Preface

The Globalization Knowledge Network (GKN) was formed in 2005 with the purpose of examining how contemporary globalization was influencing social determinants of health. It was one of nine Knowledge Networks providing evidence-informed guidance to the work of the World Health Organization’s Commission on Social Determinants of Health (2005-2008): like most of the Knowledge Networks, its operations were financed by an external funder (in this case, the International Affairs Directorate of Health Canada, Canada’s national ministry of health). The GKN conducted two face-to-face meetings to debate, discuss, outline and review its work, and produced thirteen background papers and a Final Report. These papers and the Final Report underwent extensive internal and external peer review to ensure that their findings and policy inferences accurately reflected available evidence and scholarship.

This GKN publication series was prepared under the general editorship of Ronald Labonté, with assistance from Vivien Runnels and copy-editing provided by Wayne Harding. All views expressed are exclusively those of the authors. A complete list of titles in the publication series appears on the inside back cover of this monograph.

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Trade Liberalization: Synthesis Paper

WHO Commission on Social Determinants of Health

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April 30, 2007

* The coordinator would like to thank the anonymous reviewers and Ronald Labonté and Ted Schrecker for their detailed comments on the first draft of this paper.
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Trade reforms have positive and negative impacts on the social, economic and physical determinants of health. This synthesis paper examines the impact of trade reforms on structural determinants, such as poverty and income, and on intermediate determinants such as food security and economic insecurity. One section also examines their impact on health systems, particularly on accessibility and affordability of health care. The paper reviews empirical evidence on five policy options, to assess the conditions for their effectiveness.

**Policy Summary**

**Option 1: Limit reliance on world agricultural market to achieve food security**

First, we examine whether removing the barriers to entry of foreign agricultural products can improve food security in developing countries, for instance by reducing the price of food. The review of the literature highlights that international agricultural markets are too volatile to guarantee food security and that import liberalization can only be one minor element in ensuring a reliable and affordable supply of food. Moreover, cheaper food is not a good trade-off for damage to the livelihood of domestic producers who cannot compete with the new imported products, especially in developing countries where the majority of the population’s livelihoods are directly linked to agriculture.

**Option 2: Focus on agricultural growth, not agricultural exports**

Second, we document whether expanding exports of agricultural products can increase income and reduce poverty in developing countries. The evidence reviewed here stresses that promotion of agricultural exports is an uncertain path to poverty reduction. Each country must closely analyze its potential impact and should focus first on growth of domestic production.

**Option 3: Improve social safety nets to reduce economic insecurity**

The third section focuses on the importance of improving social safety nets in developing countries. The literature indicates that trade liberalization has...
increased economic insecurity. To identify effective national strategies to develop social safety nets, this section reviews the experiences of the East Asian crisis to highlight a number of recommendations about the most effective approach to build social safety nets.

Option 4: Adopt a very cautious approach to liberalisation to health services

The fourth section focuses on the impact of trade reforms on national health systems. Some believe that opening the provision of health services to foreign investment and providers can improve access to these public services. The evidence available now is limited. However, it does not support the case that international trade in health services – or for that matter commercialization led by domestic actors – has contributed positively to improving health systems in developing countries. Given that trade treaties make policy reversal very difficult, we warn national governments against making commitments on health-related services in international trade treaties at this point.

Option 5: Find alternative sources of public revenues before reducing tariffs

Tariffs revenues are a very important source of public revenues in many developing countries and for the capacity of national governments to adopt policy which positively affect the various determinants of health. In general, tariff revenues decline after trade liberalization. Most developing countries, especially low-income countries, have not been able to replace tariffs with other revenues, and have witnessed a general decline of their public revenues. Therefore, national governments need to find alternative sources of public revenues before reducing tariffs.
Trade Liberalization and the growth in the number of world, regional and bilateral trade agreements are generally regarded as key elements of contemporary globalization. Over the past 20 years most developed and developing countries have undertaken trade reforms to increase the openness of their economies to international trade. By trade reforms or trade liberalization, we mean the reduction of tariffs, quotas and other barriers that limit the entry of foreign goods and services into a country. We also include measures that limit the export of products and services. The pace and the extent of trade reforms varied greatly from one country to another. The initial conditions before reforms also varied, as some countries started from very high levels of protectionism, while others had more moderate levels. The context within which these reforms were adopted also changed from one country to another. In many countries, especially lower income countries, trade reforms were part of a larger package of economic reforms adopted as a condition for structural adjustment lending from international financial institutions.

In some countries, trade liberalization was adopted as a domestic, unilateral strategy. Trade liberalization can also be undertaken because of commitments made in international trade negotiations, either at the multilateral, regional or bilateral level. In this context, trade reforms could be a concession to trade partners in exchange for better access to foreign markets.

Measurement

A number of indicators can be used to measure the scope of trade reforms in developing countries over the last decades. Average applied tariffs can be used as one measurement. If we look at average duties on manufactured goods, we see a decline in the majority of developing countries. For instance, in emerging markets like Brazil, China and India, average tariffs of 34 per cent, 43 per cent and 83 per cent respectively in 1990 were brought down to 12 per cent, 9 per cent and 28 per cent in 2004 (World Bank Development Indicators). The decline of the level of tariff revenues...
as part of total government revenues can be an indirect measure of change in trade policy. For example, in 1990 tariff revenue represented 27 per cent of total government revenues in South Asia; compared to just 18 per cent in 2004. In Latin America and the Caribbean the percentage went from 15 per cent to 5 per cent in the same time period.

**Findings**

Trade reforms can have positive and negative impacts on the social, economic and physical determinants of health. This synthesis paper examines the impact of trade reforms on structural determinants, such as poverty and income, and on intermediate determinants, such as food security and economic insecurity. One section also examines their impact on health systems, particularly on accessibility and affordability. The paper identifies five entry points for policy interventions, focusing on developing countries. These interventions aim to prevent, reduce or mitigate the negative health impacts of trade liberalization, or to harness its health benefits. The paper reviews the evidence on five policy options to assess the conditions for their effectiveness.

First, we examine whether removing the barriers to entry of foreign agricultural products can improve food security in developing countries, for instance by reducing the food prices. We also ask what has been the impact of reducing tariffs on imported foodstuffs on domestic producers, since many poor countries have a large percentage of their population dependent on agricultural production. The review of the literature highlights that international agricultural markets are too volatile to guarantee food security, and that import liberalization can only be one minor element in ensuring a reliable and affordable food supply. Moreover, cheaper food is not a good trade-off for damage to the livelihood of domestic producers who cannot compete with the new imported products.

Second, we examine whether expanding exports of agricultural products can increase income and reduce poverty in developing countries. Agricultural production is often viewed as a sector where many developing countries have a comparative advantage on global markets. Therefore, improved access to industrial markets and production geared toward export markets are often presented as a key element of a poverty reduction strategy. However, the evidence suggests that promotion of agricultural exports is an uncertain path to poverty reduction and that each country must analyze carefully potential impacts on poverty reduction and focus first on growth of domestic production.

The third section focuses on the importance of improving social safety nets in developing countries. The literature indicates that trade liberalization has increased economic insecurity, even for households whose income has risen with increased globalization. To identify effective national strategies to develop social safety nets, this section reviews experiences from the East Asian crisis to highlight a number of recommendations about the most effective approach to build social safety nets. The recommendations include publication of a national list of critical social programs that are protected from budget cuts during crises. This list would reflect a strategy of preventing irreversible human capital losses, focusing on the most powerful determinants of health (e.g. malnutrition in early childhood).

The fourth section focuses on the impact of trade reforms on national health systems, recommending a very cautious approach to liberalization of health services. While some argue that opening health services to foreign investment and providers could improve access to these services, others contend that it will mean better access for only a very small portion of the population with higher incomes. The evidence available now is limited. However, it does not support the case that international trade in health services — or for that matter commercialization led by domestic actors — has contributed positively to improving health systems in developing countries. Given that trade treaties make policy reversal very difficult, we warn national governments against making commitments at this point on health-related services (health care, health insurance) in international trade treaties.

Most developing countries have reduced tariffs in recent years. The last section of this paper examines the impact of tariff reductions on public revenues. Tariff revenues are a very important component of public revenues in many developing countries. They affect the capacity of national governments to adopt policies which positively affect the various determinants
of health, including the capacity to fund health care and other social safety nets. This section reviews recent work highlighting that trade liberalization has led to lower tax revenues for developing countries. As well, the impact has been worse in low-income countries that are unable to replace lost revenues from other sources. As trade reforms deepen, tariff revenue will continue to decrease, suggesting national governments should find alternative sources of revenue before reducing tariffs.

Option 1: Limit reliance on world agricultural market to achieve food security

An ideological shift and accompanying changes in trade policy and law have significantly increased the role of international trade in countries’ efforts to secure enough food for their people. This has been facilitated by technological developments that underpin globalization, such as the rapid development of global communications tools and containerized shipping. A review of trends in food trade shows that sub-Saharan Africa was expected to increase its food import needs by 150 per cent (Pinstrup-Andersen et al., 1997, p. 6). At the same time, the role of states in food security has been reduced. Rightly or wrongly, most politicians today believe that trade should play a role in ensuring an adequate food supply and that governments make poor managers of economic affairs. Many developing countries have withdrawn a number of state services as a result. These include subsidized ration cards for poorer citizens and state-operated agricultural extension and marketing services aimed at increased production and/or improved distribution mechanisms for locally grown food to reach urban and export markets (UNCTAD, 2004, Belshaw and Livingstone, 2002).

This section examines the impact of import liberalization in agriculture on food security in developing countries. The first question we examine is whether removing the barriers to entry for foreign food products results in improved food security for the local population. The second question is whether imports offer a stable and reliable supply of food for developing countries. The section concludes with a discussion of the WTO agreements and how they can limit the capacity of national governments to adopt measures that ensure food security.

1) Import liberalization and food security

Import liberalization means the reduction of tariffs, quotas and other barriers to the entry of imported goods. Experience shows that securing food from international markets offers important benefits to countries, including access to cheaper more varied food, and it is an effective way to stabilize supplies when domestic production falls short. Bangladesh, for example, was able to use private imports of rice to make up a domestic production shortfall caused by floods that destroyed about 10 per cent of its rice crop in 1998 (FAO, 2003b). These imports were made possible by reforms to trade policies undertaken shortly before the floods that for the first time allowed the private sector to import food to meet demand.

Trade liberalization can have several impacts on domestic food prices and access to food, as it affects the price of imported foods and the income of domestic farmers (FAO, 2003a). “Even where food prices do fall, however, this is not necessarily a straightforward advantage. The outcome depends on the location and employment of the food insecure, i.e. of the poorest strata of society. If many of the poorest households are dependent directly or indirectly on agricultural production for their main income, the overall effect on food security may be negative” (FAO 2003a, Chapter 1 Section 6, no page number).

