



## PLOW Learning Resource: Trade

### *Important Note:*

This learning resource was developed as part of the Professional Development for Livelihoods Advisers Website (PLOW) which was operational between 2006-2008.

PLOW was funded by the Department for International Development (DFID) and supported the professional development of DFID livelihoods advisers. PLOW hosted 17 learning modules of which this is one. Modules were produced using guidance provided by the Livelihoods Technical Competence Framework that described technical competencies, knowledge, and experience required by DFID Livelihoods Advisers.

PLOW modules were designed to help advisers get up to speed on areas of the competency framework, to prepare for new postings, or to refresh existing knowledge on particular subject areas. They were produced and developed by a partnership comprising the Programme of Advisory Support Service (PASS) and Livelihoods Connect based at the Institute of Development Studies (IDS). Each module was written by an expert or experts in the subject and provided:

- an overview of the subject in a briefing note;
- key texts;
- a summary of recent policy debates;
- points on where to find other resources; and
- a glossary of key terms used in the briefing note.

Although the learning modules produced were written with the DFID Livelihoods cadre in mind they were accessible to a global audience through the website.

Twelve of the original PLOW modules are now hosted on the Evidence on Demand website. This PLOW module was produced between 2005 and 2008 and has not been updated since. Some of the material that it draws upon may no longer represent current thinking and some of the links to resources may no longer exist. Nevertheless, we believe that it is still a useful resource that provides useful reference material.





## Trade

Theme Editor: **Dr Chris Stevens<sup>1</sup>**  
**Liz Turner<sup>2</sup>**

The impact of trade and trade policy on an individual's livelihood is often determined more by the policies of foreign governments (e.g. OECD agricultural policies, India's export policy, etc.), as well as the influence of regional and international agreements, rather than national trade policies. National trade policies are unlikely to influence the border price. However, other policies in the domestic market (such as taxation policies) will influence the transmission of border prices to consumers and producers.

This Briefing Note highlights the relative importance of the policies of domestic and foreign governments (trade and non-trade), how advisers should go about finding the answers to the ever-changing questions relating to trade and where to obtain further guidance. It cannot provide a direct answer to every question on trade because each question needs specific knowledge and answers are almost always context specific. Instead, it emphasises the need for combining local knowledge of the livelihood situation with knowledge of the underlying relationships on how countries trade and the role of markets.

### *Contents:*

- [Briefing Note](#)
- [Key Texts](#)
- [Policy Debates](#)
- [Further Reading](#)
- [Glossary](#)

<sup>1</sup> **Dr Christopher Stevens** is Director of Programmes for ODI's International Economic Development Group. His research focuses on the impact of Northern policies on the South, particularly those relating directly or indirectly to trade. Recent research and advice have covered changes to EU trade policy (such as on EPAs and rules of origin) and agriculture policy, the WTO Doha Round, as well as the international dimension of agricultural development and food security

<sup>2</sup> **Liz Turner** is a Research Fellow in the International Economic Development Group (IEDG) at the Overseas Development Institute (ODI) where she conducts economic and policy-oriented research focusing on aid and trade, including Aid for Trade and mainstreaming trade in country development strategies. She has extensive experience working in policy and institutional reform, project and programme management and capacity building.

## BRIEFING NOTE

### Contents

- [Potential questions that advisers may ask](#)
- [A framework for answers](#)
- [Understanding the domestic market and policies](#)
- [Understanding the international market and policies](#)
  - Policies in external markets
  - Policies in international fora

### How do trade policies affect livelihoods: a framework for answering trade-related questions?

#### Potential questions that advisers may ask

The PLOW Trade, Markets and Livelihoods briefing note explains the effects of trade and the role of markets; the Sustainable Livelihoods Framework gives a central role to structures and processes (e.g. government, institutions and policies) in determining livelihood outcomes. This briefing note goes a step further by helping advisers work through and respond to trade-related issues and questions and their impact on livelihoods of the poor. The following provides a list of example questions that might arise:

- a) How are Malawi's fertiliser subsidies affected by WTO rules?
- b) What will be the impact of local purchasing of food aid on domestic agricultural markets in Uganda?
- c) How does trade affect food security?
- d) What impact will China have on Zambian livelihoods?
- e) Which is more important for Mozambique, the Doha Development Round or an Economic Partnership Agreement (EPA)?

