

Position Paper

Rural Development and Poverty Alleviation in APEC

Executive Summary

APEC's initiative for studying ways of promoting rural development and poverty alleviation is most welcomed and endorsed.

One billion people live in rural areas of APEC developing economies and a large majority of APEC's poor are to be found there. While successful in promoting growth and regional economic integration, to date, APEC has only tangentially addressed the challenges facing rural areas of developing economies, where poverty, income disparities and economic exclusion persist.

Rural development will unleash higher growth rates across APEC while **promoting true "inclusiveness"**. Poverty alleviation should become part of APEC's DNA.

The PSU study assessing the draft development list of 157 products for tariff reductions is a useful starting point. However, despite best efforts, the results of this study are likely to be suboptimal due to the methodology, incomplete data on APEC economies, and limited time and resources available. It is recommended that:

- a. Priority be given to products that have marked benefits **for growth in rural areas of developing markets**. For developed economies, rural development priorities could be accommodated by domestic policies and initiatives.
- b. **Complementary supply side policies** and initiatives by APEC be introduced to boost farm and especially non-farm employment and incomes.

Many of APEC's existing programs and work groups are applicable to rural development, such as those related to infrastructure, innovation, supply and global value chains, and financial services. These should be harnessed by including rural development objectives into their future work plans and agendas.

In addition to lowering tariffs on products contributing to sustainable and inclusive growth through rural development and poverty alleviation, the following organizational actions are suggested:

- a. Conduct an APEC **ministerial meeting to address rural development** and outline a broad strategy and milestones.
- b. Establish a **Senior Rural Development Officials' Meeting**, akin to specialized SOMs for finance officials and telecommunication and information officials. This group would meet periodically to set priorities, operational objectives, and provide oversight of programs. The group would act as a coordination body for assessment of pertinent activities across committees, work groups, and other relevant groups.
- c. **Existing work groups should be engaged progressively** by adding rural development to their work plans. Priority groups are those dealing with market access, infrastructure, investment, innovation, connectivity, supply and value chains, agriculture and food security, financial services, and SMEs. Other work groups could be subsequently engaged.

Overview

The APEC economic leaders' meeting of November 2013 in Bali decided to initiate a study to assess how APEC could address effectively the issue of rural development and poverty alleviation (RD-PA). That decision was warmly welcomed and endorsed. The Policy Support Unit (PSU) is due to present its report to the Committee for Trade and Investment (CTI) at the Senior Officials Meeting (SOM3) in May 2015.

During the course of the study, in early 2014 various economies of APEC submitted 157 products for consideration as a "development list" earmarked for tariff reductions. It is possible that recommendations for other actions by APEC will be included in the PSU report.

This initiative is to be welcomed, commended and given full support. The aim of this policy paper is to provide constructive input into this process. It is structured into the following sections:

- a. **Closing the Gap.** Short overview of the existing situation and the timeliness of APEC's initiative to address the issue of RD-PA
- b. **Lowering Trade and Investment Barriers - The PSU Study.** Comments on the scope of the PSU study and its methodology, and
- c. **Building an Inclusive APEC.** Proposals and recommendations that constitute a framework for effectively meeting the challenges of inclusiveness by encompassing the majority of APEC's poor via a proactive rural development strategy.

Closing the Gap

APEC's agenda is based on three broad areas or "pillars": trade and investment liberalization, business facilitation, and economic and technical cooperation. Justifiably, there is great focus on economic growth and promoting investment in infrastructure and connectivity of the member economies. Significant work has been done in the areas of innovation, life sciences, supply and value chains, services, food security, and even into fields such as counterterrorism, illegal logging, electric vehicles, and data standards. Over the past 25 years APEC's benefits have been not only economic, however; they have spilled into the social and political spheres too.

Without doubt, APEC has a broad and ambitious agenda that presently caters well to the priorities of mature economies, and for urban and developed markets. However, there is a gap.

The majority of APEC's 21 member economies are classified as developing countries. One billion citizens live in rural areas of the 11 APEC countries with the lowest GDP *per capita*. A perusal of APEC's ongoing work program warrants an observation that these rural citizens have become APEC's forgotten billion. Hitherto, issues affecting their economic welfare have only been addressed tangentially, through capacity building of developing country administrations, food security, promoting SMEs, market liberalization, and opening up of financial markets. There has been little or no direct focus on the specific challenges facing rural areas.

Despite the goal of APEC's Regional Economic Integration agenda to increase living standards for all, the benefits of economic success across the region have by no means been shared equally. Income distribution and differences in real consumption are widening between cities and rural areas in most member economies. Income inequality and lack of equal opportunities have persisted. This situation and the lag in economic growth and integration can lead to rising social and political tensions. Poverty also impacts sustainability, for environmental degradation in many poor rural areas is severe.

This initiative and study implicitly seeks to devise measures moving forward that deal expeditiously with not just economic integration of urban market operators, but also with the incorporation of rural areas and poverty alleviation. Its importance cannot be underestimated as it aims to bring economic and social inclusiveness to large numbers of APEC citizens.