Recently the FAO undertook a comparative study of the empirical linkages between trade reforms and food security in 15 small and large developing countries. The case studies married qualitative information with quantitative data (e.g. price analysis, supply response in key commodities, food expenditures per household). The purpose was to assess the impact of economic reforms, focusing on trade reforms, on both aggregate and household food security. A key policy lesson of the study for developing countries was that “trade reform can be damaging to food security in the short to medium term if it is introduced without a policy package designed to offset the negative effects of liberalization” (FAO, 2006, p. 75, emphasis added). Indeed, domestic producers are often in a weak position to compete with foreign competition. The study highlighted a well-targeted subsidy for agricultural inputs as one measure to manage the initial negative impacts of trade liberalization.
Special caution is needed with respect to foods from foreign competitors who receive high levels of subsidy from their national governments. “The policies of many developed countries (and some developing countries) ensure that many temperate foods are sold on world markets at subsidized prices. Although this is a benefit to net food importers, it represents a clear disadvantage to developing countries that are aiming for self-sufficiency … If they permit food imports tariff-free, this amounts to unfair competition against domestic producers. In cases where subsidized imports compete with local production, it could be appropriate to levy a tariff equivalent to the subsidy” (FAO, 2003, p. 50).

The findings of the FAO comparative study highlighted that trade reforms benefited farmers producing exports crops, but generally they had negative impacts on farmers producing crops competing with imported foodstuffs. For low-income countries whose economies are still heavily dependent on agriculture, the study stressed the importance of the sequencing of reforms. Raising agricultural productivity and creating non-agricultural employment should precede trade reforms, such as reducing tariffs on crops grown by low-income households (FAO, 2006, p. 76).

Thus an examination of the impact of trade reforms on food security must include not only the impact on the price of food but also the impact on livelihoods and employment. For almost every developing country, especially for low-income countries, agriculture plays a vital role in employment. Indeed, as a whole, the food and agriculture sector (including input providers, and food processing, retail and distribution) is a major employer in most countries. In developing countries, agriculture provides a livelihood for anywhere from 20 to 90 per cent of the economically active population. Two-thirds of women in developing countries rely on agriculture for their livelihoods (UNCTAD, 2004b). With lower productivity levels than manufacturing and services industries, agriculture often contributes a relatively small share of GNP, but it contributes a large share of employment.

Agriculture also provides a safety net when poor economies hit difficulties. Economic crises often see large numbers of people return to the land to eke out livings after losing their jobs. That was the case in the former Soviet Republics after the collapse of the USSR and in Thailand and Indonesia during the 1998 Asian financial collapse (NaRanong, 2004). For countries unable to afford a social safety net, agriculture plays a vital social and economic role, even as its contribution to GDP declines.

Even if a large percentage of wages is spent on food, the state of the agricultural economy (how many jobs it generates and how well paid those jobs are) is more important than the price of food. Cheap food is not a good trade-off for losing employment.

Effective agricultural development – development that generates jobs and widely shared growth in income – depends on land distribution patterns, access to capital and labour, environmental conditions and access to markets. Strong agricultural development and equitable land distribution together provide a solid basis for economic growth and poverty reduction (Mellor, 2001). Farmers’ prosperity depends on their resource base (including access to land, water, credit, seed and animal stock) and their market power (how much they can earn from the exchange of the crops and livestock they produce).

2) Managing an adequate supply

Another issue related to trade and food security is whether international markets are sufficiently stable to ensure food security. Even if they only import a relatively small part of their total food needs, poor countries can be severely affected by small increases in world food prices. Production for export is quite concentrated by country or region. For example, the top five wheat producers – China, India, the U.S., Russia and France – grow just under half the global total. Even more concentrated, five producers – the US, France, Canada, Australia and Argentina – supply about 75 per cent of the world wheat market, that is, the wheat that crosses an international border (Vocke, Allen and Ali, 2005).

This concentration means weather in one of the big producer countries can have a profound impact on prices and availability in world markets. If China’s wheat harvest is poor as a result of weather, that country’s recent arrival on the world market as a
huge buyer would drive world prices up dramatically. If the U.S. harvest is poor, not only do U.S. imports increase and raise world prices, but as a major supplier for the world market poor U.S. harvests further pressures prices to rise. Many poor developing countries import relatively small volumes of food in world market terms, but those imports are critical to meeting their population’s food security needs and their capacity to pay even 10 per cent more for that food is severely constrained by their lack of foreign currency. In fact, in 1995-96 developing countries faced an average 40 per cent increase in their food import bills, due to poor harvests, demand in China, and the dramatic drop in food aid levels as U.S. surpluses were absorbed in commercial markets. In theory access to a global market should stabilize supply and therefore price and it has the potential to do just that. But the world market is not stable enough to obviate the need for national and regional food stocks to complement the market if food security is a government’s objective.

Another seldom discussed but important feature of world food markets is that a significant share of the trade is actually animal feed. Maize, soy, even wheat are all used to feed livestock. One of the big drivers of trade in these commodities is the rapid expansion of livestock production in developing countries, particularly in Asia. Firms that buy grain for feed (often from their own subsidiaries in producer countries) can easily outbid the governments or firms of poorer countries hoping to supplement their food supply. An open market, selling to the highest bidder, pays no attention to whether the food is for people, or for animals destined to become food.

3) The WTO rules on agriculture and food security

Some have argued that the WTO’s Agreement on Agriculture (AoA) reduces the ability of national governments to adopt policies that promote food security (see Murphy, 2003). They point to the Uruguay Round Agreements Act (URAA) restrictions on government intervention in agriculture. These include: a prohibition on the introduction of new non-tariff border measures and new export subsidies; a ceiling on existing tariff, export subsidy and certain kinds of domestic support levels; an obligation to convert existing non-tariff measures into tariffs; cuts to most tariffs and some subsidies. Some subsidies are allowed at unlimited levels, but only if they are based on historic (not actual) production levels or on income support schemes that again are not linked to current production.

On the whole policies that seek to manage price or production are prohibited or discouraged. While the trade-distorting effects of such programs are clear, for countries that may need to increase domestic production as part of their food security strategy, the URAA rules pose a problem. These rules were shaped in an attempt to solve the problem that over-production in some OECD countries created for a handful of others. In short, the failure of the US and the EU to control supply was crowding Australia, New Zealand, Brazil and Argentina out of markets that the US and the EU thought should be theirs – while depressing world prices.

However, for the majority of developing countries the demand of food security makes it important to be able to provide production incentives. Yet the URAA makes it difficult for members to adopt policies that might be the most practical for food security reasons. For example, stable domestic prices that remunerate farmers are essential to support production increases. The market, especially an open global market, makes such price stability almost impossible. In most countries the government has to intervene, or a voluntary supply pool that includes most production has to be created, if domestic prices are to encourage investment in expanded production (Ray, 2006, Dorwoord et al., 2004).

On the other hand, other analysts have questioned to what extent the AoA really limits the policy space available for food-insecure states to pursue food security policies (OECD, 2002, FAO, 2001, FAO, 2003b). Overall they concluded that the agreement “does not in general, at this stage, limit the policy space to implement food security programmes and that the main constraints are lack of funding and institutional capability and, to some extent, political will” (FAO, 2006b, p. 63).

However, there is concern that new negotiations may limit the policy space available to promote food security. As a result, recent FAO policy work proposes specific
criteria defining situations in which developing countries would have greater flexibility in the application of the WTO rules (FAO, 2005). The three examples FAO put forward for consideration are:

1) **Numbers of subsistence and resource-poor farmers.** Where governments allocate most or all support to such farmers, they should be exempt from any further cuts to domestic support. FAO suggests several possible indicators to reach this group, including the percentage of farmers’ production that is consumed within the household. Other factors that are correlated with high levels of subsistence farming include a large share for agriculture in GNP. According to the FAO, government measures to protect and promote domestic food production, including restricting imports, is appropriate in countries where subsistence agriculture predominates.

2) **Economic vulnerability.** Situations where countries are unable to diversify their economic activity, even within agriculture, also require special attention. Countries with high levels of dependence on the export of just one or two crops are often vulnerable in this sense. For example, in Mauritius sugar makes up 86 per cent of agricultural exports; in Ghana cocoa is 73 per cent of the total; and in Mali cotton is 67 per cent. FAO recommends allowing high government spending levels to support productivity increases, improved standards, and phased-in programs to buy out less efficient producers. The criteria could usefully extend to include countries dependent on just two or three agricultural exports. A number of these vulnerable countries are dependent on preferences and will need compensation as preferences are eroded under new trade agreements.

3) **Physical vulnerability.** Temporary special and differential treatment may be needed for countries whose producers suffer disasters, such as earthquakes, floods or wars that destroy agricultural production. In such cases, governments may need a period of unrestricted investment to build up herds or restore perennial crops.

With a number of NGOs, FAO has also proposed that countries meeting these criteria be allowed to restrict market access. For example, they may lower tariff reductions and maintain a gap between bound and applied tariffs, so as to have some flexibility to raise tariffs if needed. Despite the possible efficiency losses, maintaining tariffs on imports that directly compete with local products, or that substitute for local products, may also be needed to ensure production disincentives do not arise.

### Option 2: Focus on agricultural growth, not agricultural exports

Interest in the role of agriculture in development has had a small renaissance of late, after several decades of relative neglect. The period 1980 to 2002 was marked by strong multilateral and bilateral support for structural adjustment programs (SAPs), introduced by the World Bank and the International Monetary Fund in response to the debt crisis that affected much of the developing world starting in the late 1970s. Two key features of SAPs included their emphasis on exports as a way to generate the foreign exchange needed to service debt repayments and their push to reduce the role of government in administering the economy. For many developing countries, this meant encouragement to promote agricultural exports.

Just as production for export gained prominence as a priority policy objective, analysts have pointed out the limits to this approach (FAO, 2006a).

What is clear is that agricultural growth is the best way to reduce poverty, but does not have to be based on exports. Successful examples of agricultural growth in the 1990s show three broad patterns of growth: Extensive exporters (Chad, Ghana, and Benin); Intensive exporters (Belize, Ecuador, and Peru) and Intensive cereal based production for both export and domestic consumption (e.g. China, Vietnam, Egypt) (DFID, 2004, p. 2).

The DFID analysis suggests that, of the three avenues identified, cereal-based intensification may offer the most hope for poverty reduction because globalization has actually made it harder for many developing countries to trade. Market concentration has increased, lowering the prices paid to producers and excluding
many small-holders altogether because they are unable to meet the standards required by transnational firms. Many commodity prices remain at very low historical levels, despite some recent increases; and, the use and complexity of sanitary and phytosanitary standards (used to protect human, animal and plant health) have increased significantly. This makes it harder for developing countries, and especially small producers, to take advantage of the market access potential created by a general trend towards lower tariffs.

