



Short Article

The Institutional Rural Poverty Trap

A major constraint faced by the rural poor in Asia and the Pacific is access to land (Hossain, 2001). The majority of Asia's rural people have either no access to land or very limited access through cultivation agreements or access to microscopic parcels, usually less than a quarter of one hectare (Geertz, 1950; Hayami, 1972)¹. In all cases they largely rely on selling family manpower, primarily as agricultural wage workers to provide or supplement income sources. However, neither small parcels of land nor standard agricultural wages permit the landless and small-scale farmers to save capital nor enter into an accumulation process. Any significant large-scale improvement in the situation of the rural poor, especially in the marginalized areas of less developed countries where agriculture still represents the main source of livelihood (Syed, 2003) is, therefore, directly dependent upon the possibility of changing the patterns of land access and labour remuneration. However, these patterns are determined by institutions embedded in the rural societies and changing them is, thus, principally a matter of institutional change.

However, institutions tend to become autonomous (Walliser, 1989). In an evolutionary society, the reasons why institutions emerge and their functions may change but the institutions themselves often linger or outlast them. In the Asian context, labour arrangements and tenure systems are not the exceptions to this rule. For instance, sharecropping agreements which traditionally divide the rice harvest between landlords and tenants on a 50:50 basis is acceptable when both are farmers and rely on agricultural production for the subsistence of their households. However, it is no longer appropriate for the development of competitive commercial agriculture when landlords have migrated to urban areas, making most of their living from non-agricultural activities. Investment in agricultural productivity is no longer the landlord's priority, and for tenants, it is not affordable. Yet the arrangement endures and agricultural development is trapped in an obsolete and counterproductive institutional design.

Institutions are also path dependent (North, 1990). This means that the existing pattern of behaviour influences the way new behaviour can develop and impedes change. As a result, the scope of alternative behaviour is limited and change becomes difficult to implement. The case of agricultural wages follows a similar trend. Wages paid to male agricultural workers throughout Asia are higher than those paid to female workers for the same amount of time, reflecting the social recognition given to the role and place women have in society and not the economic value of their actual work. Changing the relative levels of these gender-biased agricultural wages would require complete reconsideration of more fundamental values embedded in society as a whole. Similarly, it appears that, in terms of rice cultivation, wage levels are defined by employers at the local level using the traditional unhusked paddy market value as a reference.

During the 1998-1999 Crisis in Indonesia, agricultural wages increased in concordance with the local price of paddy. This change, however, did not endure and wages rapidly dropped to the pre-crisis level after relative paddy prices had stabilized (Bourgeois, 1999). This increase was not the result of negotiations, but a tacit adjustment to cope with an exceptional event using an existing implicit rule.

Limited access to land and low wages, in marginal areas where alternative employment opportunities are scarce, contribute to the perpetuation of poverty amongst the rural poor. However, this situation also serves the interest of better-off groups for whom the permanency of an abundant underpaid labour force becomes a factor of competitiveness and enrichment. The "poverty trap" so often denounced as the reason why the Poor remain poor cannot function alone; it has to be permanently reset.

This is the major reason why agrarian institutions are so difficult to modify. It is said that institutional change is more likely to take place when expected benefits outweigh the cost of change and when there are powerful stakeholders supporting them (Feeny, 1988). In the case of wages and tenure agreements no such conditions exist at the local level. To modify these arrangements in favour of the Poor means a change in wealth redistribution. The share of land rent received by landowners will decrease; and the benefits of employing agricultural workers will be reduced. As owners and employers are usually influential and powerful people, it is unusual to expect these changes to occur at the local level. The status quo is maintained because the situation of the rural poor in the agricultural sector does not enable them to call for these changes (Brinkerhoff and Goldsmith, 1992). The prospects for institutional change to occur through pressure from interest groups (here the rural poor) or for reasons of expected benefits are very small. Conversely, powerful groups of stakeholders see these changes as likely to bring disadvantages to them and therefore contribute passively, or worse still actively bolster the institutional trap.

Under such conditions it is easy to understand why, with few exceptions, government policies in Asia and the Pacific allegedly targeting rural poverty alleviation mostly consist of patchy poverty reduction programmes and systematic capitalistic investment in the industrial cultivation of export crops (usually tree crops) rather than on changing agrarian structures. This choice leads to a growingly dualistic rural sector with a large number of people living on the remnants of a growth that does not reach them while a few others usurp the lion's share ■

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(References available upon request)

¹See also CGPRT Flash Volume 2, No. 7 July 2004, p.1.

