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**IDE DISCUSSION PAPER No. 433**

**Toward an Inclusive and a Little Bit Ethical  
World Trading System:  
Listening to the Voices of the People in LDCs**

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**Abstract**

Many specialists in international trade have started saying that the era of a mega FTA is approaching. If the three poles of the global economy, namely East Asia, EU and the United States, form mega FTAs, most of the volume of global trade will be covered. That may be fine, but there will be many countries left out of the mega FTA, most of which will be the least developed countries (LDCs).

Since the inception of the Doha Development Agenda (DDA) negotiations in 2001, the WTO and its member countries have tried to include LDCs in the world trading system through various means, including DFQF and AFT. Although these means have some positive impact on the economic development of LDCs, most of the LDCs will never feel comfortable with the current world trading system. To overcome the stalemate in the DDA and to create an inclusive world trading system, we need more commitment from both LDCs and non-LDCs.

To surmount the prolonged stalemate in the DDA, we should understand how ordinary people in LDCs feel and think about the current world trading system. Those

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voices have seldom been listened to, even by the decision makers of their own countries. So as to understand the situation of the people in LDCs, IDE-JETRO carried out several research projects using macro, meso and micro approaches.

For the micro level, we collected and analyzed statements from ordinary people concerning their opinions about the world trading system. The interviewees are ordinary people such as street vendors, farmers and factory workers. We asked about where they buy and sell daily necessities, their perception of imported goods, export promotion and free trade at large, etc. These ‘voices of the people’ surveys were conducted in Madagascar and Cambodia during 2013.

Based on this research, and especially the findings from the ‘voices of the people’ surveys, we propose a ‘DDA-MDGs hybrid’ strategy to conclude DDA negotiations and develop a more inclusive and a little bit more ethical world trading system. Our proposal may be summarized in the following three points.

(1) Aid for Trade (AfT) ver. 2

Currently AfT is mainly focused on coordinating several aid projects related to LDCs’ capacity building. However, this is inadequate; for the proposed ‘DDA-MDGs hybrid’, a super AfT is needed. The WTO, other development agencies and LDC governments will not only coordinate but also plan together aid projects for trade capacity building.

AfT ver. 2 includes infrastructure projects either gran aid, ODA loans and private investment. This is in accordance with the post-MDGs argument which emphasizes the role of the private sector.

(2) Ethical Attitude

Reciprocity is a principle of multilateral agreement, and it has been a core promise since GATT. However, for designing an inclusive system, special and differential treatment (S&D) is still needed for disadvantaged members. To compromise full reciprocity and less than full reciprocity, an ethical attitude on the part of every member is needed in which every member refrains from insisting on the full rights and demands of its own country. As used herein, the term ‘ethical’ implies more consideration for LDCs, and it is almost identical to S&D but with a more positive attitude from developed countries (super S&D).

(3) Collect Voices of the People

In order to grasp the real situation of the people, the voices of the people on free trade will continue to be collected in other LDCs, and the findings and leanings will be fed back to the WTO negotiation space.

**Keywords:** Special and differential treatment, WTO, trade policy, development

**JEL classification:** F13, K33, O19

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## 1. Preface

As the WTO Doha Round's official name 'Development Agenda' indicates, this round was originally meant to pay maximum consideration to the benefits gained by developing countries from trade liberalization. However, a comprehensive agreement is not in sight, and consideration for developing countries is being criticized to be forgotten. Among the developing countries, some of the economically active nations, so-called 'emerging countries', are strongly involved in the WTO mechanism and have succeeded in gaining some merits from the commitment to the trade liberalization processes. In contrast, other developing countries, especially small and vulnerable countries categorized as LDCs, cannot enjoy the merits of 'the free trade mechanism'. Being small-scale economies and still in the early stage of industrialization, LDCs cannot automatically climb the economic development ladder even if they participate in the framework of the free trade system.

We can say that LDCs are largely excluded from the global trade system even if they try to fulfill the necessary requirements and conditions to join the WTO. Because LDCs already paid the 'costs' of joining, they are claiming the right to preferential treatment in return for the cost of WTO participation. They expect economic development, using trade as leverage to economic growth. Aid for Trade is expected to be one of the powerful tools for advancing this process.

Since the DDA started, especially in its early stage, some 'development issues' have been discussed, and progress has been made. For example, the reduction of the raw cotton subsidy in the US could provide exporting opportunities for cotton-producing countries, and duty-free quota-free (DFQF) trade for LDCs was one of the highlights of the DDA process. Another big step in development issues is the modification of the TRIPs agreement, which enables developing countries to produce generic medicine to improve their public health situation. However, most LDC countries recognize that the progress in development issues is not necessarily adequate to offset their domestic sacrifice. On the other hand, from the WTO side, LDCs are criticized as being free riders who commit nothing but demand much.

While DDA negotiations are stagnated, the global trading system is in the process of rapid restructuring along with the 'value chains'. Leading multinational companies want to trace and govern their value chains in order to procure and supply value-added products at a lower cost. Many developed countries and emerging countries are integrated into these private company-led value chains and have shifted their interest from multilateral WTO negotiations into regional negotiations such as EPAs (Economic

Partnership Agreements), FTAs (free trade agreements) and the TPP (Trans Pacific Partnership Agreement).