This is a generalization. Not every country, and not every region of every country, can expect the same results from pursuing intensive cereal production. Some areas, for example in the Sahel, are too environmentally degraded to support agriculture at this time. Other areas, for instance around the Great Lakes in East Africa and in parts of Central America, are too crowded to make land the basis of everyone’s livelihood. The overview by Amartya Sen and Jean Drèze (1991) gives the example of Cap Verde, which does not have the factor endowment to make food production a good use of their natural resources, but has been able to secure decent foreign exchange revenues which are used to buy food. Nonetheless, the DFID study’s general finding with regard to the value of cereal-based intensification is important because it challenges the thinking that has underpinned development advice for several decades, which tended to see agriculture and food production for domestic consumption as dead ends.

One result of SAPs was a push to expand agricultural exports in many developing countries at the same time. The result was a windfall for commodity processors and a disaster for producing countries and especially producers themselves. Prices for cotton, coffee, tea, cocoa and other agricultural commodities fell dramatically as production expanded, and as processing capacity grew more concentrated, leaving many developing countries exporting higher volumes for lower financial returns. Known to economists as the “fallacy of composition”, this problem is widely discussed in the development literature (Mayer, 2002).

“As FAO put it, a key concern is “the tendency for growth in the supply of agricultural commodities to outpace growth in demand at given prices…” (FAO, 2004. p 7). The causes for this are many and complex, but power relations within the food and agriculture system are central to any explanation. Large numbers of often poor and seldom organized producers have few options if they want to increase their income. They have to increase their output. Whether prices are high or low, individual producers cannot affect prices by withholding supply. At the same time, power on either side of the producers, whether of input providers (seed companies, pesticide and fertilizer makers, the companies that make tractors and ploughs) or of processors and retailers, is growing ever more concentrated. Four firms roast 45 per cent of the world’s coffee supply and four firms grind 40 per cent of the world’s cocoa. Only three firms dominate soy and livestock production in a chain that reaches from North and South America to Europe and increasingly to the biggest markets in Asia (Vorley, 2003, p. 10). One firm, Monsanto, now controls 41 per cent of the global market in commercial maize seed and 25 per cent of the global soybean seed market. It also sold 88 per cent of genetically engineered seeds in commercial use worldwide in 2004. This concentration is most pronounced in the production and processing of agricultural commodities for export.

“In the second half of the 1990s, prices of a number of commodities exported by developing countries fell to their lowest levels since the Great Depression of the 1930s” (FAO, 2004). Between 1997 and 2001 alone, the price of coffee fell 70 per cent, affecting 25 million people, most of them small farmers. About half the world’s coffee is grown on farms that use less than five hectares for coffee production (Vorley, 2003, p. 6). Since 1980 the value of most major tropical commodities has dropped by over 50 per cent, while the value of sugar, cotton and rubber dropped by about 80 per cent (Robbins, 2003, p. 2). It is worth noting that prices for some of these products – particularly sugar and cotton – are distorted by developed countries’ agricultural policies. However, others – such as cocoa, tea and coffee – are not produced in countries with large agricultural subsidies and face zero or close to zero tariffs in most importing countries unless they are processed.
cannot be relied on to work unguided. It is neither countries nor farmers who trade, but rather companies. Globalization has given some transnational agribusiness firms an increasingly powerful role in these markets. Many of them have diverse interests in food processing, livestock operations, and distribution in the highest paying markets, which may be hundreds, or thousands, of miles from the producers (Vorley, 2003). These firms are not necessarily interested in open markets, although there are important benefits for the firms in deregulating both trade and finance policies. Rather, firms are looking to find the cheapest possible source of commodities and the highest paying buyers (FAO, 2003a, pp. 117-125).

These firms often already have the access they need to the sellers’ markets but are looking for cheaper ways to meet demand. In contrast, small and marginal farmers are not well placed to take advantage of market liberalization. The poor tend to be risk averse and seeking maximum income is not their top priority. Such behaviour is not generally assumed in the models used to project the likely outcomes of trade policy reform (Murphy, 2002).

Commodity prices are in flux today and the strong downward trend in prices of the 1970s and 1980s has given way to a more volatile outlook in which trends are harder to discern. While prices for most commodities are still well below mid-1990s prices in real terms, the underlying downward price trend, according to FAO, has flattened out (FAO, 2004, p. 10). Among other factors, the US dollar, used in most commodity pricing, has lost value in relation to other currencies, raising the value of exports for most developing countries. Some commodities have seen production levels fall due to persistent low prices.

At the same time, rising oil prices and continued instability in the Middle East have prompted a new interest in bio-based fuels. This is changing the price outlook for some commodities, both directly – for maize (corn), palm oil, soy, for instance – and indirectly – for cotton which competes with oil-based fabrics and commodities, such as wheat that will gain in value as demand for bio-fuels increases overall demand for cereals. Meanwhile, steady and growing demand from a number of Asian countries is keeping the markets for many commodities, including agricultural commodi-

ties, buoyant. China is a particularly strong driver of these changes, as a huge producer and consumer of food that has opened its markets to much greater levels of imports.

A policy of expanding agricultural exports can have very different effects from one country to another. Even the same experience, such as Chile’s, which is widely acknowledged to have a very successful agricultural export sector, can be interpreted very differently by different researchers. The dramatic liberalization of the economy initiated by the Pinochet régime brought very high levels of growth and reduced dependency on copper exports (from 80 per cent of foreign exchange revenues to some 40 per cent). On the other hand, close to 90 per cent of Chile’s exports are natural resource based (mining, fisheries, forestry and agriculture) and a number of researchers raise questions about the sustainability of the production methods involved (Altieri and Rojas, 1999, Borregaard, 2004).

Even if researchers look only at a few indicators – such as GDP growth, employment levels and foreign exchange earnings – experiences of liberalization vary significantly from country to country. One of the reasons an emphasis on exports does not have a predictable impact on national economies is that diverse interests underlie the development of policies and their implementation. The models used to predict outcomes from trade reforms assume perfect competition: perfect transparency of information, no market concentration, perfect capacity to respond to price signals in an economically rational fashion and the ability of the overall economy to absorb any unemployment created in one sector by creating jobs in another. These assumptions are far from realistic. This is reflected in the failure of models to predict what would happen when the URAA came into effect. The agreement was meant to reduce developed countries’ share of global agriculture in favour of developing countries. In fact relative market shares of agricultural change barely changed in the decade since the agreement came into effect. The resulting disappointment among many developing countries was a significant factor in the failure of WTO members to reach agreement on the Doha Agenda.

Ideally the expansion of agricultural exports would generate higher and more stable incomes. In turn,
these should contribute to stronger demand and possibly higher wages for agricultural workers, who are generally the poorest sector of any society; and increased demand for other goods and services. There should be increased potential for investment in education, health care and other needs that creates a long-term safety net for households which would generate more jobs locally. And there should be more potential to diversify household incomes to invest in risk-avoidance, such as on-farm storage (Conway, 2004, p. 25). This kind of virtuous circle depends on money circulating in the local economy as long as possible. The more the industries that support and depend on agriculture are locally based, the greater the poverty-reducing effects of agricultural expansion will be.

It is important to note that the virtuous circle described above does not depend on exports. Higher prices due to increased local or national demand can have the same effect. Exports are simply one possible avenue to seek increased demand and higher prices, or to seek a market for higher-value crops because local consumers cannot afford them.

Option 3: Improve social safety nets to reduce economic insecurity

Globalization generally and trade liberalization specifically create winners and losers in domestic economies as well as among countries. Domestically workers and producers in the sectors protected from foreign competition may see revenues decrease or employment disappear when tariffs or regulatory barriers are removed. This is particularly so when their sector lacks the productive factors (financial and human capital, raw resources, technology and lower production costs) that give other countries a comparative advantage. The negative impacts are not limited to one-time adjustments to trade reforms but more generally to the greater frequency and scope of economic restructuring in an open economy. For example, an ILO study of manufacturing employment in 77 countries found that a higher level of international trade in a national economy is associated with greater movement of workers between sectors. Such intersectoral movement makes it more difficult and costly for displaced workers to find new employment, as moving into a different sector usually requires a different set of skills (Torres, 2001). The weight of evidence in the existing literature generally supports the view that trade liberalization and openness increase economic insecurity (e.g., Rodrik, 1997; Rodrik, 1998; Garrett, 1998; Burgoon, 2001; Hayes et al., 2002; Boix, 2002; Gunther and Van der Hoeven, 2004). However, there is not consensus on this point (see Bourguignon and Goh, 2003, for a review of studies challenging this linkage).

There is greater consensus in the research literature that financial liberalization and the movement of capital are more important determinants of economic instability than trade openness (Cornia, 2001; Scheve and Slaughter, 2004; van der Hoeven and Lübker, 2005). Trade liberalization, however, is usually accompanied by increased openness to foreign capital and liberalization of financial markets and services. The combined effect of trade and financial liberalization has been more volatile markets and increased frequency of external shocks, such as financial crises, currency devaluations and rapid changes in labour markets and employment. These translate into increased economic insecurity of individuals. Economic insecurity is closely linked to many chronic stress-related diseases and its impact on health outcomes can be direct (Wilkinson and Marmot, 2003). Moreover, given the dynamic nature of poverty, economic insecurity can also mean that non-poor households become poor, resulting in poorer nutrition, inadequate housing and psychosocial stresses.

Based on these findings, this section of the synthesis paper reviews national policies adopted in developing countries that have been most effective at reducing economic vulnerability arising from trade or financial liberalization. The literature usually warns against adopting special measures to deal with risks associated with trade liberalization, recommending instead improvements to general social safety nets. The literature on social safety nets in developing countries is vast. We decided to focus this review on the experiences of East Asia in light of the economic crisis of the late 1990s. This crisis is particularly useful in terms of highlighting social protection strategies for developing countries. It offers various examples of what works, what doesn’t and why, on various levels. The countries affected by the crisis present a range of cases – from South Korea to Philippines, indicating a broad range of coping strategies and policy options.
Furthermore, the two main reasons East Asia presents an instructive example are: 1) East Asia stands out among emerging developing economies as an example of successful poverty reduction via greater integration with the global economy, and 2) East Asian countries have done relatively well in terms of coping with a large macroeconomic shock, rebounding in two to four years on average to positive growth (Kohl, 2002, p. 30).

The remainder of this section focuses on:

* What policies, already in place at the time of the crisis, helped cushion the impact on vulnerable groups?

* What were some of the key emergency measures, new programs and reforms to ongoing approaches, in response to the economic shock?

* What are the main lessons to be drawn from the East Asian crisis, with regard to social protection in developing countries?

**State of social protection: pre-crisis and crisis years**

In 1990 East Asia spent on average 1 per cent of total government expenditure on social protection and welfare, compared to 12.7 per cent in the OECD, 3.6 per cent in Latin America and 2.2 per cent in South Asia (World Bank, 1999, p.7). The international openness of these economies is a further striking feature. In 1997 trade to GDP was 90 per cent in Malaysia, 45 per cent in South Korea (hereafter referred to as Korea), 30 per cent in the Philippines and Thailand. That year FDI to GDP was 290 per cent in Malaysia, 117 per cent in South Korea, 102 per cent in Thailand, 69 per cent in Indonesia and 55 per cent in the Philippines. The combined effect of low expenditure on social spending and great openness to foreign capital (especially in high employment growth sectors like manufacturing and construction) made for a particularly vulnerable situation by the mid-1990s.