Flash **BREAKING****Viet Nam's Achievements Praised**

Shin Sakurai, former chairman of the Asian Forum of Parliamentarians on Population and Development (AFPPD), spoke highly of Viet Nam's achievements in population affairs, hunger elimination and poverty reduction at a seminar in Hanoi on April 5. Viet Nam managed to reduce the average number of children per woman from 3.6 in 1990 to 2.1 in 2005. The number of households living below the poverty line fell from 58.1 per cent in 1993 to 24.1 per cent in 2004.

Nhan Dan Newspaper, 2006. Vietnam's Population, Poverty Reduction Achievements Praised, <http://www.nhanda.cm.vn/english/life>, (6 April 2006).

Pakistan: Increasing Budget Support to Alleviate Poverty

The Government of Pakistan has transformed its political commitments to alleviate poverty into budgetary commitments through a consistent budget allocation increase for poverty reduction. Poverty reduction expenditure increased by 20 per cent over FY2004. The government has identified 17 sectors, expenditure in which has the greatest positive impact on poverty. Public expenditure in these sectors increased from 3.8 per cent of GDP in FY2002 to 4.4 per cent in FY2004.

The Financial Express, 2006. Pakistan Increases Poverty Reduction Expenditure, <http://www.financialexpress-bd.com/index3.asp?cnd>, (19 January 2006).

A Slight Increase in World Rice Production

FAO Rice Market Monitor reported that for the third consecutive season, global paddy production experienced brisk expansion, lifting it to an all time high of 628 million tons. Growth reflected relatively favourable weather conditions in Asia, western Africa and South America and the positive effects of high prices in 2004. Based on an initial and very tentative forecast, global paddy production in 2006 could rise to 634 million tons; 6 million tons or 1 per cent higher than 2005.

FAO, 2005. Rice Market Monitor, Vol. IX - No. 1, March 2006, http://www.fao.org/es/ESC/en/20953/21026/21631/highlight_23001_en.html.

OECD Public Aid Boosted by Debt Relief Grants

Public aid to development from OECD Development Aid Committee member countries increased by 31.4 per cent and reached an unprecedented US\$ 106.5 billion in 2005. This aid essentially takes the form of grants for debt relief whose amount was multiplied by four. Beneficiaries are mainly i) Iraq (14 billion) and Nigeria (5 billion); and ii) Tsunami-hit countries (2.2 billion). The main donors are respectively USA, Japan, UK, France and Germany.

Organisation for Economic Co-operation and Development (OECD), 2006. Aid Flows to USD 100 billion in 2005, http://www.oecd.org/document/40/0,2340,fr_2649_201185_36418344_1_1_1_1_00.html, (4 April 2006).

Indo-ASEAN Free Trade Deal in Trouble

An India-ASEAN Free Trade Agreement (FTA) would merge more than two billion people into one economic community. However, the proposed FTA between India and ASEAN has hit a major roadblock with India's agriculture ministry objecting to the inclusion of key commodities like pepper, rubber, palm oil, coffee and tea in the ambitious tariff liberalization programme. The implementation of the India-ASEAN FTA has already been delayed by over a year and both sides have dropped a proposed 'early harvest' programme of tariff cuts. FTA deals work on the principle that at least 80 per cent of the trade of a country should be covered under the agreement. If items like pepper, rubber, palm oil, coffee and tea are kept on the sensitive list, 'single product' exporting countries like Malaysia (which mainly exports palm oil to India) or Thailand (a major exporter of rice) will not meet the criterion of substantial trade coverage. ASEAN members asked India to prune its list of items on which duties will not be cut and India reduced it from 1,414 items to around 900. ASEAN has, hitherto, not provided its own list of sensitive items. In December 2005, ASEAN members began pressing India to completely remove duties on 90 per cent of imports of agricultural and non-agricultural products by 2011. For the remaining 10 per cent, ASEAN insisted tariffs be brought down to 10 per cent. There was opposition to the proposal from a section within the Indian government who felt that such a step could adversely impact India's negotiating position at the WTO. India is seeking flexibility at the WTO for developing countries to designate 20 per cent of tariff lines in agriculture as 'special products' on which tariff cuts would be nil or minimal ■

Based on Thakurta, Paranjay Guha, 2006. Indo-ASEAN Free Trade Deal in Trouble. Inter Press Service News Agency, http://ipsnews.net/economy_ap.asp, (10 April 2006).