On the other side of the coin, we should not forget that there is a group of nations excluded from the entire flow of the value chains ruled by private companies and the negotiations on regional economic integration. These are the least developed countries (LDCs). The developed countries and the emerging countries seemed to have given up umbrella talk under this situation and are going to maximize their own economic benefit through bilateral agreements such as FTAs. As a result, the least developed countries (LDCs) are left behind, and their degree of marginalization seems to be deepening in the international trade system.

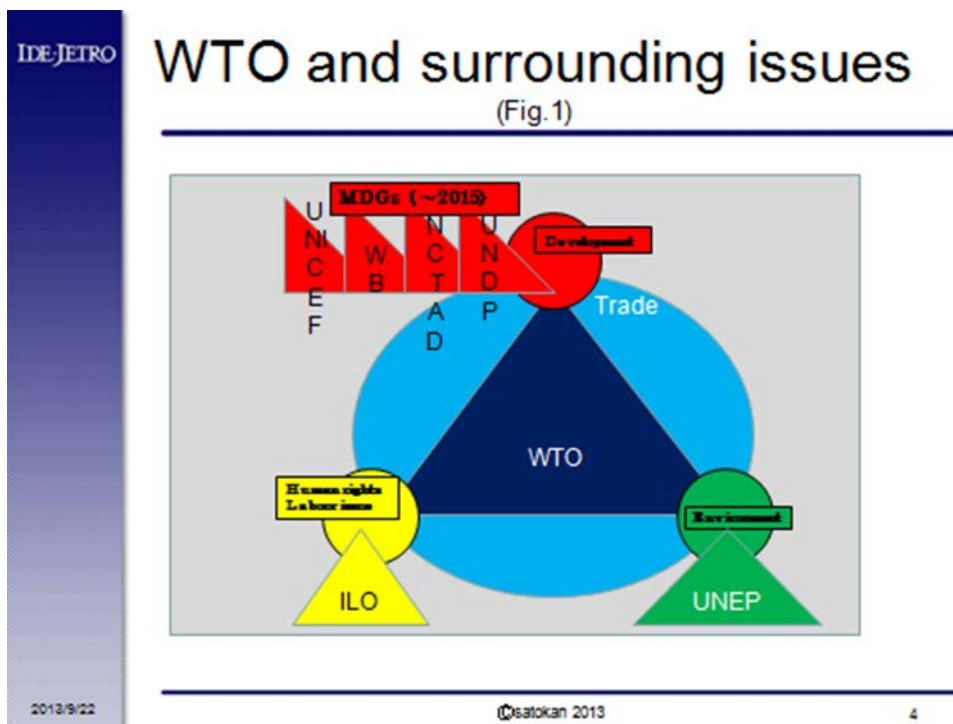
## **2. Issues Surrounding DDA**

‘Trade and development’ is a huge task, and there are dozens of specialized agencies and organizations tackling the ‘development’ issue itself. Since the WTO’s primary concern is trade and not development, it is obvious that the WTO needs to collaborate with those agencies to solve matters related to trade and development. Moreover, there are many issues other than development (of LDCs) on which many member countries (especially among developed and emerging countries) place priority. Therefore, the WTO has minimized its commitment to development issues which are not directly related to its negotiation topics. As shown Figure 1, there are three development-related issues surrounding the WTO. They are ‘trade’ itself, ‘environment’ and ‘human rights’.

Many ‘anti-globalization’ NGOs and nature conservation organizations claim that trade liberalization may destroy the environment. Similarly, some international NGOs and labor unions in developed countries claim that trade liberalization causes violations of human rights in developing countries. This is because, in the process of trade liberalization, poor and vulnerable people in developing countries may become victims of sweatshops, cheap wages, hard and dangerous working conditions, and human trafficking.

In the field of trade and environment UNEP, as a specialized environmental agency, is playing a leading role, but there may be substantial space for WTO trade-related topics. Similarly, in the field of trade and human rights, the WTO entrusts the ILO (International Labour Organization) with dealing with labor-related issues and avoids direct intervention in these matters. In the field of trade and development, however, it is difficult for the WTO to evade development issues because the GATT charter (the

former incarnation of the WTO) itself has a section on trade and development.