The impact of the crisis varied across the region but a common phenomenon was sharp increases in unemployment, which more than tripled in 1997-98 in Korea and Thailand (World Bank, 1999, p. 14). Where wage flexibility was higher, such as in Indonesia, unemployment was less severe but the drop in real wages was high (35 per cent) coupled with a significant shift to underemployment and informal employment (Gough, 2001, p. 183). Thus, measures needed to respond to mass unemployment, wage shocks and the labour market in general have been a major source of debate in East Asia.

The evolution of labour market legislation, reforms and new programs broadly parallels the levels of development of the various economies. At the top end are Korea, Malaysia and Thailand, with relatively developed employment protection and other labour market regulations. At the bottom are Indonesia and Philippines, with little or no employment protection and weak labour laws in general.

**Crisis and social protection: Korea**

Pre-crisis, South Korea had a Livelihood Protection System (social assistance system) that was far ahead of the other East Asian Newly Industrialising Countries (NICs). The Korean system provided income support to 1.2 million persons when the crisis hit. Implementation of unemployment insurance, along with other active labour market measures, was a recent development and coincided with Korea’s admittance to the OECD in 1996, requiring a minimum level of social protection (Kapstein and Milanovic, 2003). In response to the insolvency of 3323 Small and Medium Enterprises (SMEs) in the first month of 1998 alone, the Tripartite Commission (business-labour-government) launched sweeping legislation extending unemployment insurance to all sections of the labour force. The Korean government developed the Temporary Livelihood Protection Program (TLPP) to absorb the newly unemployed, covering an additional 310,000 persons. TLPP eligibility provided four main benefits to the newly unemployed: direct cash transfer ($70/month), a tuition fee waiver and lunch subsidies for their school-aged children and a 50 per cent reduction in medical insurance premiums for one year. The success of this program in cushioning the impact of the economic shock is evident in the Minimum Living Standards Security Act of 2000, which replaces and essentially incorporates the TLPP.
This provides for food, clothing, housing, education and health care — subsidized through cash and kind transfers for households who do not meet basic standards. Benefits were linked to participation in labour programs, such as public works and job training. The Livelihood Protection System and the minimum living standards legislation that followed stand out as effective strategies taken in response to the economic shock (Gough, 2001. UNESCAP, 2001).

Korea’s Employment Insurance System (EIS) and post-crisis reforms have been reviewed extensively. Some aspects have been criticized. These include overall coverage, eligibility criteria, re-employment rates, deadweight losses of “grants”. And the case has been made for more targeted measures. However, the same reviewers see “aid for employment maintenance” and “employment facilitation assistance” more favourably. This perspective is consistent with what Ito Peng calls “post-industrial pressures” and resultant “political régime shifts” (Peng, 2004). Korea epitomizes the often cited description of East Asian welfare regimes as “productivist” (Holliday, 2000), whereby investment in social protection though limited as a percentage of the total official expenditure, is highly focused on education and health care (i.e. human capital development). Peng shows that “post-industrial” developments — such as the rise of the service sector and in particular the sharp increase in the participation of women in the workforce — have led to a coherent constituency demanding broader political reforms (prominently, reforms to divorce laws and increased child care benefits). This has raised the important question of universality of coverage in Korea. A powerful argument can be made in favour of universality:

a) Targeted coverage is exclusionary and reinforces existing social stratification and stigmatization.

b) Macroeconomic shocks are a rude reminder that there is little that separates middle from lower-middle income earners and those below the official income poverty line in times of systemic crisis, which reinforces the claim that universality of coverage is inherently desirable, in so far as it forms the foundation of wider economic solidarity.

c) Universality of coverage is a prerequisite to the social rights-based approach to welfare and well-being that the pioneers of the idea originally had in mind.6

d) Targeted programs often involve greater administrative costs and are prone to leakage on many levels (while universal coverage, such as universal unemployment insurance, covers all equally).

Post crisis unemployment reforms in Korea followed a four-pillar integrated approach: job security, job creation, training and placement, and livelihood care. In this regard, two aspects that warrant mention are the Public Employment System (PES) — rapid expansion of public works programs which has received mixed reviews — and WorkNet, an employment information system which integrates information on vacancies and unemployment policies (See UNESCAP, 2001).

Malaysia

While not as advanced as Korea in social protection preparedness, Malaysia had basic groundwork in place to meet the labour market challenges of the economic shock. An important facet of Malaysian political history is the country’s ethnic compromise between the various minorities. A long history of immigrant labour, mainly from India and China, has led to a tradition of well-organized labour and informal ethnic social safety relationships.7 A strong trade union movement led to the setting up of Malaysia’s Employee Provident Fund (EPF) in 1951 which forms the bulk of social protection in the country. The New Economic Policy of 1970 formally structured the ethnic compromise in Malaysia towards the goals of equality and poverty eradication. The EPF, the Employees Social Security Organization, (SOCSO, 1971) and the Social Security Act, (SSA, 1969) jointly laid the foundation for Malaysia’s response to the economic shock. The mandatory EPF, SOCSO and SSA, along with the August 1998 amendment to the Employment Act (tougher legislation against unlawful dismissal) and the Employment Ordinance (1955), resulted in coverage of two-thirds of Malaysian employees under one scheme or another.8 As a result, while unemployment increased by three fold in Korea and Thailand in the crisis year, in Malaysia it was contained to between 2.7 and 3.2 per cent in the period 1991-1998.
The main response to the shock in Malaysia can be summarized as:

* Reforms to existing provisions: In 1994 the EPF was made flexible by splitting each account into three, in which 60 per cent was held for retirement after age 55, 30 per cent for large one-time expenses such as housing, and 10 per cent for medical emergencies. Account II was particularly important during the crisis year as housing interest rates rose rapidly, and flexibility in the EPF system made for better monitoring of withdrawals and expenditures.

* Expansion of existing safety net provisions to cover retrenched workers entering the informal sector: Under the Amanah Ikhtiar Malaysia (AIM) revolving fund, Ringgit300 million (Malaysian currency) in interest-free loans were disbursed. The success of this strategy is indicated by the 100 per cent repayment of loan.9

Malaysian authorities used the crisis as an opportunity to strengthen entrepreneurial capacity in the informal sector, launching the Yayasan Tekun Nasional entrepreneurial loans, the Graduate Entrepreneurs Scheme and the Economic Business Group Fund, which provides assistance to women entrepreneurs. These initiatives are widely seen as successful fiscal stimulation and crisis response measures (OECD, 2002, pp. 197-99).

**Thailand**

Amid sharp civil society criticism of IMF policies, as the full effects of the crisis unfolded by 1999, the Thai government had introduced four fiscal stimulation packages containing elements of social safety. These were an Unemployment Mitigation Plan; Social Investment programs (World Bank funded); social sector program loans (courtesy of the Asian Development Bank) and loans under the Miyazawa plan.

In the 1990s Thailand launched a concerted process of change with the 1997 People’s Constitution and the Eighth National Economic and Social Development Plan. Together they signalled a shift from growth-centred to holistic people-centred developmental approaches (Pongsapich, 2001, p.64). There was renewed emphasis on labour and social welfare, education, and health.10 That said, Thailand still lacks universal unemployment insurance, and health and education coverage. There are several social protection programs for government employees. The largest private sector program, as in Malaysia, is the provident fund system established by government decree. This fund includes the Civil Servants Pension Fund, Social Security Fund, and Provident Fund, which are the three largest formal social protection schemes in Thailand. Coverage of government employees is thus extensive and comprehensive. The Social Security Act (1990) and Labour Protection Act (1998 post crisis) provide limited unemployment benefits for non-government employers and employees.11

The Unemployment Mitigation Program (1998) included several innovative measures, such as the Thai Help Thai social protection scheme, provisions for job creation, repatriation of workers, promotion of Thai workers working abroad, graduate employment, among several others. The objectives of the program were ambitious, and thus reviews of them are mixed. Common criticisms were: the need for better planning and coordination to avoid overlaps; targeting, especially wage setting for public works; and enforcement of laws, such as minimum wage enforcement even when people are willing to work for much less.12

Consensus in the early literature that reviewed Thailand’s post-crisis social protection points to two particular aspects, both of which fall under the Social Investment project funded in large part by the World Bank. The two-channel strategy involves one that supports existing government programs and employment creation measures and another that focuses on local community building bottom-up. This strategy has been widely lauded and points to the practical relevance of utilizing existing capabilities. Historically civil society organizations have played a crucial developmental role in Thailand.13 As recognition of this fact, in the early 1990s the Thai government set up the NGO Coordinating Organization for Development (COD). The community development department of the Ministry of Interior has supported community organizations, women’s groups, child development centres since the 1970s. In this context, the Social Investment Fund (SIF) and the Regional Urban Development Fund (RUDF) financed community-based,
demand-driven projects that have attracted attention for their apparent success at various levels, including their support of community solidarity at the micro level. SIF and RUDF loans, for example, were administered at market rates directly to civil society organizations. To secure grants and loans communities went through the experience of drawing up proposals, and learned the value of borrowings and community debt. At the macro level projects undertaken resulted in small irrigation and other infrastructure repairs, and tourist facility improvements. Thus they provided employment to groups that labour intensive workfare programs generally neglect, that is women. The funds had a clear exit strategy, ending in 1999, that was known to participants. Thus the fiscal trap to which such programs are prone was avoided.

Thailand’s experience with social protection (and wider social sector reforms); in concert with liberalization and deeper integration into the external economy has an important political lesson. The experiences of the 1997 crisis have spurred much talk of a “new social contract” across East Asia. Nowhere is this more so than in Thailand. Opposition to the Thai government’s perceived uncritical acceptance of IMF’s emergency structural package created a political vacuum in Thailand. Various civil society groups, as well as the monarch of the country, came together to oppose the perceived loss of sovereignty in the aftermath of the crisis (Hewison, 2006). This eventually brought Thaksin Shinawatra’s TRT (Thai Rak Thai or Thai Love Thai) party to power by 2001 in the first election under the new constitution. In principle TRT stood for “social capitalism” or a renewed emphasis on the domestic capitalist class, which traditionally shied away from electoral politics in a country fraught by military rule and coups.

Some of the universal programs have been criticized lately for being too expensive and unnecessary. These include the Universal Health Scheme, which provides universal health coverage at a set amount of 30 baht for all citizens, which is relatively effective and has found international support particularly from the WHO and the ILO (Hewison, 2006). Also criticized has been the Village Community Fund, which provides low-interest loans of 20,000 baht to individuals in every village. One post-crisis scheme, Voluntary and Low-Income Health Cards, on the other hand, though expensive, is thought to genuinely facilitate the delivery of basic services to remote sections. That said, the politicization of reform measures in a post crisis country where public consciousness is high is very significant.