Lowering Trade and Investment Barriers - the PSU Study

There are significant beneficial effects with a coordinated reduction of tariffs and non-tariff barriers across the trading area of APEC member economies.

Previous OECD studies¹ have found that while economic growth generally was an important contributor to poverty reduction, the sector mix of growth mattered substantially, with growth in rural incomes being especially important. While for remote rural areas such as mountainous and semi-arid regions the promotion of high-value non commodity crops has demonstrated significant benefits. Reductions of tariffs and nontariff barriers for rural and associated products would undoubtedly have large follow-on effects for raising incomes in rural areas.

Tariff reductions on products with significant parts of their value chains embedded in rural areas have greater multiplier effects assisting rural development. Benefits go beyond simple economic growth, encompassing environmental advantages by lowering carbon footprints, and positive social outcomes due to an accentuated impact on poverty alleviation.

In addition, food security is enhanced. A 2009 World Bank Study² demonstrated the beneficial effects of trade liberalization on food security for the poor. The study showed that high tariffs mean there is less international trade in farm products than would be the case under freer trade, thereby thinning markets for weather-dependent products and thus making them more volatile.

In light of the considerable benefits from tariff reductions for pro-poor products, the CTI and PSU launched a study to draw up a "development list". The methodology followed by PSU in the initial

¹ Cervantes-Godoy, D. and J. Dewbre (2010). *Economic Importance of Agriculture for Poverty Reduction*, OECD Food, Agriculture and Fisheries Working Papers, No. 23, OECD Publishing.
<http://www.oecd.org/countries/cameroon/44804637.pdf>

² Anderson, Kym (2009). *Five decades of distortions to agricultural incentives*. Agricultural Distortions working paper ; no. 76. Washington, DC: World Bank. <http://documents.worldbank.org/curated/en/2009/03/12660103/five-decades-distortions-agricultural-incentives>

phase was to call for APEC economies to nominate products that could contribute to rural development and poverty alleviation if subject to tariff reductions. Some 157 products were nominated from 13 economies, so forming the development list that was circulated in June 2014. This was a similar method of self-selection that had been used to compile the “environmental goods and services” list some years previously. A few observations of the development list are warranted:

- a. Some 50% of the “development list” products were nominated by “developed economies”, that is by economies that are either members of the OECD or have incomes *per capita* above the median of OECD members. These economies have no or negligible populations living in poverty, according to definitions from the World Bank and other international organizations.
- b. Some of these nominated products have a contentious provenance over past decades within previous WTO negotiations. The list includes products such as cereals, rice, beef and pork products. Controversial products lower the likelihood of achieving consensus.
- c. For many products the nominating economies made very cursory justifications for their inclusion. Many of these products have tenuous or circuitous links to poverty alleviation in rural areas, for example machines for manufacture of semiconductor wafers, devices and integrated circuits, and snow blower machines.

The second phase of the PSU study consists of analysis based upon partial equilibrium modeling plus trade indices, statistical indicators and literature reviews. The PSU team has acknowledged the limitations of this methodology. The preferred technique is computerized general equilibrium modeling. However, there is inadequate information and data for some APEC economies. This, coupled with time and funding restraints, precludes detailed optimal analysis. The decision to use partial equilibrium modeling is understandable in the circumstances but does have consequences that are noteworthy with regard to assumptions inherent within the modeling.

- a. The modeling treats the 21 APEC economies as a single market with respect to comparative advantages *vis-à-vis* the rest of the world. This is patently not so; APEC does not have freedom of movement of goods, services, capital and people. Indeed, much of the present and future work of APEC towards connectivity and initiatives such as FTAAP is premised on the existing inefficiencies in regional economic integration.
- b. With APEC treated as a whole and given that APEC includes some of the largest developed agricultural exporters, the rural poor of APEC’s developing economies are masked or “hidden” from the analysis.
- c. Relative to world export and import markets, the model ignores the existing market distortions based on income support, export and production subsidies, both within APEC and globally.
- d. The trending model ignores the effects of supply side investments on infrastructure and capacity building, and positive government policies to promote rural development.
- e. The methodology is based upon an export trading model. It is also insensitive to changes to production and trading patterns **within** APEC economies and intra APEC trade based on changing consumption patterns due to growing incomes.
- f. The trading model does not distinguish patterns of growth within APEC economies, particularly between urban and rural segments. The benefits of increased trade of certain products may have little or no effect on livelihoods of rural communities, given that their

benefits accrue to existing value chains of developed markets or concentrated in urban areas. Indeed there are circumstances whereby increased trade actually leads to greater income disparity, exacerbating poverty in rural areas.

Accordingly, care needs to be taken in interpreting the results of the partial equilibrium modeling. PSU has noted this already and indicated that the results of the partial equilibrium modeling must be complemented by incorporating external studies, literature reviews and statistical indicators to validate results. Otherwise there could be perverse results leading to a series of products with lower tariffs that reinforce the competitive advantages of developed markets and further marginalize the rural poor of developing markets.