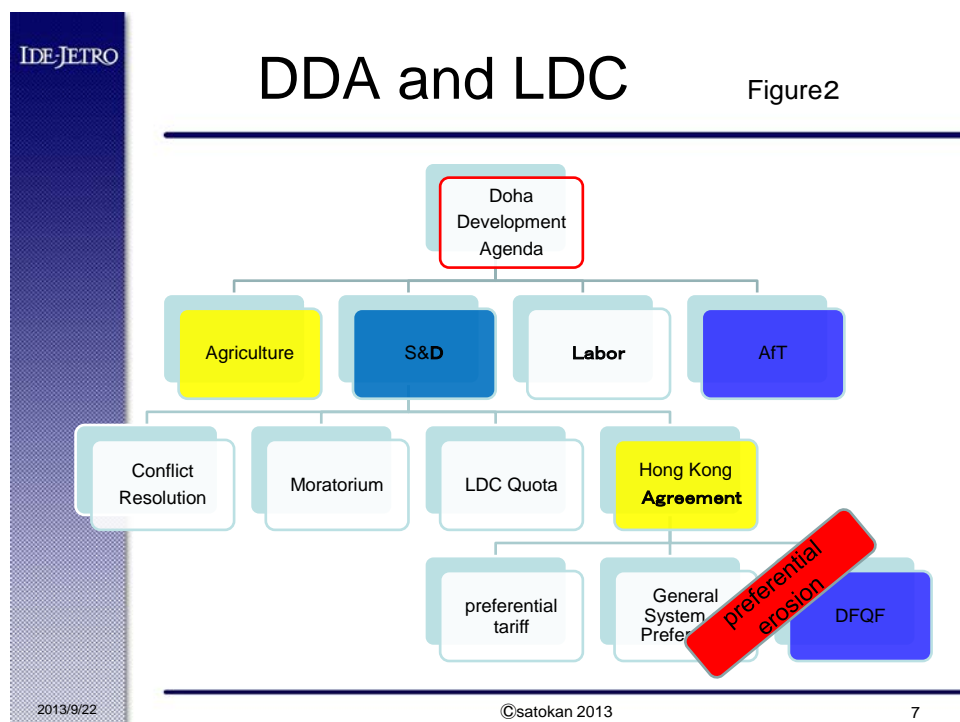
There are many positive projections for trade and development, such as if trade liberalization and development projects were combined, for example trade promotion and port construction for exports, there would be a huge synergetic effect contributing to increased export volume. However, there are many cases in which trade liberalization policy (including investment promotion and liberalization of service trades) harm vulnerable people in developing countries. Land grab scandals in Africa are frequently cited as an example of the negative impact of liberalization of investment. Evacuation and resettlement for infrastructure projects cause severe impacts on people's lives. The spread of epidemic diseases beyond national borders also affects vulnerable people first, and the bankruptcy of local small- and medium-scale enterprises due to the entry of the foreign-affiliated capital hit the local economy upon which poor people depend the hardest.

Those incidents contradict the global commitment to 'poverty alleviation' under the Millennium Development Goals (MDGs). Many development NGOs and anti-globalization people severely criticize those elements of trade liberalization. In reply to those criticisms, the WTO has several measures such as Aid for Trade (AfT)

and DFQF. Aft is a typical case where development agencies and the WTO can work collaboratively. Since the WTO does not have a development fund, it is attempting to facilitate the mobilization of aid agencies' funds for Aft.

### 3. DFQF and Aid for Trade Are Not Enough

To evaluate the DDA's impacts on LDCs, IDE-JETRO conducted several research projects from the macro, meso and micro perspectives. On the macroeconomic level, Ito examined the impact of duty-free quota-free (DFQF) trade (see IDE-JETRO Discussion Paper No. 434) and Ohno examined the impact of Aid for Trade on LDCs. On the mezzo level, Fukunishi analyzed the impact of trade fluctuations on garment workers (see IDE-JETRO Discussion Paper No. 422). Before going into the micro level survey, let us briefly visit some of the findings from the above studies.



#### a) Duty-Free Quota-Free (DFQF)

It is claimed that DFQF is one of the major fruits of the 2005 Hong Kong meeting. However, Ito argues that Japan's DFQF has very little effect if any, on the LDCs exports to Japan based on an empirical study using precise Japanese trade statistics (see IDE-JETRO Discussion Paper No. 434).



Due to the widespread trend toward decreasing tariffs and abolishing import quotas, the marginal effect of DFQF is declining. At the same time, because of DFQF, traditional GSP has become less important. In this sense, preference erosion is actually observed. In other words, GSP has ended its historic and significant role of encouraging developing countries to export, and the WTO's DFQF has taken over this role. However, as the marginal effect of DFQF is not as huge as expected, and so LDCs request some other S&D instead of GSP. Examples of S&D under DDA are special treatment in conflict resolutions or moratoriums for fulfilling WTO procedures, special quotas for LDCs, and AfT.

Although DFQF's impacts on LDCs in general are less dramatic, the benefit remains high in the textile industry because the duty remains high, while the quota was abolished after the MFA finished. In other words there was still the merit of duty free, but the merit of quota free disappeared.

#### **b) Aid for Trade (AfT)**

Aid for Trade (AfT) is new as a technical term in the WTO, but the concept has existed since the 1960s when Japan started its official development aid (ODA) to southeast Asian countries. Ohno examined Japanese AfT to Vietnam and Cambodia and presented an ambiguous conclusion on how AfT benefits developing countries. Since the WTO cannot commit to aid projects, it emphasizes the importance of capacity building in developing countries as AfT to facilitate trade liberalization. However, based on Japanese experiences, AfT is a powerful tool for industrial development if infrastructure building is included.

Ohno argues that AfT has two purposes; one is to top up with additional aid to compensate for the loss caused by 'preferential erosion', and the other is to sooth the dissatisfaction of developing countries with the WTO. In other words, AfT is considered to be a carrot for LDCs.

So, we have two dimensions for evaluating AfT. First, as development aid, does AfT succeed in accelerating economic development? As for the soothing dissatisfaction, has the attitude of developing countries changed since receiving AfT? The answer to the first question may vary as usual aid program, but the answer to the latter question would be 'not so much'. This is because developing countries are not actively participating in WTO negotiations and the entire negotiations of DDA are delayed, too.