The briefing note uses these examples to show what sort of information is needed. In the case of the five questions above, specific knowledge is needed on the following:

- a) WTO rules on allowable agricultural subsidies for a least developed country (so the answer would be different for Kenya, which is not least developed).
- b) Who in Uganda produces and consumes the goods that will be purchased, the level of domestic supply and how easy is it to import (with answers to the last two likely to change from year to year or month to month).
- c) Who produces the goods that are exported and consumes those that are imported, what are the terms of trade and how are these affected by domestic and foreign policies (so the answer for India will be different than for Ghana).
- d) Whose livelihoods are affected by copper (being exported to China), manufactures (being imported from China), and domestically produced goods that are no longer competitive because the copper boom has affected the exchange rate.
- e) The precise details of Doha and EPAs (none of which are available at present (May 2007)).

#### A framework for answers

Predicting the impact on livelihoods, pro-poor growth and vulnerability almost always requires the observer to judge the relative importance of a variety of influences (e.g. policies of domestic and foreign governments, trade and non-trade), opinions will often differ and there is not necessarily a 'right answer'.

The first step is to impose some order on the myriad factors that mediate the impact of trade on an individual's livelihood and to establish their relative importance and probability. Figure 1 sets out the causal links between changes to trade, on the one hand, and the welfare of individuals on the other [see Chapter 4, McCulloch et al]. Complex though it may look, each box glosses over many sub-boxes: 'global supply capacity' for example depends not only on physical and human resources but also on technology and prices, both of which change (increasing or reducing what can be supplied competitively). Its importance is to draw the adviser's eye up from the bottom of the chart (and the welfare of individuals) to the levels of institutions and markets that shape their environment. The top oval represents the international market; the bottom the domestic market.

Download [Figure 1](#): Trade Policy and Poverty: Causal Connections

## Step 1: Understand the domestic market and policies

We start with where the people are: the bottom oval representing the domestic market. The price individuals receive for what they sell, and pay for what they buy, will be influenced by international trade to the extent that the 'border price' filters down to them through all of the intermediate boxes.

As **consumers**, households and individuals will be affected by the final retail price of goods that are imported and those that are domestically produced and linked to imports (for example, because they use foreign inputs).

As **producers**, they are also affected if they work for enterprise (including sole traders/producers) for which imports are either an input or a competitive product. Changes to tariffs, from which governments in poor countries derive a significant part of their revenue, may also affect the volume of spending on the poor.

### Box 1. Questions on domestic trade-related policy

Questions like those on trade and food security or on local purchasing of food aid require information on the domestic oval. Food security will be enhanced by trade if the insecure will have more reliable access to food as a result - which depends partly on what is traded (and who produces it) and partly on how markets and government spending function, all of which vary between countries (and regions within them). Hence, before looking to the international environment, advisers must inform themselves on these basics.

Many of these filters can be influenced by **national government policy** (so there is much that can be done - or fail to be done - to reinforce positive and mitigate negative trade shocks) - see Box 1. If the wholesale and retail markets operate efficiently, any change in the border price will feed through into similar changes to the retail price. If the price falls (because imports become more plentiful) this is good for consumers and input users, but bad for competing producers. If it rises (for example following a shift from foreign to domestically produced food aid purchases) the reverse is true. But if markets are not competitive then these changes will happen only in part, or perhaps not at all. If intermediaries pocket any price fall domestic producers may still lose (as purchases are switched away from them) but consumers gain no benefit. Governments may change spending priorities to cushion the poor and, over time, develop alternative sources - or they may not. So the impact of any given external change will be different in some countries (and for some groups) than in others.