The Philippines: Fewer but Poorer

A team of Filipino researchers recently applied a computable general equilibrium (CGE) micro simulation model to more than 24,000 households from a nationwide survey to assess how the trade reform programme initiated in the 1980s has impacted the poor. They found that the percentage of poor had decreased but also that both the poverty gap and the severity of poverty deteriorated marginally. This means that there are less poor people but those who remain poor are becoming poorer. In addition, the situation was contrasted between urban and rural areas. Poverty indices decrease significantly in most urban areas, while rural households suffer from the declining returns to agricultural land and labour. Proximity of dynamic urban centres providing alternative employment in non-agricultural sectors coupled with a decline in consumer prices explain why some rural areas experienced a reduction in the poverty headcount. The team concluded that tariff reductions have marginally reduced the number of poor in the Philippines, while exacerbating the degree of poverty among those who remain and that trade openness has a pro-urban, anti-rural bias. They suggested regional compensatory policies to be considered to address the anti-rural bias of trade reform ■

Based on Corong, Erwin, 2006. Agriculture Trade Reform Leads to Fewer Poor but Poorer Poor in the Philippines, PEP Newsletter, Volume 3, No. 1, March 2006, <http://www.pep-net.org/PEPPage.jsp?page=Group/ECNNews.htm>.

Water Control is Needed to Reduce Hunger

With 852 million chronically hungry people in the world today and the global population expected to increase by an additional 2 billion people by 2030, reducing hunger will only be possible if agricultural yields can be significantly increased. Increased food production will depend largely on investment in the control of water. Agriculture is the largest consumer of the earth's freshwater, responsible for around 70 per cent of all freshwater withdrawals. As water resources shrink and world population grows, the agricultural sector faces a complex challenge: producing more food of better quality while using less water and ensuring environmental sustainability. Small-scale water harnessing, irrigation and drainage works carried out at the rural community level using local labour offer effective and low-cost options for improved water control. Water harvesting collecting water in structures ranging from furrows to small dams - allow farmers to conserve rainwater and redirect it to crops. According to Louise Fresco, FAO Assistant Director-General, sustainable economic growth in most developing countries can only be achieved through the development of a strong agricultural sector. Considerable public and private investment in infrastructure, technology and development of farmers' and water managers' technical capacities are required to increase food production in a sustainable way. Improved water control is the growth engine for rural development ■

Based on FAO, 2006. Improved Agricultural Water Control is Key to Meeting the World's Growing Food Needs, <http://www.fao.org/newsroom/en/focus/2006/1000252/index.html>, (22 March 2006).

The Challenge for Asia to Eradicate Poverty in One Generation

The Department for International Development (DFID), in collaboration with the World Bank and Asian Development Bank, held a conference on 6-7 March 2006 in London to focus attention on building new forms of partnership to eradicate poverty in Asia. Asia has lifted more people out of poverty than any other region at any time in history. Growth has been strong and despite two out of three of the world's poorest people living in Asia, by 2015 this could fall to one in three if current trends persist. Rapid growth in Asia has and will continue to have an enormous impact on the global economy. Markets such as China and India are undergoing tremendous economic and social development. Trade within the continent is growing at nearly three times the global rate and Asia's share of world exports rose from 23 per cent in 1985 to 38 per cent in 2002. Despite this recent economic growth in some countries, Asia still faces huge challenges and risks, such as challenges in nutrition, health, education, social exclusion, water and sanitation and almost 1.1 billion people still live on less than \$1 a day. Tackling these issues will require sustained economic growth, good governance and visionary leadership. If the global community addresses such challenges now, in a generation, poverty eradication in Asia could be one of the world's great success stories ■

Based on Department for International Development India, 2006. Asia Can Eradicate Poverty in a Generation, http://www.dfidindia.org/news/news/2006/2006_01_18.htm, (18 January 2006).

