and growth is a result of investment. There are expenditure implications from the policies suggested above and it can be very frustrating for those involved in planning trade policies if their initiatives are not matched by funding and commitment to implementation. For this reason, the ministry of Finance or the planning authority, or an entity involved in allocating resources must be brought to lead the mainstreaming as a strategy for ensuring financial support.

It is difficult to accept the lack of capacity and resource limitations when aspects such as corruption and a lack of political will and commitment to implementing trade policy are evident. It does not always appear that decisions are made in the best interest of countries' economic development interest.

5. CONCLUSION

The basis is premised on the principle that growing economies make significant gains in reducing poverty. The contribution of trade to economic growth and poverty reduction are enhanced by the development of productive capacities. Possible areas of trade policies for developing productive capacities were proposed. The development of productive capacities can be targeted and requires government intervention especially in the context of LDCs. The implementation of the policies requires a coordinated framework which mainstreaming of trade policies can achieve. This is necessary because not all agencies and ministries will understand their role. Challenge will arise but within a coordinated framework, it might be easier to mobilise support and commitment to achieving economic growth and poverty reduction.

References

Chenery H. (1961) Comparative Advantage and development policy, *American Economic Review*, 51(1): 18-51

Helleiner, G. (1994) *Trade Policy and industrialization in Turbulent Times*, Routledge, United Kingdom

Helleiner, G. (2003) After Cancun, free trade area of Americas talks show limits of the single undertaking, *Bridges, European Commission*, 7 (8), (http://www.ictsd.org)

Rodrick, D. (1995) Getting Interventions Right: How South Korea and Taiwan Grew Rich, *Economic Policy*, 20, 53-108

Saner, R. (2010) *Trade Policy Governance through Inter-Ministerial Coordination: A source book for trade officials and development experts*, Republic of Letters Publishing, Dordrecht.

UNCTAD (1994) *Trade and Development Report*, 1994, United Nations publications, sales no. E.94.ll.D.26, Geneva

UNCTAD (1996) *Trade and Development Report*, 1996, United Nations publications, sales no. E.96.ll.D.26, Geneva

UNCTAD (1997) *Trade and Development Report*, 1996, United Nations publications, sales no. E.97.ll.D.26, Geneva

UNCTAD (2004) *The Least Developed Countries Report*, 2004 United Nations publications sales no. E.04.ll.D.27

UNCTAD (2009) *The Least Developed Countries Report*, 2009 United Nations publications sales no. E.09.ll.D.27

World Bank (2001), *Attacking Poverty: World Development Report 2000/2001*, Washington DC: World Bank