## Step 2: Understand the international market and policies

Domestic arrangements are often critical - but only up to a point. Some external changes can be so substantial (immediately or cumulatively over time) that no amount of domestic tinkering can reverse the trend. For example, China's dynamism as both an exporter (of manufactures) and importer (of raw materials), has probably altered for the foreseeable future the relative profitability of African

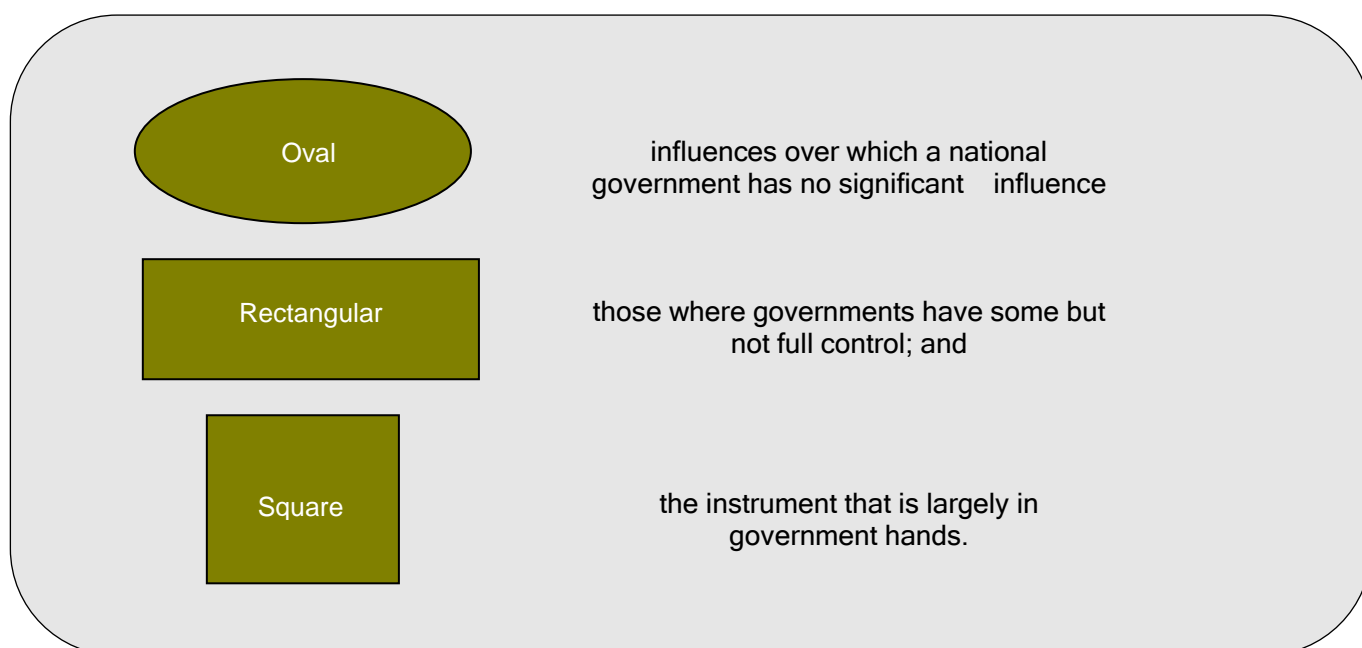
manufactures production compared with raw materials - just at a time when climate change is having its own effects on agriculture (probably in the reverse direction).

### Box 2. What can small countries do?

There is only one square box in the upper oval of Figure 1 reflecting the fact that for most DFID partner countries (which are small and poor) it is often not their own policy changes but those of others that have the greatest impact; though big countries like India have more options. For example:

- The prospects for Africa's clothing industry have been turned upside down by the combination of China's changes to its own trade policies (a big country effect) and the OECD's changes to its import policies.
- In agriculture, the world price of the wheat imported by many African states on a substantial scale has been influenced by the agricultural policies of other countries, most notably the OECD.
- The export prices of Malawi's sugar, Swaziland's citrus, Namibia's beef and Kenya's horticulture have all been influenced by the combination of OECD (especially the EU's) agricultural and preferential trade policies; they have gained whilst some other developing countries have lost.

