



Short Article

FTA and Rural Poverty Alleviation

At the time of drafting this short article, a pessimistic view prevails as to whether WTO member countries can achieve the goals to set a new trade treaty at the Ministerial Conference in Hong Kong planned for 13-18 December, which would lower import barriers and reduce subsidies for goods including farm products and be a milestone in the completion of the Doha round.

Becoming exhausted with lengthy negotiations in the WTO, more countries are now interested in bilateral and multilateral Free Trade Agreements (FTA). Countries who participate in FTA can expect market access in goods and services with their partners through a relatively easier procedure than the WTO talks. However, especially in cases of bilateral FTA between developing and developed countries, it should be noted that there might be several disadvantages compared to multilateral trade agreements; trade diversion resulting in inefficiency, the weaker bargaining position of developing countries, "equal treatment" of partners results in unequal outcomes due to unequal capacity, and the proliferation of so many agreements puts pressure on management resources (Khor, 2005).

While FTA has both positive and negative impacts, more concern should be paid to the rural poor, who rarely benefit from trade liberalization but are vulnerable to its negative impacts. In case of an FTA between a strong country and a weak country, the negative impact is obvious. Mexico increased exports of fruits and vegetables by 50 per cent to the US after the North American FTA (NAFTA) was signed. But imports to Mexico from the US tripled for maize and rose by 500 per cent for soybean. Mexico's agricultural imports rose more than its exports and 1.7 million rural jobs have been lost, among them a number of maize farmers are supposed to be included (The Star, 2005).

If an FTA is signed among equal partners, all the participants can enjoy mutual benefits. However, looking at the micro level, every country has heterogeneous characteristics. Some areas with preferable conditions could gain more benefits of free trade, while farmers in the disadvantaged areas would be prone to losses due to severe competition with their counterparts, both domestic and foreign.

A detailed study was conducted to investigate differences in competitiveness of secondary crop production at the provincial level in China (Funing *et al.*, 2001). In general, Chinese agriculture

is thought to have better competitiveness in labour intensive crop production like vegetables but lower competitiveness in grain production (Morita, 2002). However, by comparing the coefficients in 30 provinces, which indicates comparative advantage of domestic crop production, the study has shown that competitiveness varies widely in respective provinces and out of the top one third provinces, eight provinces have enough competitiveness even for the world market. On the other hand, the bottom seven provinces, most of which are inland provinces with less advantageous areas in terms of agricultural production, have no competitiveness in maize production. We can understand that the effect of trade liberalization will be "mosaic" and gainers and losers will coexist, even in the same country.

As researchers working in the field of poverty alleviation, we are requested to consider what we should do in the era of FTAs? There are many studies which try to grasp the impact of free trade at the macro level. However, as we already know, macro data can show only one aspect of the phenomenon and the real situation of the rural poor tends to hide behind a bigger picture. We should pay more attention to what has happened and will occur in poverty prone rural areas by emerging FTAs and the completion of the current round of talks of the WTO. For example, more effort will be necessary to grasp changes affecting rural poor households by carefully monitoring the evolution of the situation. As every economic revolution produces successes and failures in villages, solicit the key factors in successful cases and genuinely consider how to disseminate those positive experiences. After all, there is no use implementing socio-economic studies if they are unable to contribute to alleviating poverty ■

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(References available upon request)

Flash **BREAKING**

LDCs in Asia Pacific Receive Less Aid

Development aid and debt relief to the Asia-Pacific LDCs have been disproportionately low. With a combined population of 260 million or nearly two-fifths of the population worldwide in LDCs, Asia-Pacific LDCs receive less than half of the average per-capita aid given to LDCs in other regions. Overall, aid per capita is US\$ 19 for poor Asia-Pacific nations, compared to US\$ 43 in other regions.

UNDP, 2005. Asia-Pacific's Poorest Countries Need Global Support Too, News Bulletins, <http://www.undp.org/>, (1 July 2005).

Debt or Equity: a Philippine Choice

About 40 per cent of Filipinos, or more than 30 million people live in absolute poverty. There was no hope of this country reaching the UN goal of halving extreme poverty unless its foreign debt was reduced by half. The debt repayments and the government payroll take up 90 per cent of the budget, which leaves just 10 per cent for schools and hospitals, water and electrification projects. On top of that, extremely unequal income distribution and corruption make poverty alleviation even more difficult.

Doyle, Mark, 2005. Philippines Suffers Poverty Divide, <http://news.bbc.co.uk/>, (14 September 2005).