Indonesia

From 1970 to 1996 Indonesia made great strides reducing poverty (Puguh, 2001, pp. 158-160). The crisis year marked a sharp turnaround in economic performance with GDP growth plummeting from 7 per cent the previous year to -13 per cent in 1998. The crisis also resulted in significant political changes with the fall of the New Order government which had ruled from 1960 to 1998. The main coping strategies employed by the people were: reducing expenditure, informal borrowing, and raising incomes through low-paying extra jobs. The government response was: securing affordable food supply, supplementing purchasing power, preserving access to health and education, and sustaining community activity through regional block grants and small scale credit. In some ways Indonesia’s experience in dealing with the crisis contrasts that of Thailand where, as noted, community involvement played a significant role in facilitating recovery.

Recovery in Indonesia was slow. The economic shock brought large numbers into transient poverty. The main reasons for the sharp spike in poverty numbers were skyrocketing prices of basic commodities, increased unemployment, decline in household incomes coupled with the effect of the El Niño drought. The government’s response was stymied by an inadequate bureaucracy, absence of early warning signals, and even the unavailability of reliable and timely basic poverty data. Despite that, Indonesia has a long history of geographically and individually targeted poverty alleviation programs, such as the 1970s Inpres programs launched by presidential decree and financed through windfall oil revenues. An important facet of the Inpres programs was providing education for children who had never been to school and the building of some 60,000 schools in the mid 1970s alone (Puguh, 2001, p. 160).

The main crisis response and the one that received the most attention in the literature is the Operasi Pasar Khusus (OPK) or special market operation for
rice. In the wake of food riots and soaring prices in mid-1998, this program was designed to give 20kg of rice per family every month, at a subsidized rate (little over half the usual market price). OPK has received mixed reviews. Criticisms point to lack of targeting, inadequacy of distribution efficiency, high operational costs, and leakage to the non-poor. Those who look favourably on the program praise it for securing access to a basic commodity and point out that the newly poor sections received the leaked portion of the subsidy. Thus the program on the whole was consistent with the policy goal of food security. Debate aside, OPK was deemed to be one of the central crisis alleviation measures by the Indonesian government. This was confirmed by its extension when others (like the Padat Karya, public works) were scaled back. As of 2005 the program was still in operation and is again criticized for its cost. An important lesson to be drawn from the OPK is that centrally administered, nation-wide programs rarely work in the absence of community support. The targeting of the OPK was based on outdated national statistical information and classification methodology. Thus actual numbers of recipients far exceeded expectations and more needy households received rice than was planned. By 1999-2000, delivery was based on lists drawn up by communities and local flexibility was introduced to the supply process.

Beyond the OPK, there are several crisis response measures that warrant mention. First is the Scholarship and Block Grants for primary and secondary schools. There are several approaches to evaluating such a program. One is from the point of view of targeting efficiency. Another is in the context of the program’s overall objectives. Historically education has received high priority in Indonesia and East Asia on the whole. Therefore, securing access to education during crisis periods as an overall goal was consistent with the development path followed by these countries. In this regard the grants and scholarship program received positive evaluations, as it was an innovative means of transferring consumption capacity to poor families, and securing expenditure on education, as the grants were disbursed directly to schools and students. (Blomquist et al., 2002, p. 323). But on another level several groups of students (particularly those due to receive larger scholarships) did not receive any assistance, leading to corruption and leakage. Similarly common problems in the health care initiatives were mistargeting, lack of data, inconsistent data, and lack of administrative capacity.

Perhaps the two most criticized programs were the public works program (Padat Karya) and the revolving credit schemes (PDM-DKE). The main problem with the public works program was wage rates set above the minimum wage, creating distortions and diverting labour away from other sectors like harvesting food crops. PDM-DKE and other revolving credit/cash transfer schemes were criticized for being prone to corruption and cronyism (UNESCAP, 2001).

The Philippines

The Philippines continues to be the least developed and poverty-stricken of the ASEAN countries. Poverty is concentrated in rural areas, though there was a downward trend in figures until the crisis in 1997 (Manasan, 2001, p.3). The crisis was primarily the result of capital flight, a sharp decline in exchange rate, a considerable rise in interest rates, and significant negative impacts on US dollar-dominated construction sector firms; coupled with the El Niño drought. The response strategy can be summed up as a combination of food subsidies, public employment programs and credit-based livelihood programs. However, according to most estimates, the response to the social impact of the economic crisis has been found to be wanting (Reyes et al., 1999, Manasan, 2001, p.4). In 1998 the main response was through the National Food Authority (NFA) which is mandated to set a floor price for rice to protect farmers and a ceiling price to ensure consumer welfare and maintain a buffer stock. In 1998 the NFA launched a two-pronged approach to food security. It imported rice and it set up Enhanced Retail Access for the Poor (ERAP) sari-sari stores meant to sell basic commodities (such as sugar, coffee, milk, cooking oil, sardines and noodles) at below market prices. However, studies show the benefit from these stores leaked significantly to the non-poor. As well, the NFA was unable to prevent high consumer prices or low producer prices (Balisacan et al., 2000, Bautista et al., 2000).

In addition to direct subsidies, several micro-credit programs and a comprehensive strategy formed the basis of the Philippines’ response to the crisis. As there
are several programs worth mention and only limited room, we will list only those considered successful. In terms of widely accepted successes, the Comprehensive and Integrated Delivery of Social Services (CIDSS), launched in 1994, has been praised as the most effective on several levels. The program facilitates consolidation and cooperation between government and civil society groups, delivering benefits using minimum basic needs (MBN) indicators, community organizing, a total family approach, a community-based monitoring network, capability building and resource mobilization. The focal programs of CIDSS include: family and community welfare, women’s welfare, child and youth welfare, emergency assistance, self-employment assistance (SEA-K), food and nutrition, health, water and sanitation, income security, basic education and literacy. For instance, through the CIDSS self-employment programs members were given small start-up capital with which they could set up ERAP sari-sari stores. Small nominal daily repayments were required, part of which was saved in bank accounts. These efforts are consistent with the long history of micro-credit programs in the Philippines (84 were in operation when the crisis hit). Collectively the CIDSS and micro-credit programs have had a significant (though incremental) positive effect on the poverty rate. During the crisis participating families were better off than others because the culture of saving and community responsibility had already been well established. Already in place but expanded when the crisis hit, some of the important micro-credit programs were:

- Self-employment assistance through Kaunlaran; People’s Credit and Finance Corporation
- Production assistance guarantee funds of the Philippine Rural Reconstruction Movement (farmers’ support in response to El Nino)
- The Grameen-based micro-credit ASHI, the oldest one in place, expanded to include El Niño coverage.

Programs that received most criticism were the Food for Work initiatives and rural roads programs. Drawbacks of the first included the overlap of seasonal timing in agricultural harvesting, planting and cultivation, insufficient funds, and a bad law-and-order situation. The road programs were found to be gender insensitive (UNESCAP, 2001).

The Philippines’ experience points to the importance of coordination when there are several programs in place across diverse regions. The CIDSS served this vital function. Moreover, this case shows that initiatives that require less outlay and are open to diverse funding sources, if well coordinated, can be far more beneficial than expensive public works or ineffectual labour legislation. This is the case in countries such as the Philippines where labour is concentrated in the informal sector and poverty in rural areas. The long and successful history of micro-credit initiatives and their role in responding to the crisis in Philippines supports this perspective.
It is important to distinguish between social protection recommendations for middle-income countries and those for low-income countries. The latter have very limited financial resources to fund social protection and limited capacity to raise such funds because a large part of their economy is informal and/or based on subsistence agriculture. Given these limited resources, social protection should focus on interventions that contribute to long-term poverty reduction. They should also have multiplier effects (Smith and Subbarao, 2003), such as health insurance schemes that protect against unexpected medical expenses which are major threats to household livelihoods in low-income countries (Norton et al., 2001; Wagstaff et al., 2001). Unexpected medical expenses are a major source of impoverishment (so-called ‘medical poverty’). Protection against such insecurity is highly valued. However, social health insurance (i.e., insurance tied to formal employment) generally covers no more than 5 per cent of the workforce in low-income countries because of the low level of employment in the formal sector. Under these circumstances the focus of national governments should be to enable an environment for the development of community-based health insurance schemes (Van Ginneken, 2003; Carrin et al., 2001), or national health insurance schemes funded by progressive taxation. The latter is preferable because communities may lack sufficient savings for effective risk-pooling. Further, if there are large income inequalities between communities, community-based insurance may fail the WHO criteria for health financing fairness which requires cross-subsidization from rich to poor and from healthy to sick (World Health Organization, 2000).

Middle-income countries have a wider range of instruments available to them to reduce economic insecurity. A key policy issue becomes whether social protection should be targeted to particular groups or tend towards universality of coverage. Targeted programs may be very attractive in terms of reducing the cost implications of social protection (Ravallion, 2003; Coady et al., 2004; Prichett, 2005). Many middle-income countries, however, are now striving for universal coverage, realizing that there is a need for broad-based social security systems that have the support of
Public works programs often serve as social protection instruments in developing countries. Such programs are seen as dual purpose – on the one hand mitigating economic insecurity, while on the other alleviating poverty through employment and development of community assets. While India has a long history of public works programs, the one that stands out is the Maharashtra Employment Guarantee Scheme (M-EGS).

Certain areas of the Indian state of Maharashtra (of which India’s largest city, Mumbai, is the capital) are particularly drought-prone and arid. In response to a famine in 1972, the Maharashtra government launched a novel public works scheme in one such area, which has received much attention primarily on account of its use of the concept of guaranteed employment. Maharashtra became the first state in India to “guarantee” work to “every adult person (above 18 yrs), willing to do unskilled manual work on a piece-rate basis”. M-EGS has attracted attention on account of its scale (approximately 200 million person-days of work are generated annually), longevity (33 years), and rights-based approach to social protection that enshrines “employment as an entitlement”. Prospective workers are responsible for voluntarily registering in the scheme.

How the program works: “something in it for everybody”

At the state level an Employment Guarantee Fund was established which receives proceeds primarily from urban taxes (professional-employment tax, additional motor vehicle tax, sales tax, a surcharge on land revenue), to which the state government contributes an equivalent amount.

It is widely believed that the reason behind M-EGS’s endurance is that it has “something in it for everybody” – urban middle class and high-income households pay for M-EGS (approximately 60 per cent of the funds come from Mumbai urban taxes) because they want to reduce overcrowding and stem rural-urban migration to Mumbai; high income groups in rural areas support the program because they benefit disproportionately from assets created. Beyond physical assets like irrigation network repairs, the rural rich benefit from not having to support off-season labour. Politicians support it because they see it as a prestigious scheme and expect political mileage from it. Rural poor benefit both directly (weekly-wages) and indirectly (through public works such as roads in remote areas). Women in particular have benefited from the scheme as there is no gender-based wage differential, otherwise prevalent in rural India (Dev, 1995; Echeverri-Gent, 1988; Herring and Edwards, 1983).