In Figure 1, the top oval helps advisers identify the big changes (that may creep up from many small changes over years) that will affect the feasibility of the current conventional wisdom and to which national governments (and donors) have to adapt (see Box 2). There are three types of 'box':



#### i) Policies in external markets

Livelihoods in Africa may be affected, for example, by the policies of China, OECD's policies on agriculture and clothing, and EU trade preferences (see Box 2). Answering questions on the impact on livelihoods requires:

- Assessing the impact (now and in future) of the policy changes already made; and,
- Forecasting the changes that are possible in the near future.

Either may alter fundamentally the viability of current practice. For instance, if cereal prices rise and trade preferences on sugar are lost, it may no longer be possible to import enough food. But if climate change hits domestic staple production, trade may be the only way to supply sufficient food.

How far advisers have to gaze into the future depends on how quickly livelihoods policies and practices can be changed. What is the payback time? How certain are the changes that would make a viable project unviable (and vice versa)? There are no shortcuts.

## ii) Policies in international fora

How will livelihoods be affected by changes to the framework of rules negotiated in different fora, especially the WTO? That depends on whether they are affected by any practice (of the host government or a trade partner) that could be changed through negotiation or challenge.

As WTO members, most African countries may need to alter their policies to comply with the agreed rules, but the required changes are not often radical. This can be because they benefit from exemptions or dilutions to the rules, or because the rules offer flexibility to pursue the same ends but by different means. And enforcement is unsystematic (see Box 3).

When a WTO dispute results in a sharp change to livelihoods-related policy it often relates specifically to the policies of a big country with smaller developing countries affected indirectly by the collateral damage. This is because big countries:

- are more often in the firing line for disputes since their policies have a big impact on the trade of others;
- may be affected only marginally by a change (eg EU trade policy on bananas) but this can have a big impact on livelihoods in a trade partner (such as Dominica); and,
- decide how to adjust their policy after a WTO dispute and how far the interests of a small trade partner will be taken into account.

### Box3. Are African policies WTO compliant?

WTO rules, often couched in vague phraseology (negotiated by diplomats anxious to reach agreements between differing interests) are interpreted and enforced somewhat randomly. It can be unclear exactly what a vague commitment requires. A resolution may be provided when one country calls upon the services of the WTO's Dispute Settlement Mechanism, the Appellate Body of which interprets the rules. Although the volume of disputes has increased in recent years, it is still small by comparison with the rule book and the volume of trade.

## KEY TEXTS

*Trade and Poverty:*

**Trade Liberalization and Poverty: A Handbook.** McCulloch, N., Winters, L. A. and Cirera, X., CEPR, London, 2001. Chapter 4.

This handbook uses economic analysis and practical experience to consider the impact of trade reform on poverty exploring the distributional impact. It argues in favour of liberalisation of agricultural markets and services (including increasing labour mobility) in order to reduce poverty. It identifies policies that governments can implement to help ensure that the poor gain from liberalisation.

*Trade Policy:*

**Trade, Doha, and Development: A Window into the Issues,** Newfarmer, R.

Chapters 2, 5.

This book examines the key trade issues relevant to the Doha Development Agenda and integration into the multilateral trading system. Despite its publication just before the WTO Ministerial meeting in Hong Kong and the 'stalled' (optimist view) or 'collapsed' (pessimist view) Doha Round, the book remains a useful selection of important papers relating to current debates on international trade. Topics covered include: Doha; potential gains from trade liberalisation; trade in agriculture including market access issues; cotton; sugar policies; trade in services; manufacturing trade; trade facilitation; TRIPs; trade preferences; regional trade agreements including EPAs; and, Aid-for-Trade.