#### **c) S&D and TRIPS**

Yanai argues that the S&D system is not adequately reliable for developing

countries and therefore LDCs have little incentive to commit more to WTO negotiations (see IDE-JETRO Discussion Paper No. 435). In general, if there is already an existing set of rules and international laws, the adjustment cost for latecomers becomes higher.

In order to settle disputes among many stakeholders in a country, the governments of developing countries need more flexibility in WTO rules. Flexibility surrounding TRIPs is one of the great merits of S&D. The TRIPs agreement was revised (regarding production licenses for generic drug products) to enhance people's access to pharmaceutical products as a part of infectious diseases including HIV/AIDS.

#### **d) Labor Issues**

The 'social clause' has been a focal point of a debate in which some developing countries attack it as disguised protectionism of developed countries. Nakamura argues that the labor issue has been set aside and that responsibility for this matter be handed over to the ILO. Therefore, it is very difficult for member countries to talk about labor issues along with DDA negotiations, and few favorable results for LDCs have been secured on labor issues.

The 'better factory' initiative is a unique experiment in which the Cambodian government has committed to improve labor standards in exchange for US import quotas. It offers incentives for developing countries that respect labor standards and improve the labor and social environment of workers (especially in garment factories) to attract more foreign direct investment (FDI). This trend was spurred after the collapse of Rana Plaza in Bangladesh which killed more than 1,000 garment workers in April 2013.

#### **4. 'Voices of the People' Survey**

In a developed country, the most difficult part of trade negotiation is coordinating the different opinions of the many stakeholders inside the country. For example, the Japanese government is still struggling to harmonize different voices on trade liberalization such as those in the agricultural sector and manufacturing sector, large manufacturing companies and small-scale manufacturers, aged people in rural areas and the younger generation in urban areas, and so on. It is very difficult to harmonize opinions because each stakeholder has tools and information on how to make their voices heard.

Similarly in the WTO arena, the voices of influential members are loud and frequently heard, but the voices of developing countries, especially those of LDCs, are less frequently raised and least frequently heard. An important exceptional case is the

voice of the ‘Cotton Four’ countries (Benin, Burkina-Faso, Mali and Chad) which succeeded in reaching developed countries’ decision makers. Still, that was a voice of LDC governments, but what about the voices of the people?

If the latent discontent of ordinary people in LDCs is one of the reasons for the current stalemate of DDA, we should seek to know how ordinary people in LDCs feel and think about the current world trading system. Those voices have seldom been listened to even by the decision makers in those countries. For this purpose, we carried out preliminary research to collect ‘the voices of the people’ speaking about the free trade system.

### **a) Methodology**

The idea of this ‘voice of the people’ study was inspired by the ‘Voices of the Poor’ research that the World Bank carried out in 2000. The interviewees are common people such as street vendors, farmers and factory workers. We selected Cambodia and Madagascar for this survey. Both are LDCs in the WTO and have the garment industry as one of their main industries for exports. They also depend on rice production for agricultural exports. The study in Cambodia was conducted jointly by IDE and the University of Cambodia (Faculty of Agriculture), and the study in Madagascar was conducted jointly by IDE and INSTAT (Institut National de la Statistique).

This survey is not a closed-question (yes or no) type of questionnaire which would be suitable for qualitative analysis and opinion polls. We are trying to collect the voices of ordinary people, such as farmers, street vendors, housewives, and factory workers. More than 600 peoples’ voices in several communities, both rural and urban, were collected, including some garment factory workers. We applied similar semi-structured interview methods in both Cambodia and Madagascar, but we modified the questions according to the economic strata, place, and type of economic activities performed. The pre-survey was conducted in February and March 2013, and the main survey in July 2013.

The basic structure of the questions is as follows.

- (1) Do you feel that your life has improved in comparison to five years ago and ten years ago?
- (2) Have daily necessities (food, clothing, fuel) become easier to obtain?
- (3) Where do you buy (or get) your daily necessities?
- (4) Where do you sell your own products?
- (5) Which do you think are better, national (domestic) products or imported products? (Asked separately by item for food, clothing and electric appliances.)

- (6) What kinds of products should your country export? Express your opinion on how your country should increase its exports given the competitive conditions with other countries.
- (7) Do you think import duties are needed in your country? If the answer is yes, on what items (food, clothing, electric appliances) should import duty be levied?
- (8) In your observation, who will benefit from international trade? Who is likely to be the winner and who is likely to be the loser in trade between a developed country and a developing country?

#### **b) People Are Not Ignorant**

What we want to grasp is how people talk about trade — i.e., selling and buying — of daily necessities and also international trade — export and import — in their own words. For example, questions about the places where ordinary people buy and sell daily necessities reveal the relation between international trade and their daily lives. Questions about their preference for (or avoidance of) imported goods shows how people in the street understand ‘free trade’ in their own context. Their expressed opinions about how to promote exports and how to protect domestic production show that they are not ignorant about international trade although their understanding of free trade is not identical to that of the WTO.