Counter-cyclical effect and national coverage

The real test for public works schemes with the dual roles of poverty alleviation and self-targeted safety net occurs in times of crisis. The relevant question then becomes: how readily can such schemes be scaled-up in times of crisis? In this regard M-EGS scores well in two respects. At one time accounting for 12 per cent of state expenditure, M-EGS was able to expand to 64 per cent in response to a drought in 1982 (Alderman and Haque, 2006) attesting to a favourable counter-cyclical role. While such expansion strains administration and dilutes quality, the general conclusions of several studies highlight the flexible management and targeting to low-income beneficiaries during the crisis. Moreover, a comparison of the 1974–75 famine in Bangladesh with the earlier extended drought in Maharashtra (Cain and Lieberman, 1982) also underlines the importance of ex ante measures. The authors note that the frequency of land sales in Maharashtra remained low and relatively constant over the drought period, while it soared in Bangladesh, particularly in times of crisis. Ravallion et al. (1993, p. 166) further suggest that “from what we now know about the famine in Bangladesh during 1974, it is evident that if an effective rural public works scheme had existed, a great many people would have been saved from starvation and impoverishment”.

The experience with the Maharashtra Employment Guarantee Scheme is now widely seen as the impetus behind India’s recent National Employment Guarantee Act (2004) which serves as a nation-wide safety net for the country’s rural poor, guaranteeing 100 days of work per year to one member of each poor family at a piece rate.
the majority of the population. Such schemes have a strong social insurance component, complemented by cost-effective tax-financed benefits” (Van Ginneken, 2003) p 62. Evaluative and policy studies offer powerful arguments in favour of universality. First, targeted coverage is exclusionary and reinforces existing social stratification and stigmatization. Second, macroeconomic shocks are a rude reminder that in times of systemic crisis there is little that separates middle from lower-middle classes, and even from those below the official poverty line. This reinforces the claim that universal coverage is inherently desirable insofar as it is the basis of a wider economic solidarity that is indispensable in precarious times. Thirdly, targeted programs often involve greater administrative costs and are prone to leakage on many levels.

The financial and economic crisis that hit Asia in 1997 generated responses in the form of social protection programs from which a number of lessons can be drawn. First, social protection programs should be designed in a flexible manner, allowing them to be easily scaled-up in response to large economy-wide shocks. The case of an employment guarantee scheme in India provides an example of such flexibility. Second, it is important that critical programs are identified a priori with commitments for protection from budget cuts during a crisis. This forces recognition of policy/program priorities, institutionalizes the link between social and economic domains and sends a clear message to donors when a crisis hits (Blomquist et al., 2002). The list of safeguarded programs should be guided by an overall strategy to prevent human development reversal, with a focus on preventing adverse health impacts over the long-term.

**Option 4: Adopt a very cautious approach to liberalization to health services**

Trade reforms have extended beyond merchandise to incorporate services, including the liberalization of health-related services. Multilateral trade agreements, such as the WTO’s General Agreement on Trade in Service (GATS) and most regional and bilateral trade agreements, now allow countries to make binding trade commitments in health services. In services trade liberalization usually takes the form of removing regulatory barriers which prevent foreign investors and providers from offering services in the country. Some believe that opening health services to foreign investment and providers can improve access by bringing new capital and expertise to national systems. Others worry that it will only mean better access for a very small portion of the population with higher-incomes.

The existing evidence about the levels and impact of foreign investment in health services is very limited. However, we can supplement this limited information with the literature on related reforms, for example the literature on the impact of commercialization, privatization and user fees. Whether a health services provider is owned by a foreign or a domestic corporation, the policy impacts of increasing provision on a commercial basis should be similar. Moreover, even if part of a public system, user fees raise the same questions about ability to pay and accessibility as are raised by the commercial provision of health services, whether payment is an out-of-pocket expense or through private insurance.

We should first note that corporate commercialization in health services in developing countries is limited to middle income countries, and has not reached a pervasive or steady level of presence in these countries (Mackintosh and Koivusalo, 2005). This includes hospital care, health insurance, or managed care, including both insurance and provision functions. “In practice, these private high income market segments in middle income contexts tend to be financially fragile with firms constantly in search of public subsidy and public contracting opportunities.” (p.12). In low-income countries, commercialization has taken the form of increases in the number of small, private, informal primary care providers for the poor and the less poor. A higher level of formal private sector involvement means a greater scope for international trade in health services. Such trade is still an emerging phenomenon, even if we include other forms of transactions such as health tourism, in addition to foreign investment in health services (see Holden, 2005, Smith, 2004).

The key obstacle to foreign investment making an important contribution to better access to health services is the problem of economic accessibility. Only patients with private or social insurance coverage, or high-income patients able to pay large out-of-pocket expenses, are likely to gain access to the sophisticated, high-quality services offered by foreign-owned establishments. Though there is little information on the
impact of foreign investors in this area, the literature on health financing, more specifically the well-developed literature on user fees, provides evidence of the impact of such cost recovery mechanisms on access to services. In virtually all cases where user fees were increased or introduced, there was a concurrent decrease in service utilization (see Hutton, 2004 on the policy impact of the body of evidence against user fees in health and education). The magnitude of this drop in utilization was frequently larger and of longer duration among the poorer parts of the population (Bennett and Gilson, 2001, p. 11). Numerous case studies and comparative studies document this impact. In some cases the reduction in utilization reached 50 per cent (Yoder, 1989, Creese, 1991, Moses et al. 1992, McPake, Hanson and Mills, 1993, Haddad, 1995, Mwabu, G et al, 1995, Haddad and Fournier, 1995, Creese, 1996, Gertler and Hammer, 1997, Kipp et al., 2001, Meuwissen, 2002, Nanda, 2002, Paphassarang C et al. 2002, Ridde, 2003).

The impact of user fees on utilization of services usually translates into negative health outcomes. In China the introduction of user fees for preventive services such as immunizations and treatment of infectious diseases led to less immunization and higher prevalence rates of diseases such as measles and polio (Liu and Mills, 2002). In principle such inequitable outcomes can be addressed by regulatory measures such as fee waivers for the poor. However, the measures used to address this problem have proven to be difficult to implement. (Gilson et al., 2001, Gilson, 1997; Gilson and Mills, 1995; Mills, 1998, Meuwissen, 2002, Hardeman et al., 2004). Some evidence also points out that women have been disproportionately affected adversely by the use of user fees (Mackintosh and Tibandebage, 2004, p. 10) Studies undertaken particularly in some sub Saharan Africa (SSA) countries mainly in the area of reproductive health indeed show that introduction of user fees at the point of use in health facilities has been associated with a decline in admissions of pregnant women and increased morbidity rates among delivering mothers and their babies (Simms et al. 2001).

Trade in health services can also take the form of foreign investment in health insurance. Expansion of private health insurance through foreign investment offers a way to decrease the heavy reliance on out-of-pocket payment, the most inequitable way to finance access to services (WHO, 2000, Pauly et al., 2006). Health insurance not only shelters people from large out-of-pocket payments but also allows for pooling, that is, spreading financial risks among the group of participants. However, it is unlikely that the expansion of private foreign insurance will have a large-scale positive impact on improving access to services. “Because of the cost and pronounced market failure that occurs in private health insurance, this is not a viable option for risk pooling at the national level in low-and middle income countries” (World Bank, 2002, p. 8). The evidence from Latin America shows that private insurers, be they foreign or domestic, tend to serve the higher income and lower risk groups who can pay relatively high financial contributions to receive coverage (Baeza and Copetta, 1999 Jack, 2000, Barrientos and Lloyd-Sherlock, 2000, Cruz-Saco, 2002, Barrientos and Lloyd-Sherlock, 2003). In Chile, for example, elderly people and women of fertile age face much higher premiums (Sanhueza and Ruiz-Tagle, 2002).

This type of age and gender discrimination based on risk level is inherent to private insurance schemes. Therefore, an increase in private foreign insurers is unlikely to contribute to improvement in terms of access to services. One way to address this discrimination is to introduce regulations to limit such behaviours by insurers. However, to date there is basically no experience of developing countries building a strong regulatory framework to harness the putative benefits of private insurance. This is so even in Latin America where the presence of private insurers is extensive and of some duration (Drechsler and Jutting, 2005, Salvador and Quiliconi, 2003).

If existing research evidence, although limited, establishes that foreign investment will not make a direct contribution to improvement to access, can it make an indirect contribution through reallocation of resources? The inflow of foreign capital in certain parts of the health system may reduce the burden on government resources and allow the public sector to reallocate its resources toward patients with less ability to pay. For instance, when higher income individuals receive care from a foreign-owned private hospital, the public sector does not have to provide services to them. Or if these individuals buy their health insurance from a foreign insurance company, the state would not have to cover the health expenses of these individuals. Thus,
resources would be freed up and could be used for poor patients. (See for example, World Bank 1993, Gwatkin, 2003).

In theory such reallocation of resources is possible but in reality it does not appear to be frequent. For example, reviewing the evidence on private wards in public hospitals in Indonesia, Singapore and Zambia, Wadee and Gilson (2005) found that a number of obstacles such as a low level of cost recovery prevented the reallocation of resources from the private sector toward the public sector. In these cases the cross-subsidy from the private wards depends on the generation of a surplus that can provide funding for the other functions of the hospital. However, the private wards did not even recover their own costs. On the contrary, the evidence is that private wards receive funding from the general budget of the establishment instead of generating revenues. In the case of Zambia the private wards received proportionally more resources than the public wards (see Hakkinen, 1999, Hanson, et al. 2002, Theurl, 1999).

Some argue that, when good regulations are in place, private insurance can allow the state in developing countries to focus its resources on the needs of the poor and vulnerable (Sekhri and Savedoff, 2005). It can also be seen as a transitional arrangement toward a universal public insurance arrangement, assuming no commitments to liberalize health services have been made. (See below). We have not found empirical literature examining this particular aspect of the possible retargeting of health spending. Thus, it remains at best an untested or undocumented theory.

