

TRADE ON HUMAN TERMS

Transforming Trade for Human Development in Asia and the Pacific

From the UNDP Asia-Pacific Human Development Report 2006

This timely report covers all pertinent aspects of trade in its seven chapters, including using international trade to promote human development, the Asia-Pacific experience of trade and human development, making agricultural trade work for the poor, adjusting to a new era for clothes and textiles, selling services across frontiers, trading opportunities for the least developed countries and an eight-point agenda for trade and human development. There is also an excellent overview which gives a succinct summary of the whole report.

The overall message of the report is that a bold new policy that harnesses economic growth to promote human development is necessary if free trade is to benefit the poor.

There is no doubt that the whole of the Asia-Pacific region is at the forefront of globalization and its international trade is growing at an amazing rate. But this growth also raises many questions for the 21st century – who will produce goods and what goods will they produce, what impact will this have on people's lives, what will it mean for human development and in what way will improved human development contribute to ever-growing trade and economies?

The report is an attempt to answer these questions. However, because the Asia-Pacific region is so large – 60% of the world's population lives there – and so diverse – ranging from countries that are ranked third on the human index to those ranked 140th – the report of necessity had to narrow its focus; it therefore looks at the effects trade and economic growth are having on human development in developing countries.

Trade can be both boon and blight, especially for poorer countries. As the ultimate, profit-driven activity, it has, in the past, led to slavery, colonialism and apartheid. These days, it can ruin local markets and destroy the livelihoods of workers. Erecting higher trade barriers and trying to achieve self-reliance is no longer a viable option in today's world; nor is its opposite, completely free trade. Such extremes will not work in a world where international trade of both goods and services has become a way of life.

The rapid growth of trade and the increase in its percentage of GDP has unfortunately been

accompanied by noticeable rises in income inequality and in the least developed countries, 38% of the population still live below the poverty line. Asia still has over 510 million people suffering from hunger, more than any other region in the world while in South Asia, one out of every five children does not enrol in primary school. Another unexpected consequence of increased trade has been the surge in unemployment. Manufacturing is no longer labour-intensive/ low technology and is rapidly being replaced by the capital intensive, high-tech industries of today.

Trade on its own cannot solve inequalities in income and opportunity; governments are now beginning to realise that their policies must interact with global markets and must be of a kind that generates employment and promotes human development. This does not mean focusing solely on the urban, industrial sector but making policies and plans for the rural sector which, particularly in developing countries, remains the largest sector where the majority of the population live and is the sector that tends to be neglected and overlooked. In the early 1960s, for example, developing countries had an annual agricultural trade surplus of nearly \$7 billion; in 2001, however, with the increased tendency to import agricultural products, there was a deficit of \$11 billion.

Many developing countries are now exporting less and importing more. Nevertheless, most countries prefer national self-sufficiency when it comes to food. This means emphasizing local production and protecting farmers who cannot hope to compete in a world where the US and Europe subsidise their farmers so that they can export food products at prices below the cost of production.

This makes for very difficult and complex choices for developing countries. An increase in trade can boost the economy and benefit poor consumers but it can also cause a fall in local prices and ruin the livelihoods of small farmers. Certain areas are particularly vulnerable to global market conditions, notably, the fishing industry, clothing and textiles, services, especially in I.T., and tourism. In every case, problems can be minimized with good management, careful planning, far-sighted policies, a sound infrastructure, appropriate training, good working conditions and quality products.

The greatest cause for concern comes from the LDCs (Least Developed Countries). They tend to have much higher trade-to-GDP ratios and very open, low tariff trade regimes. In international trade, they are in a particularly vulnerable position. Their economies are small and they are often located in out-of-the-way places. It would seem that integrating with world markets would have no advantages for them. However, there is no other alternative to the only other option, marginalisation or bilateral control by the key major powers. Unfortunately, acceding to the World Trade Organisation is not a simple process and since LDCs by their very nature have few people trained in the skills necessary to grasp the implications of trade agreements, they are often exploited, controlled and imposed upon.

Too many initiatives are currently based on reciprocity instead of human development. So what then should the countries of Asia and the Pacific do to create a new and more equitable environment for international trade? The Report suggests eight key areas to target:

1. Public investment must be aware of international competitiveness. This means that governments must make sure there are good roads, railways, ports and telecommunication systems and a healthy, well educated and highly skilled workforce. They must also invest in research to raise productivity and address the issues of the poor.
2. Formulate and adopt appropriate policies. Identify those sectors and industries that have potential both long and short-term in the international market. Work out a clear and open contract between the government and private sectors, with support from the government, particularly in the early stages, and stringent monitoring of the private sector to ensure that they keep developing competitive products and services as well as following a domestic policy that prevents the private sector from abusing its monopoly.
3. For a trade strategy that is based on human development, a commitment to and focus on agriculture are essential. Trade strategies must not undermine the livelihoods of the poor; it may well be necessary to maintain tariffs on food imports in order to protect the small producer. There must also be a wholehearted investment in rural development with improved, modern methods of irrigation, regular, affordable electricity in all villages and a sound

infrastructure of good roads and transport links.

4. Tackle the current trend towards jobless growth. Make sure that interest rates reflect the true price of capital and phase out tax incentives. Encourage flexible labour contracts and establish health insurance, social security and retraining/redeployment.
5. Design a new tax regime that is appropriate for liberalization with new taxes that are progressive and do not burden the poor. A new tax regime needs to be well established before liberalization if countries are to avoid severe cuts in public services that will damage human development.
6. Exchange rates should be stable and realistic.
7. Don't give up on multi-lateralism. Resistance from developed countries, especially in the matter of agricultural subsidies, can be very disheartening but it is important to keep trying. Think carefully before compromising and accepting bilateral trade agreements which often impose high costs on human development. Ultimately, multi-lateral agreements are the way to successful human development outcomes.
8. Work in co-operation with neighbouring regions. Join regional pacts and trade agreements. Pool financial resources to the benefit of all. Expand the Asian Development Fund.

Globalization is forging ahead and although it will undoubtedly bring benefits, it can also create an underclass of rural poor whose rural economies have been thoughtlessly abandoned. Apart from humanitarian concerns, this will also lay the foundation for future civil unrest. Developing countries have a difficult balancing act to perform as they try to combine trade-driven economic growth with urgent poverty reduction and overall human development.

Reference:

UNDP Asia-Pacific Human Development Report 2006 – *Trade on Human Terms – Transforming Trade for Human Development in Asia and the Pacific.*