

Making Trade Policy Inclusive

With the rise of global value chains where different stages of the production process are located across different countries, international trade flows became increasingly intricate, resulting in innumerable flows of goods, services and people across multiple borders. The reduction of trade barriers has presented new opportunities as well as accompanying risks for businesses, governments and consumers. However, there is still divergence between economists' attachment to free trade and what we observe in actual policymaking. Consequently, levels of trade protection (including tariffs, subsidies, quotas, regulations and currency manipulation) remain common, with a corresponding need to better understand how political processes and institutions affect trade policy choices – and which choices support better development outcomes such as livelihood opportunities or food security. That is why political economy analysis must be at the centre of understanding the distribution of trade gains and losses. Understanding and addressing asymmetries along power dimensions, and how winners and losers are affected by trade policy changes, remain key for progress towards the Sustainable Development Goals (SDGs).

What do we know?

The research of the [Business, Markets and the State \(BMAS\)](#) cluster at IDS starts with the recognition that [trade generates winners and losers](#). Hence, there is a need for both flexibility in trade policy (including non-tariff barriers) and trade-linked development cooperation, e.g. promoting the internationalisation of developing country enterprises through the provision of market information and business advice. The exact formulation of such trade policies is a product of domestic [bargaining between state, business and non-governmental actors](#), with outcomes influenced by and influencing similar processes at a global level (Figure 1).

South-South trade plays an increasingly important role within a [sustainable global trading system](#), including through triangular trade relationships (i.e. interacting with North-South trade). South-South trade flows have [grown rapidly](#), drawing attention to the role of trade-linked [South-South cooperation \(e.g. between China and African countries\)](#). South-South trade is also, directly and indirectly, contributing to [better fiscal sustainability in developing countries](#) due in part to improved access to rapidly growing export markets (e.g. China and India). Shifting axes of global trade flows raise equally important questions of effective design and implementation of trade-oriented development interventions. These not only support growth and markets but also seek

to address persistent challenges of [poverty and welfare](#), by accounting for the embedded [power relations](#) that underline any mutual economic partnerships.

Appropriate [theoretical frameworks](#) can explain domestic political economy factors that shape trade policy across sectors. This political economy lens not only serves to explain trade policy outcomes but can be integrated with and inform work on investments, value chains and innovation. It can be used to inform value chain analysis by, for example, showing how [trade policy rents shape value chain structures](#), identifying [poverty-reducing value chain interventions](#), and examining international trade not merely as market-based transactions but also as [systems of governance](#).

There is an increasing recognition of the need for a trade agenda that is inclusive and that builds on a progressive trade policy. Such policy should be linked to transparent trade negotiations, trade frameworks, trade institutions and governance, and trade support mechanisms. Other issues relate to the [role of trade costs](#) in trade and production networks within or across countries, and link to productive capacities, sector coverage in [trade agreements](#), and interactions across the trio of states, markets and society that underline [inclusive innovation](#). This calls for provisions for [accountability in trade negotiations](#), whether through procedures for transparency or [meaningful public participation](#).

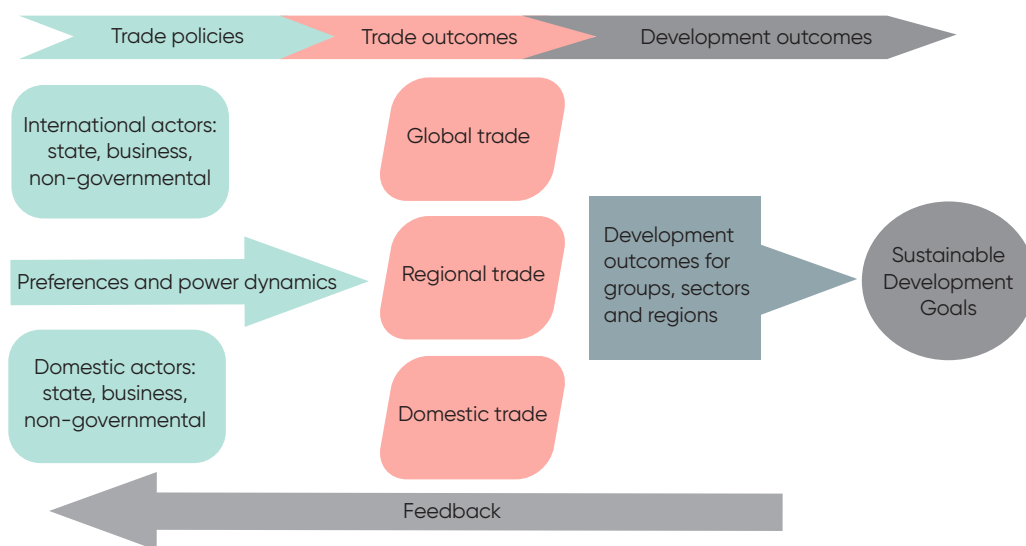


Figure 1. Political economy of trade and development

Source: Authors' own

to ensure ownership in trade agreements.