When considering the liberalization of the health sector, another element to consider is how it will affect the political economy of the public system. For instance, in many developing countries the existing public health system does not offer equal access and services to all citizens. Often public spending on health concentrates on richer groups of the population (World Bank, 2003). For instance, in India in 1995-96 the poorest fifth of the population received 10 per cent of public spending on health while the richest fifth received 32 per cent (Filmer, 2003). In these situations national policymakers must examine whether allowing foreign providers to enter will create an opportunity to rebalance the system, by reducing public health spending on richer groups and by increasing the resources and services offered to the poor. Nevertheless, in low-income countries a detailed analysis of the allocation of public health expenditures is needed. For instance, Kida and Mackintosh (2005) show that in Tanzania public expenditures on health at the district level does benefit the poor. They conclude that these expenditures are a “robust method to redistribute resources in a manner that, rather than targeting a desperate minority, provides support for the broad majority of the poor and the vulnerable in very low income countries.” (p. 283)

Finally, another source of information about the potential impact of foreign investment on health services is analysis on the impact of private vs. public health expenditures on health outcomes. Cross-national evidence shows that better access to care and better outcomes in developing countries are both associated with lower ratios of private health expenditures and higher ratio of public health expenditures (Koivusalo and Mackintosh, 2005). Indeed, looking at data from 178 countries, they found that lower life expectancy and higher probability of death before the age of five years were significantly associated with private expenditures on health as percentages of GDP. Based on a smaller set of 44 developing countries, they also found that better care at birth is associated with more public health spending and that a higher level of primary care commercialisation is linked to greater exclusion of children from treatment (pp. 14-16). These broad trends need to be investigated in further detail, but they offer clear signals about the risks involved with commercialization of health care.

Given the limited information available on this issue, caution is the best option at this time, especially in terms of making binding commitments in trade agreements. Whether at the multilateral level or in bilateral and regional trade negotiations, national governments should generally refrain from any commitments to liberalize trade in health services and health insurance. “Making a commitment under [a trade agreement] is very different from undertaking liberalization unilaterally within one country’s own policy framework. By committing a sector, the country must abide by specific [trade] rules on market access and national treatment in relation to that sector . . . Unlike a country’s own unilateral decisions, which can be reversed
if found to be damaging, the trade commitment is binding and effectively irreversible. This requires there to be a far higher threshold of certainty before countries decide to make any commitments – particularly in crucial services sectors such as health” (Smith, Blouin, Drager, 2006, pp. 12-13). Up to now the level of commitment undertaken by WTO members in health services is very low (Adlung and Carzaniga, 2006) and the current negotiations at the WTO are stalled. Nevertheless, as trade negotiations on health services at the regional and bilateral levels are on-going, a cautious approach remains crucial.

**Trade in health services according to World Trade Organization’s GATS classification**

<table>
<thead>
<tr>
<th>Mode 1</th>
<th>Cross border delivery</th>
<th>Telemedicine</th>
<th>E-health</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mode 2</td>
<td>Consumption abroad</td>
<td>Patients travelling across borders.</td>
<td>Health tourism</td>
</tr>
<tr>
<td>Mode 3</td>
<td>Commercial presence</td>
<td>Establishment of hospitals, clinics or health insurance firms through FDI, joint ventures, mergers</td>
<td></td>
</tr>
<tr>
<td>Mode 4</td>
<td>Temporary movement of natural persons</td>
<td>Physicians and nurses practising in other countries</td>
<td></td>
</tr>
</tbody>
</table>

Available evidence is limited as to the impact of commercialization on access to services, quality of care, and health outcomes. As well, there is little evidence on the capacity of developing countries to reallocate public resources “freed up” by private investment and provision. Nevertheless, it strengthens the recommendation of caution, as we find no clear evidence that commercialization, led by domestic or foreign actors, has contributed positively to improving access, quality or equity in developing countries’ health systems. Therefore, unilateral liberalization should also be considered with great care by policymakers, especially in the context of existing commitments in trade and investment treaties. Indeed, even if a country has not taken sectoral trade commitments in health, general provisions may limit the flexibility of national governments in health policy. For instance, existing investment protection provisions in trade agreements could make the expansion of public health insurance in Canada to cover prescription drugs much more expensive and difficult (Sanger and Sinclair, 2004, Johnson, 2004, Sanger, Shrybman and Lexchin, 2004, see also Sinclair, 2005 on South Africa’s GATS commitments and its impact on national health policy). These analysts stressed that the more common commercial initiatives become in Canadian provincial health systems, the greater are the risks posed by existing trade and investment treaty commitments. Given the trends toward commercialization in several middle-income developing countries, this is an important warning of potential risks. Moreover, it has been suggested that changes to the trade policymaking process at the national level should be adopted to ensure that health officials are actively engaged in the preparation of trade negotiation positions as they relate to health (Blouin, 2007). Others have suggested going further and cancelling the existing commitments on health services to remove health services from the scope of the GATS (Woodward, 2005).

**Policy option 4: Find alternative source of public revenues before reducing tariffs.**

Trade reforms often take the form of reducing or eliminating tariffs on imports. Despite years of reductions, tariff revenues are still an important source of public revenues in most developing countries. Therefore, public expenditures on health, water, social services and others public initiatives linked to social determinants of health can be directly affected by trade reforms. A number of recent studies have reviewed the evidence and are discussed below. Their main conclusion is that trade reforms in low-income countries have reduced tariff revenues beginning in the 1970s. Many of these countries have not been able to replace these losses with other sources of public revenues. Thus, for a majority of low-income countries there has been a net decline in overall public revenues. Middle-income countries have fared slightly better but in general trade liberalization has translated into a reduced capacity of national governments to support public expenditures in health, education and other sectors. With well-established taxation systems and existing public infrastructures, high-income countries have been able to move away from tariff revenues without the same loss in fiscal capacity.
The most recent major investigation on the impact of trade reforms on revenues (Baunsgaard and Keen, 2005) confirmed that, for poorer countries, the reduction of tariffs has meant a reduction of revenues more generally. Using panel data from 111 countries over 25 years, this paper investigated whether countries had recovered from other sources the public revenues that they lost from trade liberalization. The authors find that, while middle-income countries have been able to recover 40 to 60 per cent of the lost revenue, low-income countries have at best been able to recover about 30 per cent of the loss. Analysing this dataset, Glenday (2006) noted that between 1975 and 2000, 28 low-income countries “experienced trade tax yield decline, but only 6 were able to fully replace these losses and a further 10 partially replaced the trade tax losses with non-trade taxes.” These studies confirm earlier findings, using different data sources, that trade liberalization depresses tax revenues in developing countries (Khattry and Rao, 2002).

Aizenman and Jinjarak (2006) studied the impact of globalization on the tax base of 60 countries at varying stages of development; the choice of countries dictated by data availability over the period 1980 to 1999 (Aizenman and Jinjarak, 2006, Appendix B.2). This study found that trade liberalization had imposed new fiscal challenges on developing countries, forcing them to scale down traditional “easy to collect” revenue sources. High- and many middle-income countries were able to shift (or had already shifted) the tax base to “hard to collect” taxes (Aizenman and Jinjarak, 2006, Figure 2). Low-income countries were less able to adapt, frequently experiencing a drop in the net tax revenue/GDP ratio.

These recent studies acknowledge that in theory national governments should be able to shift their tax bases from tariffs to domestic taxes, such as sales or income taxes. But in reality developing countries, especially low-income countries, have not been able to do so. The reasons are many. They include the informal nature of their economies with large subsistence sectors making income taxation difficult (Khattry and Rao, 2002; Glenday, 2006), and lack of institutional capacity for efficient and accountable means of other forms of revenue collection. Various global liberalization policies add to this difficulty, for example, constraints on corporate taxation to attract Foreign Direct Investment (FDI), and on taxation on savings to prevent capital flight and to prevent human capital mobility by high-income earners. With declining public revenues (whether absolute or relative to GDP), governments of developing countries become less able to control the material conditions that affect health through income transfer. They also cannot provide more equitable and sustained access to water, sanitation, health services, education and public health programs. Reductions in government expenditures on basic services were found to be the key intervening variable linking structural adjustment policies of the 1980s to deterioration in indicators of child health and access to determinants of health (UNICEF, 1987).

This last section of the paper will briefly review the impact of trade liberalization on tax revenues in Kenya and in Asia. Kenya has been able to maintain high tariff revenues despite trade liberalization and is therefore one exception to the general findings of the literature. The Kenyan example is especially relevant for countries that are only beginning to remove trade barriers because, in the first phases of liberalization, it is more likely that tariff revenues increase. The Asian examples provide more information on the general findings about developing countries which see their tax revenues decline after trade reforms.

**Kenyan experience with tariff reforms**

Several factors may compensate governments for reductions in tariffs. Where tariffs are reduced rather than eliminated tariff revenues may rise as a result of increased trade. This appears to have been the case in a few countries at the early stage of implementation of World Bank trade reform programs. A study by Glenday (2000) used detailed customs data from 1989 to 1999 to analyze the factors that contributed to the change in customs revenue yield. It investigated the impacts on revenue yields from year to year from a number of different trade-related variables. This study attempted to explore all the various avenues for increasing import duty yields while the average duty rate was lowered as was the case in Kenya during the 1990s.

Kenya’s trade liberalization program began in 1987. After initially replacing quotas with tariffs, tariff rates were systematically rationalized and reduced during
the 1990s. Between the early 1990s and the mid-1990s, the average import duty rate was approximately halved, but the revenue yield almost doubled. The analysis demonstrates that improved administration, including better tariff collection and compliance methods, were key to raising import revenues. This study showed that substituting customs revenue with consumption taxes may not be necessary, at least at early stages of trade liberalization. Within many customs systems there is major potential for increasing revenue yields even as import duty rates are lowered on average. In addition, much of the increase in imports was raw materials and other intermediate inputs required in the production of exports rather than substitutions for domestic production. This means that negative impacts on infant industries and the domestic production tax base were likely negligible.

Data from the study demonstrates that the lower average duty rates on imports are not necessarily correlated with lower revenue yields. Trade liberalization can increase the volume of international trade such that the base expansion may exceed the rate reduction and hence yield higher revenues. Import tariffs can also have complex structures. Lower average duty rates are not necessarily achieved by across-the-board rate reductions – high duty rates may be lowered, while low duty rates may be raised. In addition, a wide range of administrative measures can be taken to improve enforcement and compliance that can reduce smuggling and increase declared customs values. For example, inspection programs can be instituted to improve valuation and other aspects of compliance. Lower duty rates can, in and of themselves, encourage voluntary compliance by reducing the incentive of evading high duty rates.

Glenday (2000) presents key explanations for the rise in the customs duty yield in the second half of the 1990s despite significant reductions in the tariff rates. First, there was an increase in import volumes following trade liberalization and a decrease in duty exempt imports. This decrease was the result of fewer exemption categories, reduced legislative discretion and access to exemptions, and tighter administration of exemption approvals and import entry controls. Second, there were increased effective duty rates on oil products and agricultural commodities. Finally, there was a major shift from imports subject to ad valorem rates to imports in the high duty rate group (defined as an import duty rate over 15 per cent in 1996/97) and a relatively larger reduction in exemptions among the high duty rate group than imports in the lower rate groups. This resulted in a doubling of the share of customs duties being derived from the high duty rate import group. It is also noted that behavioural improvements probably occurred between tariff rate reductions and customs compliance, particularly amongst high tax groups.