Detailed analysis will come, but the preliminary findings are as follow. The majority of the interviewees answered that the ‘open markets’ are the place for trading daily necessities, but usage of the ‘supermarket’ has begun to appear, depending on the items, in rural Cambodia. Many say that ‘the cheaper the better regardless of where they are produced’. However, most people in both Cambodia and Madagascar think domestic foods are safer and tastier than imported foods.

Among imported goods, the volume of made-in-China goods is overwhelming in Africa, but the image of Chinese products varies from person to person. There is a strong opinion that made-in-China goods are cheap and nasty, but on the other hand, some say ‘the products made in China are more stylish than domestically produced products’. Many people agree that ‘because of cheap Chinese products, our life became more convenient’.

Many people believe that ‘industrialized countries receive more benefits than developing countries’ when trade occurs between them. Such an understanding may not be valid in *statistical and empirical* analyses, but the fact that people perceive trade in this way should not be underestimated.

## **5. Some Findings from Cambodia**

### **a) Background**

In late 1990s when Cambodia reentered the world trade system, Cambodia enjoyed benefits from the US quota system. Cambodia joined the WTO in 2004 as one of the first LDCs, and at that time, Cambodia had no choice other than joining the WTO because Cambodia was trying to rejoin the international community after a prolonged civil war. Because almost all industries were destroyed, there were very few people who wanted to protect domestic industry from trade liberalization.

Cambodia experienced rapid growth of its garment industry thanks to US import quotas; the Cambodian government wanted to secure the quota system, but it ended in 2005. After the 2009 financial shock in the US (Lehman shock), Cambodia started diversification of its export partners. Exports to the EU grew rapidly after the EU introduced new Rules of Origin for the EU SGP scheme in 2011. According to macro statistics, Cambodia still has many garment factories, and economic growth largely depends on this industry. However, from the people's viewpoint, the landscape is a little bit different.

### **b) Buying and Selling**

Most of the interviewees in Cambodia are buying and selling their daily necessities at open markets. However in some areas, supermarkets full of imported goods have appeared on the scene.

One agricultural producer said that 'we don't have a stable market for domestic products yet. The price depends on only the middleman'. This statement shows the lack of a reliable value chain for local producers and the power of traditional middlemen (male farmer, age 50's, Takeo Province).

Speaking about the fact that fluctuation of food prices is always a headache for farmers, one farmer said, 'We need to create real markets to limit the prices by ourselves' (male farmer, age 60's, Kampong Speu).

### **c) Domestic Products and Imported Products**

Most people trust and are proud of domestic products, saying, for example, 'our food is better and more delicious than imported foods. Imported foods are cheap because they are frozen and contain chemical substances' (female farmer, age 40's, Takeo).

People are concerned about chemical contamination of food, and they don't trust cheaper imported foods; this notion is shared by all actors in the market. 'Agricultural

products imported from Vietnam use chemical substances, so they're cheaper than Cambodian products' (female seller, age 40's, Kompot). 'The price of Thai chicken is 10,000 R/kg. Khmer chicken is 15,000 R/kg. Thai chicken is cheaper because they use chemical substances' (female farmer, age 40's, Kampong Speu).

Chemical usage in foreign countries is a kind of 'myth' among local people, but they have a strong belief in this discourse. 'Cambodians always suspect imported products might use chemicals although we never see it with our eyes. If you use chemicals, young fruit can ripen very fast' (female seller, age 60's, Sihanoukville).

#### **d) Competitiveness of Cambodian Products**

'Cambodian food is better than imported food because we use natural fertilizer and the quality is good and standardized. The Cambodian government needs to conduct broader media advertisements to cultivate people's trust and provide authenticity to our products' (male farmer, age 60's, Kompot). It is interesting that the words 'standardize' and 'authenticity' appeared in people's comments. This farmer is a producer of the famous 'Kompot pepper', and he knows why Kompot pepper can be exported developed countries. This comment is about differentiation among domestic peppers, but he understands where the competitiveness comes from and the role of the government in assuring the quality of exports. 'The government should directly go to the field and check the quality to attract Cambodians and foreigners to Khmer products' (male farmer, age 30's, Kampot).

Similarly, another pepper farmer says, 'We need to produce good quality, hygienic, "not fake" agricultural products when we compete with other countries' products' (male farmer, age 70's, Kampot). This comment clearly includes a strategy for international competitiveness.

In international trade, 'contracts' with foreign companies have become a common strategy among export-oriented farmers. 'We can attract investors by making a contract not to use chemical substances, only organic fertilizers that are good for our health. Also, we can form an association to spread information about the advantages of using organic fertilizer' (female local officer, age 20's, Kampong Speu). This is a quite modern strategy to gain competitiveness.

Regarding the manufacturing industry, there are comments such as 'Cambodians have to build factories themselves to reduce the volume of imported products from overseas. We have to improve the production quality and need to have a clear trademark' (male farmer, age 30's, Battambang). This comment may be based on national pride and an aversion to foreign investment, but quality improvement is a proper strategy.

### **e) Import Duties**

‘The government should raise import tariffs because then they could collect higher tariff revenue’ (female farmer, age 40’s, Takeo). In this comment, the female farmer expects that if government increases its revenue, then development activity funded by the government will benefit rural areas.

In general, opinions about import duties may differ when people talk as consumers (of manufactured goods) compared to when they talk as producer (of agricultural products). However, consumers, producers and the government all agree on increasing import duties on agricultural products.