Too Poor to Buy Food

Poor people are hungry not because of a lack of available food, or over population, but because they cannot afford it. Politics and economic conditions have led to poverty and dependency around the world. Addressing world hunger therefore implies addressing world poverty as well. If food production is further increased and provided to more people while the underlying causes of poverty are not addressed, hunger will still continue because people will not be able to purchase food.

Shah, A., 2005. World Hunger and Poverty, <http://www.globalissues.org/TradeRelated/>, (18 April 2005).

Questioning Poverty Lines

The use of the poverty line approach to measure poverty has long been questioned. Poverty lines provide a one-dimensional picture and overlook the multifaceted nature of human deprivation. It is argued that there is insufficient "poverty" in the poverty line approach, providing evidence suggesting it is a dangerously misleading methodology.

The danger posed by the income-poverty line approach is that it inevitably leads to a misidentification of the poor.

Saith, A., 2005. Poverty Lines versus the Poor: Method Versus Meaning, Economic and Political Weekly, India, <http://www.eldis.org/>.

Agricultural Workers Predicament

Of a total workforce in agriculture of some 1.1 billion people, waged agricultural workers account for around 40 per cent or 450 million, according to a joint report by FAO, the International Labour Organization (ILO) and the International Union of Food. Many waged agricultural workers, the largest labour force in the world, suffer from some of the highest incidences of poverty and hunger. Millions of them live below the poverty line and therefore cannot afford to buy sufficient food. In general, worker households spend over 70 per cent of their cash salary on food. Economic pressures are eroding the already low levels of protection of agricultural workers in terms of wage levels, job security, health, safety and environmental standards and social protection. Agricultural workers, who do not own or rent the land on which they work nor the tools and equipment they use, are often poorly paid, earning wages well below those earned by industrial workers. Their employment is often unstable and temporary, and globalization has led to less and less permanent labour and a more flexible and marginalized workforce. Under these conditions, rural areas cannot develop ■

Based on Northoff, Erwin, 2005. Many of the 450 Million Waged Agricultural Workers Live in Dire Conditions, <http://www.fao.org/newsroom/>, (6 October 2005).

Critical Factors to Reduce Poverty

Based on 100 case studies, a World Bank report concludes that reducing poverty on a large-scale depends on several factors including leadership and commitment, institutional innovation, learning and experimentation, external catalysts such as donor assistance and sometimes even economic shocks. The report concludes that although progress appears to be the result of multidimensional interventions by more than one actor, sustained and shared growth at the macroeconomic level seems to be a necessary foundation for poverty reduction in a particular country. The report also stresses that rigorous impact evaluations could create the basis for scaling up poverty reduction efforts throughout the developing world. Some important findings of the report are that (i) no country reduced poverty without addressing its macroeconomic imbalances and creating solid foundations for growth and they all implemented parallel social pro-poor measures; (ii) countries that reduced poverty large-scale were also able to develop and sustain institutions that produced good governance, as well as an environment in which learning and adaptation took place, which allowed for midcourse correction; (iii) responsiveness, whether to crisis, to the stimulus of technology, or to an external shock—was another key ingredient: the ability to innovate, to adapt institutional capacity, to learn from experience, and to turn external factors into catalysts for positive change; (iv) commitment and leadership were essential to success ■

Based on Didier, John, 2005. Study Highlights Key Elements of Successful Poverty Reduction, Press Release No:2006/130/WBI, <http://web.worldbank.org/>.

UNICEF Report on Childhood Deprivations

A new UNICEF report, entitled *Childhood Under Threat*, shows that more than half the world's children are suffering extreme deprivations from poverty, war and HIV/AIDS, conditions that are effectively denying children a childhood and holding back the development of nations. The report argues that children experience poverty differently from adults and that traditional income or consumption measurements do not capture how poverty actually impacts on childhood. It instead offers an analysis of the seven basic "deprivations" that children do feel and which powerfully impact their futures. Working with researchers at the London School of Economics and Bristol University, UNICEF concluded that more than half the children in the developing world are severely deprived of one or more of the goods and services essential to childhood. Seven empirical studies support this argument, namely, (i) 640 million children do not have adequate shelter; (ii) 500 million children have no access to sanitation ; (iii) 400 million children do not have access to safe water ; (iv) 300 million children lack access to information (TV, radio or newspapers); (v) 270 million children have no access to health care services; (vi) 140 million children, the majority of them girls, have never been to school; and (vii) 90 million children are severely food deprived. Moreover, at least 700 million children suffer from at least two or more of the deprivations, the report states. The report also makes clear that poverty is not exclusive to developing countries ■

Based on UNICEF, 2005. *The State of the World's Children: Childhood Under Threat*, Press Release, http://www.unicef.org/media/media_24469.html, (9 December 2004).