In addition, what is needed is the alignment of trade policy with other aspects of the policy agenda, such as countervailing measures to protect and support those who lose out – consumers, workers, or regions; and go beyond business-as-usual in creating trade impact for good.

How we work with others toward sustainable development

The BMAS cluster is applying this understanding of the intricate link between the political economy of trade and development outcomes to identify the policy implications and to support the design of more effective development interventions. We are doing this by engaging with donors (e.g. the Foreign, Commonwealth & Development Office, formerly DFID and FCO) and other international organisations (e.g. International Trade Centre, Commonwealth Secretariat and other UN bodies) to articulate the rationale for [development cooperation programmes promoting trade and investments](#) in agriculture,

manufacturing and services; assess the interrelationship between trade, investments and sustainable development (e.g. in marine spatial planning); and analyse the linkages with [food security and women's empowerment](#) (e.g. in agricultural commercialisation).

We also work with [government bodies](#) and [international organisations](#) to inform policy reform processes and prescriptions. This has included practical guidance on trade and investment policies for the [national export strategies](#) of governments, such as those of India and African countries; [policy](#) affecting [small and medium](#) enterprises; and on informing policy direction on [flows of knowledge](#) and resources along value chains.

Our work continues to draw on a mix of quantitative methods and in-depth qualitative research with key stakeholders to draw meaningful insights for fostering [systematic dialogue](#) between partners and facilitating trade and investment for development.



The Business, Markets and the State cluster investigates how businesses enable or constrain pathways that deliver development and curb inequalities, and how the relationships between business and the state influence these processes. Our interdisciplinary research builds on IDS' well-established track record working on value chains and market systems, complemented by political economy and participatory perspectives.

Institute of Development Studies, Brighton BN1 9RE UK
 T +44 (0) 1273 606261 E ids@ids.ac.uk W www.ids.ac.uk
twitter.com/IDS_UK facebook.com/idsuk

Further reading

Humphrey, J. and Schmitz, H. (2001) 'Governance in Global Value Chains', *IDS Bulletin* 32.3: 19–29

McCulloch, N.; Winters, L.A. and Cirera, X. (2001) *Trade Liberalization and Poverty: A Handbook*, London: Centre for Economic Policy Research

Saha, A. (2020) 'Join Hands or Walk Alone? Evidence on Lobbying for Trade Policy in India', *Economics & Politics* 32.1: 28–67

Saha, A. (2019) 'Trade Policy and Lobbying Effectiveness: Theory and Evidence for India', *European Journal of Political Economy* 56: 165–192

Saha, A. and Thorpe, J. (2020) *Five Principles for a Progressive Trade Policy*, Brighton: IDS

Saha, A.; Castro, A.; Carreras, M. and Guariso, D. (2020) *Trade, Technology and Absorptive Capacity: Firm-level Evidence from Tanzanian Textiles & Apparel*, Helsinki: UNU-WIDER

Saha, A.; Thorpe, J.; O' Flynn, P. and Bucher, H. (2020) *Designing for Impact: South-South Trade and Investment*, Geneva: International Trade Centre (ITC)

Credits

Amrita Saha, Evert-Jan Quak and Kelbesa Megersa

The opinions expressed are those of the authors and do not necessarily reflect the views of IDS.



© Institute of Development Studies 2020. This is an Open Access Brief distributed under the terms of the Creative Commons Attribution Non-Commercial 4.0 International licence (CC BY-NC), which permits use, distribution and reproduction in any medium, provided the original authors and source are credited, any modifications or adaptations are indicated, and the work is not used for commercial purposes.
<http://creativecommons.org/licenses/by-nc/4.0/legalcode>

The Institute of Development Studies (IDS) is a global research and learning organisation for equitable and sustainable change.

IDS is a charitable company limited by guarantee and registered in England (No 877338).