From the consumer perspective, ‘Imported food uses chemical substances which are bad for our health’ (female farmer, age 50’s, Kampot). Of course, there are those who want to protect local farmers, such as ‘Cambodian farmers can produce the agricultural products. Don’t import many products into Cambodia, otherwise prices will drop (and profits will be lower). We want domestic products that are valuable and high quality and can be exported overseas (male farmer, age 60’s, Takeo).

There are contradicting opinions on import duties of other products; consumers object to raising tariffs, and domestic producers prefer higher duties on foreign competitors. The government wants to increase tariffs to secure more revenue.

The majority of consumers agree with the comment that ‘if we raise the import tax, retailers will sell to the users at a high price, and people will become unable to buy’ (female farmer, age 50’s, Kampong Speu).

There are those who support an increase, and their typical argument is ‘our products can adequately fulfill the market demand; our products are valuable on the market and can reduce imports. The government (should) encourage people to produce more and push people to buy the local products’ (male farmer, age 30’s, Kapong Speu).

Unfortunately for the WTO, supporters of ‘free trade’ who object to increasing import tariffs from any perspective are a minority, but there are some who support increases even for agricultural products. ‘If Khmer (farmers) can fulfill the local market demand, import taxes should be increased. However, Khmer nowadays cannot produce enough (to meet the demand). So, we should not increase the food import tax’ (male farmer, age 40’s, Banteay Meanchey).

However, for electric appliances, all agree with reducing the import tax. ‘We want to get products for less money. Because Cambodia can’t produce electronics appliances yet and electricity fees also have increased (1 kw=1700 Riel), we need to buy from abroad’ (female farmer, 30’s, Phrreas Sihanok).

#### **f) Garment Industry and Working Conditions**

It is very interesting that people in an area where garment factories are already located have critical opinions on employment at the factories, and people in areas where garment factories do not exist are inclined to expect it to have a positive impact on the local economy.

Through experience in working at the factories, people know the meaning of low wages. 'Companies can benefit greatly because they can hire one worker for \$80 per month, while one pair of trousers or a shirt that the workers make will be sold for \$50 each. This profit can be used for the development of their own country' (female farmer, age 50's, Kampong Speu).

#### **g) International Trade**

Some people see the positive effect of trade for Cambodia as an LDC. 'We can learn new techniques, get new knowledge and improve our standard of living through trade with developed countries' (female farmer, age 40's, Takeo). 'We can gain new experience and new policy. Our country will become as developed as developed countries through trade with them' (female farmer, age 50's, Takeo). These voices represent the view that 'trade has a development promoter effect'.

Unfortunately again for the WTO, there are many comments that trade is not so sweet for developing countries. The typical comment is, 'Developed countries exploit our land and labor, and also we lose benefits when we trade. They get the benefit of our natural and human resources' (male farmer, age 40's, Kampot).

This observation is not rootless for ordinary people because they know from daily experience that 'when the rich do business, they never want to lose their money' (male farmer, age 50's, Battambang).

Trade and environmental issues are also in their sight. 'Our country will lose when we trade with developed countries because foreign investment exerts negative impacts on and destroys natural resources, agricultural land and habitats of people'. Foreign investment is usually welcomed but some look critically at it. 'The duration of land concession contracts is too long. Foreign investors always exploit our forests and our lives' (male farmer, age 60's, Kampong Speu).

Those voices sound too bitter for economists and policy makers, who are tempted to remedy the situation by accusing the people and labeling the comments as 'misunderstandings of ignorant people'. However, even if those comments are based on 'misunderstandings', there must be a reason why people misunderstand, and we should not forget that those voices are in line with people's daily reality.



## **6. Some Findings from Madagascar**

IDE conducted its voice of the people survey in Madagascar with INSTAT, and based on this survey, Hery Ramialison (University of Antananarivo) carried out a brief analysis. Here, we share some findings from Madagascar together with Ramialison's analysis.

### **a) Background**

From the mid-1980s, Madagascar went through Structural Adjustment Program (SAP) and economic liberalization program under the slogan of 'Stabilize, Privatize and Liberalize'. In the 1990s, accelerated economic and trade liberalization began, imported goods started flowing and foreign direct investment (FDI) was encouraged. After enactment of the EPZ law in 1989, FDI inflows increased every year, and Madagascar became one of the EPZ success stories in the early 2000's.

Unfortunately, a political crisis started affecting this promising economic trend and worsened the social condition of the people. Not only did economic growth stagnate, but the Human Development Index (HDI) of Madagascar also declined so that Madagascar fell from the mid-level group in the HDI in 2008 into the lower-level group in the HDI in 2009. Per capita income declined to US\$472, and the poverty rate reached 92% in 2012. The informal sector is increasing and it is the largest employment provider, accounting for 93% of the country's total employment in 2012.

In relation to international trade, Madagascar enjoyed merits of AGOA when exporting garment products to the US. However, after the coup d'état of 2009, its AGOA status was suspended by the US, and this caused many factories to close and exports to decline.

### **b) Buying and Selling**

As Table 1 shows, the most usual place to obtain basic food is open markets in rural areas such as weekly markets and communal markets where people can find a wide range of products. In urban areas, the neighborhood shops sell basic commodities. As neighborhood shops know their own area, they adapt their supply to the needs of their clientele in terms of taste and price. From the customers' viewpoint, the neighborhood shops help avoid excessive travel to shop.