**Trade liberalization and tariff reforms in Asia: experience with value-added taxes (VATs)**

A study by Palanivel (2005) examined the impact of trade liberalization on macroeconomic performance in Asia, including the effects on revenue over the period 1971 to 2001. In particular the study highlights the importance of international trade taxes as well as evaluates the revenue implications of trade liberalization. An empirical analysis is presented to examine what happens to key macroeconomic variables following external sector liberalization. Data are analyzed in a systematic way for 15 Asian developing countries that have undergone extensive trade liberalization in recent decades. Ten of the 15 countries are from East Asia (Cambodia, China, Indonesia, Lao PDR, Malaysia, Mongolia, Korea, the Philippines, Thailand, and Vietnam) and the remaining five are from South Asia (Bangladesh, India, Nepal, Pakistan and Sri Lanka). These 15 countries account for 97 per cent of the population and 77 per cent of the gross national income of the whole of Asia and the Pacific. The study poses and answers the following questions: How much revenue comes from trade taxes? Has there been a decline in the share of trade taxes in total current revenue?

The following points from the study are worth noting. First, there has been a significant decline in trade taxes in all of the countries studied. The most rapid decline was witnessed by Indonesia, Sri Lanka, Thailand, Malaysia, and Korea. In all of the countries studied trade taxes as a percentage of total revenue declined by over 250 per cent in the last two or three decades. The lowest decline was observed in India, Nepal, Bangladesh and the Philippines. Secondly, revenue from trade taxes is still a big share of total current revenue in most of the countries studied. From 1996 to 2001, it was over 20 per cent in Nepal, Bangladesh, India and Vietnam;
about 15-20 per cent in the Philippines and Pakistan; and about 10-15 per cent in Sri Lanka, Malaysia and Thailand (Palanivel, 2005).

Given that in most of these countries financial liberalization and relatively open capital accounts have already put limits on governments’ ability to run large fiscal deficits, Palanivel suggests that a decline in revenues from trade taxes further limits government expenditure and constrains the capacity to implement development interventions for the disadvantaged. The study does not directly test this by examining health expenditures as a percentage of GDP over time for individual countries, but it does use poverty indicators to measure the impact of trade liberalization. The paper also examines different measures of trade as a share of GDP before and after trade liberalization and breaks down the analysis by exports/imports, countries, and sectors. The paper concludes that import liberalization has the effect of reducing trade taxes and consequently government revenue and expenditure on physical capital.

In this context, a key concern for many Asian countries becomes how to recover the revenue loss. A common strategy for many Asian countries has been to strengthen implementation of broad-based taxes such as the value-added tax (VAT). In recent years, almost all Asian countries introduced a VAT as part of the package of economic reforms. Implementing a VAT in conjunction with trade liberalization has the potential to provide new tax revenues without any serious economic distortions. VAT has become the principal indirect tax for most of the countries studied. However, it is still unclear from this study whether VAT sources of revenue can sufficiently compensate for tariff declines and the subsequent impact on social spending as a percentage of GDP.

Conclusions

Three policy inferences can be drawn from this. First, developing countries, particularly low-income countries, with a relatively high reliance on tariffs for public revenue, should develop viable alternative methods of revenue generation conducive to an equitable distribution of wealth (i.e. which do not increase inequities in the social determinants of health (SDH) prior to further tariffs reductions. Second, high-income countries with such systems should assist low-income countries in developing institutional capacity for progressive forms of revenue collection. Third, high- and middle-income countries should not demand further tariff reductions in trade agreements with low-income countries still reliant on such tariffs until alternative revenue and institutional capacity to sustain them are well developed.

Aizenman J. and Jinjarak Y.; *Globalization and Developing Countries - a Shrinking Tax Base?*, UCSC and the NBER NTU Economics department, E2 Division of Economics, July 2006.


Drechsler, D. and Jutting, J., *Private Health Insurance for the Poor in Developing Countries?*, Policy Insight no 11, OECD Development Centre, August 2005.


Hutton, G., *Charting the path to the World Bank’s No blanket policy on user fees: A look over the past 25 years at the shirting supporting for user fees in health and education, and reflections on the future*, London, DFID Health Systems Resources Centre, May 2004.


Vorley, W., *Food Inc.: Corporate Concentration from Farm to Consumer*, p. 6, UK Food Group. UK, 2003.


It is important to highlight the stark difference between developed and developing countries when it comes to tariffs as a source of government revenue. World Bank figures from the Action Group on Erosion, Technology and Concentration (the ETC Group); see their website for their latest report: www.etcgroup.org.

Concerted social policy reform had been ongoing in S. Korea, first and foremost under Park Chung-hee. One of the hallmarks of Park’s regime was the 1977 Medical Insurance Law. As is well known, the Korean chaebol (business complex) best symbolizes Korea’s phenomenal ‘state developmentalist’ success. Under Chun Doo-Hwan (1980-88) in 1986, the landmark Minimum Wage Law was implemented (the first such legislation among the NICs, with the exception of Taiwan). For a review see: Jaehyun Joo, Explaining Social Policy Adoption in Korea, Journal of Social Policy, 28(3), pp.387-412 (1999). For a review of program coverage, see: Social Safety Nets in Response to Crisis: Lessons and Guidelines from Asia and Latin America, World Bank, IMF, ADB, IADB, Feb, 2001 pp.14 (Box.4)


The rest of the employed population is still not covered by any retirement scheme. These include the self-employed and informal sector dwellers. In fact, all the above schemes are applicable only to urban and industrial workers. Agricultural workers, who form 16% of the workforce, are not included in the scheme. This suggests that while there is a huge amount of resources available that could be tapped, there are still a large number of employed persons who have to depend on their own savings for their old age. Not all workers retrenched during the economic crisis received termination benefits or benefited from the Voluntary Separation Scheme. There is no unemployment insurance or benefit in Malaysia that provides a cushion during the transition period (one criticism of Malaysia’s response has been its programmatic ad hoc nature). With the resources at hand, a persuasive case has been made for a state administered ‘Social Aid Fund’ for employment; for a greater exposition of this and related recommendations see: Norma Mansor and Halima Awang, The Role of Social Safety Nets in Malaysia, in Towards Asia’s Sustainable Development: The Role of Social Protection, OECD, 2002, pp.211-214.


Clear policy goals were set in each area, such as: establishing assistance centres for retrenched workers, extending protection to the informal sector, supporting investment in training, reducing school drop-out rates, encouraging private sector involvement in education, creating national child health care objectives etc.

These include Workmen’s Compensation, Severance Pay, Voluntary Provident Fund, Employee Welfare Fund; but noticeably no unemployment insurance.


Ibid, see above studies for evaluation of SIF (Social Investment Funds) and RUDF (Regional Urban Development Funds)


This is an important point and worth greater discussion for which there is little room here. A fuller exposition can be found in: John Blomquist, Juan Pablo Cordoba, Marijn Verhoeven, Patricia Moser, Cesar Bouillon, Social Safety Nets in Response to Crisis, in Towards Asia’s Sustainable Development: The Role of Social Protection, OECD (2002), p.306 (on this point). See pp.318-30 for further recommendations on targeting and exit.

For both sides, see in particular, the finding of the SMERU and CEFNAS study (summarized in): Strengthening Policies and Programs on Social Safety Nets, Social Policy Paper no.8, UNESCAP (2001) pp.162-65. Further, while a study by the Institute for Economic and Social Research and Education of the same program was highly critical and called for it to be discontinued, researchers Tabor and Sawit (1999) praised the program in every area, see: Tabor, Steven, R. and M. Hussein Sawit, 1999, The OPK programme: economy-wide impacts, prepared for the State Ministry for Food and Horticulture, Economic Management Service International.


The Philippines experienced improvements in key human development indicators between 1986 and 1996, particularly those related to education and health. Poverty declined from 44.2%in 1985 to 31.8% in 1997.

The Government’s response to the 1997 crisis was found wanting in many respects. Reduced access to basic social services was noted during the period. Findings from Reyes and others (1999) echo this concern. They found that five out of six regions showed a decline in immunization coverage in 1998. Focus group discussions noted a deterioration in the availability of drugs and medicines in local publicly run health centres. As late as September 1998, only 24% of the appropriation for drugs and medicines in the Department of Health budget was covered by allotment advice. At the same time, drug prices rose by 25 to 30% owing to the peso depreciation.

This section updates a discussion of trade in health services found in the chapter “Economic Dimensions and Impact Assessment of GATS to Promote and Protection Health” by Chantal Blouin in Blouin, Drager and Smith, 2006. Additional references were found through literature searches conducted in the following electronic databases and online portals: Eldis, Econlit, Social Sciences Citation Index, PAIS, the search engines google scholar.com and google.com. We also conducted searches on the website of World Bank, UNCTAD, ILO (including the working papers of the ILO Commission on Social Dimension of Globalization), WHO, WTO, UNDP.

The keywords used were: trade, trade agreements, international trade, liberalisation, privatization, commercialization, health, health services, private health insurance.

The databases used to find the information contained in this section came from the websites of several international organizations involved in trade, development, and health. Thorough searches were done of the WTO, WHO, PAHO, World Bank, FAO, UNCTAD, and UNDP databases. The search also included databases found at the websites of non-governmental organizations and other social action organizations such as: Oxfam, Médecins sans Frontières, and Eldis. Lexis/Nexis databases were searched for articles primarily related to international trade law and PubMed databases were searched for articles based in health research, as well as of Google Scholar.

The key words included: tariffs, trade revenue, trade liberalization, and impact.

It is important to highlight the stark difference between developed and developing countries when it comes to tariffs as a source of government revenue. World Bank data indicate that the contribution of tariff revenues to total government revenues ranges greatly, from virtually nothing in the European Union to over 76% in Guinea (Baunsgard & Keen, 2005). Less extreme examples (more representative of developing countries typically) are those of Cameroon and India, where tariff revenues represent some 28 and 18% of government revenues respectively, whereas in OECD countries, tariff revenues represent on average 1 percent or less of total government revenue. Ten countries collect more than half their revenues from tariffs and a further 43 collect more than a quarter (see Table 1 in Laird et al., 2006).
For further discussion see Bamou, E.; African Economic Research Consortium (AERC), Trade liberalization and economic performance of Cameroon and Gabon, Trade Liberalization and Economic Performance 1, 1999. Despite liberalization of international trade regimes and a wider disengagement of Central African Customs and Economic Union (UDEAC) states from production activities in accordance with the first SAPs, it was not until 1994 that a substantial reform in trade policy was noticed within the regional fiscal reform program (RFRP) of the UDEAC.

Ad-valorem taxes can be property tax or duty on imported items. Property ad-valorem taxes are a major source of revenues for state and municipal governments. An ad-valorem tax is typically imposed at the time of a transaction (a sales tax or value-added tax (VAT)) but it may be imposed on an annual basis (property tax) or in connection with another significant event (i.e. tariffs). The alternative to ad-valorem taxation is a fixed-rate tax, where the tax base is the quantity of something, regardless of its price. Aaron, H.J.(ed.) The Value-Added Tax: Lessons from Europe, Washington, DC: Brookings Institution.