## POLICY DEBATE

### Recent and Future Policy Debates on Trade

- [The WTO and 'Policy Space'](#)
- [Economic Partnership Agreements](#)
- [Aid-for-Trade Prospects](#)
- [The Potential of Biofuels](#)

### The WTO and 'Policy Space'

The WTO affects the environment for trade in two ways: it is a forum within which members negotiate the reduction of barriers to trade, and it applies agreed 'rules' designed to reduce arbitrary behaviour. Both are advanced during periodic 'Rounds' of negotiations, of which Doha (began 2002 and was due to have ended by 2005) is the most recent. If Doha comes to a successful conclusion it will reduce some barriers and extend some rules. Regardless of what happens, though, the body of rules agreed during the last 50+ years will continue to apply and be enforced.

Policy space: Are WTO rules preventing development? Briefing Paper no. 14. *"Do WTO rules restrict developing country 'policy space', limiting their development policies?"*, ODI, 2007

Trade, Doha, and Development: A Window into the Issues, Newfarmer, R., 2005

Agricultural Trade Reform and the Doha Development Agenda, Martine, W and Anderson, K., 2005

WTO (2005). Doha Work Programme: Ministerial Declaration, WT/MIN(05)/DEC, December 18, WTO, 2005

The WTO Doha, Eldis guide to the Doha  
<http://www.eldis.org>

### Economic Partnership Agreements

All sub-Saharan African states plus many of those in the Caribbean and the Pacific (the ACP) have since 2002 been negotiating a new trade agreement (Economic Partnership Agreement (EPA)) with the EU to succeed the provisions of the Cotonou Partnership Agreement (CPA) which, with its predecessors, have established access to their main market for three decades. The talks are due to end in 2007 but by May a lot of technical detail (underpinned by political choices) were still to be agreed. Since it is the detail that will determine their impact, this is a story that advisers will need to monitor closely as it unfolds.

Economic Partnership Agreements (EPAs): Where We Are, Briefing Paper no. 4. *"At present, neither supporters nor opponents of EPAs can demonstrate convincingly that the other is wrong."*, ODI, 2006

The Potential Effects of Economic Partnership Agreements: What Quantitative Models Say Briefing Paper no. 5 *"The use of quantitative modelling provides a transparent way of exploring the potential effects of EPAs."*, ODI, 2006

The 'Development Dimension': Matching Problems and Solutions *"What must Economic Partnership Agreements offer if they are to be 'development agreements?"* Briefing Paper no. 6, ODI, 2006

Overview of Regional EPA Negotiations InBrief series for 2006-08, ECDPM



## Aid-for-Trade Prospects

Aid for Trade (AFT) has its origin in the 2005 Hong Kong Ministerial Declaration:

*“Aid for Trade should aim to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade”.*

### Internet resources

Doha Work Programme: Ministerial Declaration Doha Work Programme: Ministerial Declaration, WT/MIN(05)/DEC, December 18, WTO, 2005

ILEAP webpage

Provides several ILEAP and ILEAP-ODI papers on AFT

ODI webpage on AFT web resources

Aid for Trade Task Force: Recommendations of the Task Force on Aid for Trade (WT/AFT/1). WTO, 2006

### Intranet resources

DFID International Trade Departments homepage on intranet

## The Potential of Biofuels

Biofuels, produced from crops grown in plantations or by smallholder farmers, represent a large, near-term substitute for the petroleum fuels that provide around 95 percent of the world's transportation energy. The two main biofuels are ethanol, made from crops like sugar, wheat and maize; and biodiesel, made from oil-based crops.

Market Distortions on Biofuels, Stevens, C., 2007

As Biofuels Boom, Will More Go Hungry?, Reuters, 2007

Challenges and Opportunities for Developing Countries in Producing Biofuels, UNCTAD, 2006

The Emerging Biofuels Market: Regulatory, Trade and Development Implications, UNCTAD, 2006

Global Bioenergy Partnership Website

<http://www.globalbioenergy.org/>

Linking Trade, Climate Change And Energy: Selected Issue Briefs, Part 3 Biofuels: Hope Or Hype? [www.ictsd.org](http://www.ictsd.org)

## FURTHER READING

Eldis website - trade and agriculture theme <http://www.eldis.org/go/topics/resource-guides/trade-policy/trade-liberalisation/agriculture-impacts>

Institute for Agriculture and Trade Policy  
<http://www.iatp.org/>

**Trade Liberalization and Poverty: A Handbook** . McCulloch, N., Winters, L. A. and Cirera, X., (2001), CEPR, London  
<http://www.cepr.org/PRESS/P144.htm>

**Trade Liberalisation and Poverty: The Empirical Evidence**. Winters, L A, McCulloch, N. and McKay, A., (2002), CREDIT Research Paper, University of Nottingham.