Table 1: Place of Purchase for Basic Needs (individual survey)

	Formal				Total
	Informal Market (1)	Small market (2)	Big spec. shop (3)	& Nature (4)	
All					
Food	53,54%	41,88%	3,33%	1,25%	100,00%
Energy	55,21%	10,21%	0,42%	34,17%	100,00%
Clothes	67,08%	31,46%	1,25%	0,21%	100,00%
Medecine	20,97%	78,18%	0,00%	0,85%	100,00%
Total	49,32%	40,27%	1,26%	9,15%	100,00%
Urban					
Food	59,26%	37,96%	1,39%	1,39%	100,00%
Energy	77,31%	11,57%	0,93%	10,19%	100,00%
Clothes	65,74%	32,87%	0,93%	0,46%	100,00%
Medecines	9,30%	90,23%	0,00%	0,47%	100,00%
Total	52,95%	43,11%	0,81%	3,13%	100,00%
Rural					
Food	48,86%	45,08%	4,55%	1,52%	100,00%
Energy	37,12%	9,09%	0,00%	53,79%	100,00%
Clothes	68,18%	30,30%	1,52%	0,00%	100,00%
Medicines	30,74%	68,09%	0,00%	1,17%	100,00%
Total	46,33%	37,94%	1,53%	14,20%	100,00%

It is very interesting that imported clothing falls into two categories, namely second hand clothing (frizzeries) from Europe and Chinese products. People utilize these two categories according to their needs and affordability. Another feature which attracts attention is how to obtain energy in rural areas. Fifty-four percent of people get their energy for cooking from natural sources without paying for it, and this is one of the few areas where globalization has not affected people's daily lives.

For selling their products, the open market is the primary place to find the best price. People complain fluctuations in price and the complexity of the middleman system in vanilla export.

### **c) Domestic Products and Imported Products**

Similar to Cambodia, rice is the staple food of the Malagasy. People prefer local production, but current production is not enough for domestic consumption. So, it is necessary to import, but people cannot afford the best quality on the international market. Thus, local rice is more popular than rice from other origins such as Pakistan and Thailand, etc.

Use of traditional medicines is very common among the Malagasy, especially among those who live in rural areas. However, the survey reveals that this is not actually the case. Indeed, medicines are essentially supplied in a formal way, which means imported modern medicine, especially in urban areas.

### **d) The Impact of Chinese Products**

There seems to be a general consensus that, regardless of the evaluation of their price and quality, much of the population is benefiting from Chinese products because they are affordable and accessible to those on small budgets. Chinese products 'improve well-being because of their cheaper prices. They offer wider choices for consumers and are available in all regions' (comment in Mananjary Anosinakoho).

The comments that 'phones allow you to know more' (comment in Sakaraha Ambany) and 'phones facilitate communication between people' (comment in Sakaraha Antsoamadiro) highlight the social impact of mobile phone in Africa.

The general reputation of Chinese products is that they are attractive in shape but do not last long. Since people know the quality of the products, people are not disappointed. Chinese clothing is worn for events such as festivals and ceremonies. There is very interesting comments to the effect that 'there is no visible difference between rich and poor since everyone wears Chinese dresses' (comment in Mananjary Amboanato and other places) and 'Chinese clothing allows all segments of the population to dress decently' (comment in Ihosy, Sakaviromahasoa, Manombobe).

Of course, there are comments on the negative impacts of Chinese products, such as 'local industries, like the textile mills, are destroyed. Also, small garment businesses in the markets are gradually disappearing. They kill local industries' (comment in Antalaha, Tanambao).

### **e) Competitiveness of Madagascar Products**

Vanilla is a traditional export good in one of the survey areas, and growers criticize

the lack of proper quality control by the government. They feel the need to increase productivity and quality to export more.

Regarding marine products, there were comments such as 'We must change our mindset and thinking' and 'Our products are of poor quality, not worth much on the international market, and our products are low value-added'. They recognize the need for quality improvement. This reflects the fact that a market-oriented strategy is popular even in remote fishing villages.

There is the phrase 'vita gasy' meaning 'made in Madagascar' which has a negative connotation of low quality. Many people say, 'Ensure the quality of products to eradicate the negative image of vita gasy' (comment in Sakaraha Antsoamadiro and other villages).

#### **f) Import Duties**

A common observation is that 'because of the current (low) tax, there are too many imports. As a result, domestic industry is gradually disappearing, unemployment is rising and the national currency is weakening'.

#### **g) The Garment Industry and Working Conditions**

On this subject, see Fukunishi (IDE-JETRO Discussion Paper No. 422 ).

#### **h) International Trade and Trade Liberalization**

Ramialison analyses the results of this voices of the people survey in Madagascar and notes that, as widely believed, globalization has improved the livelihood and the welfare of the poor people by allowing easy access to cheaper clothing and medicines.

However, the magnitude is different depending on the item. Ramialison notes, 'It is clear that a large majority of the population prefers locally produced food (more than 90%), whereas their import preference is very high for clothing and medicines'. The same tendency is found in Cambodia.