Flash EVENTS



Challenges Facing Chinese Agriculture and the West Development Strategy

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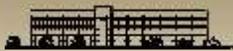
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Book Review

Social Implications of ASEAN Free Trade Agreement (AFTA) on Labour and Employment: The Case of Indonesia

By Tirta Hidayat; Diah Widarti, ILO/ASEAN Joint Study. International Labour Organization (ILO) Jakarta Office, 2005.
ISBN 9221173208

Globalization has fostered open societies and open economies as well as encouraged a freer exchange of goods, ideas and knowledge. However, the advantages are too few for too many, whilst the threats are enormous. In May 2003, a joint ILO-ASEAN mission reviewed Initiatives for Decent Work and ASEAN IAI (Initiative for ASEAN Integration) Priorities on Labour and Employment issues, one of which was a review of the labour and employment implications of AFTA. Studies were commissioned in four ASEAN countries, namely Indonesia, the Philippines, Thailand and Viet Nam.

The book concerning Indonesia consists of seven chapters plus annexes. Chapter one, as an introduction, reveals nine crucial points that require attention in the study, namely (1) Indonesian economy and trade, (2) Trade liberalization, (3) Trade and industrial policies, (4) Labour and trade sector, (5) Gender and trade, (6) Production sharing, (7) Competition, (8) Migration; and (9) The benefits of trade and growth emerging from economic integration distributed between workers and employers. Findings and recommendations will be submitted for consideration by ASEAN governments and the tripartite constituents.

Chapter two details that even though Indonesia's economy strengthened and the economic structure improved after the crisis, foreign investment in Indonesia preformed well below expectations. Furthermore, exports fluctuated significantly and imports declined prior to exports. Indonesia's major trading partner is Japan. Chapter three discusses trade and investment policy and trade liberalization steps as well as Indonesia's participation in multilateral agreements. Indonesia's trade with ASEAN remains small and it has also been stated that reductions in tariffs associated with AFTA have followed reductions in Most Favourable Nations' (MFN) rates. Therefore, the margin preferences for Indonesia's ASEAN trading partners remain small. Chapter four provides insights into the social implications of free trade, where an important issue associated with trade liberalization is labour mobility. The big issue for Indonesian migrant workers is highly related to their legal status and the fact that most of them work in the informal sector.

Chapter five and six form the backbone of the book presenting case studies and perceptions. Chapter five highlights the findings from case studies concerning garments, transport equipment and wood furniture. The study reveals that garments and wood furniture are unfavourable with trade liberalization, mainly due to the very low quality of labour, propagating a low ability to compete with international products. The automotive industry has more potential from trade liberalization because exports of automotive products are

increasing significantly. Indonesia should take advantage of market opportunities in terms of components and engines but the government has decided not to liberalize this sector until 2010.

Chapter six reveals the stakeholders perception of trade liberalization. The stakeholders are divided into three broad groups, namely the government, employers and trade unions. Analytic Hierarchy Process (AHP) is used to analyse information and opinions. Through AHP a Benefit- Opportunity-Cost-Risk approach is assessed and the overall results show that trade liberalization does bring some benefits, such as a rapid advancement in technology and employment (ranked 1 and 2), however, economic growth ranked last. Regarding the negative impacts, a widening development gap and job losses are considered the most important costs.

The final chapter contains the conclusion and policy recommendations. The general recommendations are: (1) Identify industries that have opportunities for expansion, (2) Skilled labour is prerequisite to reap the benefits of trade liberalization; and (3) To achieve higher economic advantages the government's policy should be directed towards further liberalization. In addition, recommendations also stem from the AHP analysis, which focus on nine prioritized policies, namely: (1) Reduce corruption, collusion, nepotism (2) Improve education, (3) Decentralization policy, (4) Investment policy, (5) Access to credit, (6) Interest rate policy, (7) Training and retraining, (8) Taxation policy; and (9) Industrial policy.

Greater competition will lead to the closure of inefficient companies leading to greater unemployment. Trade liberalization agreements such as AFTA represent a great threat to poverty alleviation in developing countries such as Indonesia. Recommendations highlighted in this book constitute a valuable input for the Indonesian government and ASEAN to take advantage of AFTA. Product competitiveness as well as labour skill must be improved and actions to counter the negative effects of free trade liberalization are crucial.

The book provides a valuable contribution for readers and policy makers to better understand the employment and labour impacts of trade liberalization and will assist in the development of policies and strategies in ASEAN to deal with these impacts. The information provided is not new but this book presents it in a systematic and comprehensive way and uses a good mix of case studies, graphs and analysis to deliver a broader perception of AFTA ■

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