In order to ensure that the PSU study results achieve the objective of promoting rural development it is recommended that the initiative focus on APEC's developing economies. Criteria such as GDP per capita and the percentage of citizens living in rural areas could be used.

Significantly, developing economies have much higher proportions of their populations living in rural areas. On the other hand, all of APEC's developed economies have less than 20% of their populations in rural areas. A segmented policy approach could be considered. There are many precedents for such segmentation. The European Union applies geographic segmentation for the provision of its regional and structural programs and funds, while APEC already applies such segmentation in its various capacity building efforts across many areas.

Building an Inclusive APEC

Judiciously chosen reductions of tariffs and nontariff barriers for rural products would undoubtedly have large follow-on effects for raising incomes in rural areas. However, there are limitations to relying solely upon lowering trade and investment barriers to achieve rural development and poverty alleviation.

The impact of a reduction of tariff and technical barriers to trade (TBT) is multiplied substantially if coupled and integrated with positive policies to build infrastructure, promote connectivity, and improve access to finance and capacity building as an eco-system for poverty alleviation.

Complementary policies are crucial to ensure that disadvantaged groups can participate in the global economy and reap benefits from increased trade. The initiative should also address:

- a. Supply side constraints that hinder producers' abilities to provide traders with a reliable supply of the right products. These include a lack of infrastructure, market information, credit and technical know-how.
- b. Policies to ensure functioning markets
- c. Transport and logistics bottlenecks
- d. Financial obstacles to participation in trade
- e. Impediments to labor mobility (legal, cultural, institutional)

Many of these policies are already being addressed by Senior Officials' Meetings (SOM), its Committees, their Work Groups / Task Force and Other Groups, but presently without a specificity and orientation to rural development and poverty alleviation.

Conclusions and Recommendations

The initiative by APEC for studying optimal ways of promoting rural development and poverty alleviation is most welcomed.

Over the past 25 years, APEC has been successful in promoting growth and economic integration across its member economies. However, the benefits of APEC endeavors and regional growth have not been spread evenly across the region. There remain persistent areas of poverty, income disparities and economic exclusion.

One billion people live in rural areas of APEC developing economies and a large majority of APEC's poor are counted among them. Hitherto, the APEC agenda has largely ignored their needs.

It is to the benefit of APEC that this gap be closed in order to unleash higher growth rates and maintain social cohesion. Rural development and poverty alleviation under the umbrella objective of "inclusiveness" should be addressed by APEC in an adequate way such that it becomes part of APEC's DNA in future years.

Assessing the draft development list of 157 products for likely tariff reductions is a useful starting point. However, the results of the PSU study have limitations based on suboptimal methodology due to partial equilibrium modeling. A more comprehensive modeling is unavailable due to incomplete data of APEC economies, time and resources available. This deficiency is compounded by the construction of the product list whereby a majority of the products were nominated by developed markets. Given that the prime objectives are to promote rural development and poverty alleviation it is recommended that:

- a. For tariff reductions, there should be a priority for products that have optimal benefits for rural areas in developing markets. APEC may decide for products that promote rural areas in developed economies or have only tangential effects that they could best be addressed by domestic policy initiatives in those developed economies.
- b. Supply side policies and initiatives by APEC should be introduced with the aim of creating farm and especially non-farm employment and incomes.

Many of APEC's existing programs are very applicable to rural development. There are institutional frameworks already in place via existing committees, work groups and other initiatives. Rural development and poverty cut across many issue groups. The aim would be to harness and orient existing APEC groups towards poverty alleviation goals. This could be achieved by including a rural development dimension and topics into work plans and agendas.

Suggested organizational actions include:

- a. Conduct an APEC ministerial meeting to address rural development and outline a broad strategy and milestones. Ministers may be drawn from national development, agriculture, trade, commerce or employment-focused ministries on the economies' choosing.
- b. Establish a Senior Rural Development Officials' Meeting, akin to previous specialized SOMs for finance officials and telecommunication and information officials. This group would meet periodically to set overall objectives and programs for rural development and poverty

alleviation. The group would act as a coordination body for assessment of pertinent activities across committees, work groups and relevant Other Groups.

- c. Over time as momentum is achieved, existing groups should be engaged and add rural development dimensions and specificities to their work plans. This includes those dealing with:

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| a. market access | j. small and medium enterprises |
| b. services | k. women in the economy |
| c. investment experts | l. electronic commerce |
| d. infrastructure | m. healthcare |
| e. innovation | n. transport |
| f. connectivity | o. sustainable development |
| g. supply and value chains | p. emergency preparedness |
| h. agriculture and food security | q. mining |
| i. financial services | and other relevant groups. |

APEC formats and channels could progressively be formed as needed on specific issues related to poverty alleviation. These could include forums, conferences, workshops, policy partnerships, high level dialogues, public-private dialogues and task forces.