Pros and Cons of Indonesia's Compensation Fund for the Fuel Price Hike

Indonesia makes cash payments to its poorest to compensate for increasing fuel prices. Indonesia's size made the creation of a social security system difficult, and the cut-off point for the compensation payment was a critical issue. The government has agreed to allocate Rp 4.748 trillion to distribute 300,000 rupiah (about \$ 30) each to 15.5 million households struggling on less than \$18 a month based on a census undertaken by the Central Bureau of Statistics (BPS). Poor households entitled to receive the compensation funds have to meet at least eight of the 14 criteria used, including daily income and expenditure on health care, food and clothing. However there are many problems faced in the distribution process, for example (1) BPS census data was misleading, (2) failure of the entitlements to the compensation fund, and (3) numerous reports of errors in the distribution of fuel compensation cards. The cash handouts have served their short-term purpose to help alleviate the immediate impact of the steep fuel price hikes on the poor. But a longer-term perspective indicates that in many cases the cost of the income transfers will exceed the net benefits to the poor ■

Based on Jakarta Post and The Sydney Morning Herald, 2005. Selected articles available upon request, <http://www.thejakartapost.com/yesterdaydetail> and <http://www.smh.com.au/news/world/>, (14 September - 20 October 2005).

Flash EVENTS



The Politics of Poverty Reduction

20 - 24 February, 2006
Buenos Aires, Argentina

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Poverty in the Light of the Informal Economy

21 - 22 April, 2006
Lisbon, Portugal

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International Conference on Communication Technologies and Development

ICTD 2006

25 - 26 May, 2006
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Book Review

Equity and Development

World Development Report 2006, A co-publication of The World Bank and Oxford University Press, 2005. ISBN 0821362496

The book consists of three parts: (I) inequity within and across countries, (II) why does equity matter? and (III) leveling the economic and political playing fields. In part I, authors began with explaining what equity is. It is viewed as a normative concept, related to fairness in distribution. There are two basic principles underlined: (1) equality of opportunity, and (2) avoidance of outcome deprivation. The interaction of political, economic, and socio-cultural inequalities produce inequality traps. Interesting figures and facts are presented within countries where there are inequalities in health, education, even within households and the home. For example, unequal opportunities persist across generations in Brazil, unequal assets cause unequal opportunities for AIDS orphans in southern Africa, health inequity in Peru, how parental education-place of residence-wealth affect child test scores in Ecuador, and many more. Across countries, there are many interesting figures presented, for example, education levels vary by country and between rural and urban countries, and also depend on the gender of the household head. Nationality could become a key determinant of opportunities and, in some cases, increasingly so (as shown in world inequalities graphs on p.65 of the publication).

Part II of the book expands "why equity matters?". The authors give two reasons; one is intrinsic and the other is because equity is a source of huge inefficiency in the world. Unequal power and influence can lead to the capture of institutions. Simply put: unequal control over resources causes bad political institutions, which cause bad economic institutions and impaired development. Figures of GDP and average protection against the risk of expropriation show that good economic institutions are good for prosperity. With total elasticity and Gini index, the authors show inequality weakens the power of growth to reduce poverty.

In Part III, leveling the economic and political playing fields are added as a solution. The authors argue that an equity lens adds three new perspectives to development policy, which can be seen as: (1) good policies for poverty reduction may involve redistribution away from the dominant groups, (2) equity-efficiency trade offs in such redistributions need to be assessed in light of the full, long-term benefits of equity, (3) the perception of a dichotomy between growth policies and policies for equity is

misguided, and (4) country-specific context is key in policy choice. It is interesting to see the Jamaican study as empirical evidence to stress the point that policy should start early and can make a difference.

The messages of the book are: (1) opportunities are distributed very unequally within most countries, as well as across them, (2) in the long-run, equity and efficiency are complementary. Fair societies, where opportunities are widespread, are more successful in achieving long-term prosperity, (3) public action should aim to level the playing field, by expanding access to opportunities to the poorest.

What the book has offered is not new. The concept of equity to some degree relates to (or is intrinsically related to) the development of a nation. However the book has proved systematically and empirically that as we enter the next century, development should be approached with a more comprehensive framework. If development can be used as vehicle to alleviate poverty, then the challenge is to include strategies to benefit the Poor. Stiglitz (2001) pointed out that both theory and empirical evidence argue that equity matters-and not just for who gets what, but for how much there is to get.

Development is now seen as a transformation of society. It is noted that equity is the focus of this book. In the long run, greater equity will underpin faster growth. Faster growth and human development in poorer countries are essential to reduce global inequality to reach the Millennium Development Goals ■

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