**Background Briefing: Trade and Poverty** , DFID, 2002

**LDC Report: Linking International Trade with Poverty Reduction** , UNCTAD, 2004

**Making Global Trade Work for People** , UNDP, 2003

**China and India  
Impact of China on sub-Saharan Africa** , Kaplinsky, R., McCormick, D. and Morris, M., 2006

**The Rise of China and India: What's in it for Africa?** OECD Policy Insights no.19, OECD, 2006

**Dancing with the Giants: China, India, and the Global Economy** Yusuf, S. and Winters, L. A, 2007.

### Preference Erosion

**World Bank Research Papers on Preference Erosion**

[http://siteresources.worldbank.org/INTRANETTRADE/Resources/Preferences\\_Intro\\_Terms\\_of\\_the\\_Debate.pdf](http://siteresources.worldbank.org/INTRANETTRADE/Resources/Preferences_Intro_Terms_of_the_Debate.pdf)

### WTO

**Eldis Website guide to the Doha**

<http://www.eldis.org/go/topics/dossiers/wto-doha-round>

**Policy space: Are WTO rules preventing development?** Briefing Paper no. 14. *"Do WTO rules restrict developing country 'policy space', limiting their development policies?"* , ODI, 2007

**Agricultural Trade Reform and the Doha Development Agenda** , Martin, W. and Anderson, K., 2005

**Doha Work Programme: Ministerial Declaration** , WT/MIN(05)/DEC, December 18, WTO, 2005

### Economic Partnership Agreements

**Economic Partnership Agreements (EPAs): Where We Are** Briefing Paper no. 4. *"At present, neither supporters nor opponents of EPAs can demonstrate convincingly that the other is wrong."* , ODI, 2006

**The Potential Effects of Economic Partnership Agreements: What Quantitative Models Say** . Briefing Paper no. 5 *"The use of quantitative modelling provides a transparent way of exploring the potential effects of EPAs."* , ODI, 2006

**The 'Development Dimension': Matching Problems and Solutions** *"What must Economic Partnership Agreements offer if they are to be 'development agreements?"* Briefing Paper no. 6, ODI, 2006

**Overview of Regional EPA Negotiations** InBrief series for 2006-08, ECDPM

## **EU trade policy**

Eldis guide to [EU trade policy](#)

## **Projects and Programmes**

### **Aid-for-Trade**

Provides several ILEAP and ILEAP-ODI papers on Aid-for-Trade

**ODI webpage** on Aid-for-Trade web resources

<http://www.odi.org.uk/themes/trade/>

Aid for Trade Task Force: Recommendations of the Task Force on Aid for Trade (WT/AFT/1), WTO, 2006

[http://www.wto.org/english/tratop\\_e/dda\\_e/aid4trade\\_e.htm](http://www.wto.org/english/tratop_e/dda_e/aid4trade_e.htm)

## **Other Useful Websites and Publications**

### **Enhanced Integrated Framework**

### **International Centre for Trade and Sustainable Development (ICTSD)**

<http://www.ictsd.org/>

The organisation promotes ongoing dialogue about trade and sustainable development and has a wide network of partners. The organisation publishes several useful and up-to-date briefings on trade (including Trade Negotiations Insights and Bridges Weekly Digest)

### **Overseas Development Institute**

<http://www.odi.org.uk/>

The Overseas Development Institute (ODI) is Britain's leading independent think tank on international development and humanitarian issues. Trade is a core research area -key publications can be found at the Trade and finance portal.