Trade liberalization has a negative effect, at least in the short and medium term, on people's lives. The fact that the informal sector has gained increasing importance in last five years implies that an increasing number of the population is excluded from fully benefiting from the huge opportunities offered by globalization.

Ramialison explains this complex situation as follows. Globalization tends to strengthen the monopolistic position of sellers at the expense of consumers in rural areas. Producers in regions which are more exposed to the globalization wave also tend to suffer...and brokers who export those products seems to be favored by globalization'.

## **7. Conclusion: Necessity for a Post-MDGs–DDA Hybrid**

Based on this research, and especially on the findings from the ‘voices of the people’ survey, we propose a ‘DDA-MDGs hybrid’ strategy to bring the DDA negotiation to a conclusion and to promote a more inclusive, a little bit more ethical world trading system.

In the arena of international development, the post-MDGs (Millennium Development Goals) strategy after 2015 is becoming a hot issue, and SDGs (Sustainable Development Goals) appear as a probable candidate to succeed MDGs. Sustainable development in a globalizing world must have a strong relation with the future of the international trading system. From the very beginning of the ITO (International Trade Organization) concept, the idea of a development clause was included. It means free trade and development issues are impartible.

We believe that it is high time to think about a post-DDA framework in the trade arena, hand in hand with a post-MDG framework in development arena. Since both initiatives aim at the betterment of people’s lives, especially in LDCs, there is adequate rationale to combine these two initiatives. This might create more space for LDCs to express their voices in the negotiation processes and expand the possibility for the WTO and aid agencies to collaborate on creating a more inclusive and a slightly more ethical world trading system.

To promote inclusive development in LDCs, it is essential to make a trading system that is more development-friendly (and ethical) and beneficial to a wide range of people. Improvements for an ‘inclusive trading system’ could not only contribute to the expansion of trade but could also push forward social development such as improvement of ‘labor issues’.

Also, to promote an inclusive trading system, we should obviously avoid exclusion. Many specialists in international trade have started saying that the era of mega FTAs is approaching. The most critical difference between FTAs and the WTO is their ‘bilateral’ and ‘multilateral’ nature. In a bilateral agreement between two unequal partners, full reciprocity may be an illusion. In the case of AGOA, only the US has the freedom of choosing to which African country the US will grant privileged access to its market. This situation put LDCs in a vulnerable position in trade negotiations, and it is the WTO’s task to create LDC- friendly rules of the game.

Another concern for exclusion is also related to a mega FTA. If the three poles of the global economy, namely East Asia, the EU and the United States, create mega FTAs, most of the volume of global trade will be covered. That may be fine for some countries,

but there will be many countries left out of mega FTAs, most of which will be LDCs. We should avoid this kind of exclusion for a more sustainable and solid world trading system; this was the original spirit when we started DDA.

Based upon above mentioned analysis, here we have three proposals for the WTO and member countries to consider in reply to the voices of the people in LDCs.

### **(1) Invent Aid for Trade (AfT) ver. 2 【Super AfT】**

Currently, AfT is mainly focused on coordinating several aid projects related to LDCs' capacity building. However, this is inadequate; in the proposed 'DDA-MDGs hybrid', a super AfT is needed. The WTO, other development agencies and LDC governments will not only coordinate but also plan together aid projects for trade capacity building.

AfT ver. 2 or 'super AfT' includes infrastructure projects regardless to the nature of the funds, whether grant aid, ODA loans or private investment. This is in accordance with the post-MDGs argument which emphasizes the role of private sector. EIF (Enhanced Integrated Framework) has a similar philosophy to encourage the private sector's involvement.

Even in the case of a super AfT, this should not be considered as compensation for the losers in trade liberalization. AfT aims at developing the capacity of LDCs not only in the trade arena but also in the poverty alleviation arena.

### **(2) Nurture a More Ethical Attitude in the Trading System 【Super S&D】**

Reciprocity is a principle of multilateral agreement, and it has been a core promise since GATT. However for designing an inclusive system, S&D is still needed for disadvantaged members. To keep a balance between full reciprocity and less than full reciprocity, an ethical attitude on the part of every member country is needed in which every member refrains from insisting on the full rights and demands of its own country. Ethical in the context of international trade means more consideration for LDCs, and it is almost identical to special and differential treatment (S&D) but with a more positive attitude from developed countries. We may call this 'super S&D'. Super S&D is based on the principle of less than full reciprocity

Unilateral treatment is justified in the field of international development, and in the field of environment, there is the established principle of CBDR (common but differentiated responsibility). This principle differentiates the duty of developing countries and developed countries according to their capacity and needs.

However, for this kind of unilateral treatment, every actor needs to act ethically.

Based on their ethics, developed countries should not exclude LDCs, emerging countries should abandon their enabling clause, and LDCs should listen to the voices of the people and provide safeguards for them.

**(3) Collect more voices of the people**

In order to grasp the real situation of the people, collection of the voices of the people on free trade will continue in other LDCs, and the findings and leanings will be fed back to the WTO negotiation space. If post-DDR policy targets a more sustainable and stable trade system, the system should be understood and supported by ordinary people.

IDE-JETRO is always ready to collaborate with any research institute in LDCs and other developing countries' institutes to conduct 'voices of the people' surveys together.