### **European Centre for Development Policy Management (ECDPM)**

<http://www.ecdpm.org/>

The organisation aims to improve international cooperation between Europe and ACP countries through capacity building, promotion of policy dialogue and the provision of information and facilities for knowledge exchange.

### **ACP-EU-Trade.org**

<http://www.acici.org/aitic/>

A non-partisan source of information, documents and links on ACP-EU trade matters.

<http://www.acp-eu-trade.org/>

### **Agency for International Trade Information and Cooperation**

Its main objective is to reinforce the capacity of LDCs to participate in trade negotiations largely through workshops and meetings. Provides useful material on trade-related assistance (e.g. Aid for Trade (including private sector involvement) and the Enhanced Integrated Framework)

### **World Trade Organisation**

<http://www.wto.org/>

World Trade Organisation including [WTO agreements](#) and information on [Doha](#)

### **African Economic Research Consortium**

<http://www.aercafrica.org/publications/index.asp>

Its main objective is to strengthen local capacity for rigorous research. The website includes a working paper series on trade.

### **Trade Law Centre for Southern Africa (TRALAC)**



<http://www.tralac.org/>

The organisation aims to build trade law capacity in southern Africa to improve participation in the multilateral trading system. Publish trade briefs and working papers (e.g. on EPAs and the WTO).

### **South Centre**

<http://www.southcentre.org/>

An inter-governmental organisation of developing countries of developing countries publishing work on trade in services, trade in agriculture and aid-for-trade.

### **Third World Network**

<http://www.twinside.org.sg/>

Independent, non-profit international network of organisations and individuals conducting research, including trade research (e.g. on issues relating to WTO-related issues)

### **UN Economic Commission for Africa and the Africa Trade Policy Centre**

<http://www.uneca.org/>

These strengthen the capacity of African governments to formulate and implement trade policies and participate more effectively in trade negotiations.

### **FAO**

<http://www.fao.org/trade/>

FAO on trade (including EPAs and WTO related issues)



The **Appellate Body** of the WTO hears appeals brought by WTO members against the findings of dispute settlement panels. The Appellate Body can uphold, modify or reverse the legal findings and conclusions of a panel, and reports of the Appellate Body, once adopted by the Dispute Settlement Body (DSB), must be accepted by the parties to the dispute.

**Border Price** - the price of an internationally traded good at the country's border or port of entry.

**Doha Development Round** - Trade rounds refer to a period of time for which the WTO focuses upon particular aspects of the international trade rules, named after the country where the initial talks are held (e.g. the current Doha Development Round which began in Doha in 2001). The Doha Development Round has a greater focus on the interests of developing countries and covers several issues of importance relating to the multilateral trading system and liberalisation including agriculture, services, industrial products, investment, government procurement, trade facilitation, standards, intellectual property rights and special and differential treatment (SDT).

The **Dispute Settlement Body** is a WTO body responsible for dealing with disputes between WTO members. Consists of all WTO members meeting together to consider reports of dispute settlement panels and the Appellate Body.

**Economic Partnership Agreements** are agreements being negotiated between European Union and ACP countries to create a free trade area. This is a response to the criticism that preferential trade agreements provided by the EU are incompatible with WTO rules.

**Trade Preferences** give treatment which is more favourable than the Most Favoured Nation (MFN) principle of 'normal' non-discriminatory import tariffs.

**Exchange Rate** specifies how much one currency is worth in relation to another.

**Food Security** The condition when all people, at all times, have physical and economic access to sufficient, safe, and nutritious food to meet their dietary needs and food preferences for an active and healthy life.

**Subsidies** a subsidy refers to direct or indirect assistance (financial or in-kind) provided by the government to domestic producers or exporters.

**Tariff** refers to a tax or duty on goods at the border. Import tariffs raise the prices of imported goods, thus making them less competitive within the market of the importing country.

**Terms of Trade** refers to the ratio of the price of an export commodity/ies to the price of an import commodity/ies.

**WTO Rules** refers to the rules of trade between nations, dealt with at near global level by the World Trade Organisation.