

The Social Impacts of Trade Liberalisation: How Can Childhood Poverty Be Reduced?

Although issues related to children, particularly children's wellbeing, children's rights and child poverty are marginalized from debates on the consequences of globalization and trade liberalisation, these processes are likely to have a major impact on the lives of poor children and their families. It is especially important to recognise this because the international community emphasises trade liberalisation as a tool for poverty reduction.

One point of agreement in the 2005 UN World Summit was that:

“A universal, rule-based, open, non-discriminatory and equitable multilateral trading system, as well as meaningful trade liberalisation, can substantially stimulate development worldwide, benefiting countries at all stages of development. In that regard, we reaffirm our commitment to trade liberalisation and to ensure that trade plays its full part in promoting economic growth, employment and development for all”. (Resolution adopted by the General Assembly, 24 October 2005)

However, trade liberalisation does not generate homogenous benefits to the whole population, and its effects on poverty reduction are not always experienced in the short term. Thus, government policy must pay specific attention to these differential impacts in order to mitigate the inequities that trade liberalisation is likely to exacerbate in developing countries.

The effects that structural policies, like trade liberalisation, have on children, need to be traced from the changes they generate on macro economic variables, such as consumer prices, through to individual household livelihoods – and the complexity of differential intra-household effects. Such analysis is important for policy making which may involve compensating for any negative impacts or harnessing the benefits liberalisation to improve the conditions of children living in poverty.

The impact of trade liberalisation on children is likely to vary between:

- Different children in the same household (eg girls / boys, the very young / adolescents),
- Similar children in different types of household (eg rural / urban, rich / poor)
- Similar children whose households are involved in different economic sectors (eg agriculture, manufacturing.)

Given that children comprise a significant proportion of the population in developing countries where children are overly represented among the poor, any discussion of the social impacts of trade must be approached from a child-sensitive perspective.

Additionally, there are likely to be important differences in the impact of trade liberalisation amongst developing countries, according to their level of market integration, relative terms of trade and bargaining power in the world economy, composition of their economies, and the degree of comparative advantage in different sectors.

This brief looks first at the general ways in which trade liberalisation can impact on children. It then discusses findings from Young Livesⁱ (YL) quantitative and qualitative research in Peru and Ethiopia to verify how these impacts play out in practice. It concludes by considering the policy implication of these findings

Box 1: Key issues under discussion during the WTO's Hong Kong Ministerial Conference, December 2005 with implications for Young Lives countries

YL countries are largely agricultural but also have developing industrial sectors. Among the issues being discussed during the current WTO Ministerial Meeting as part of the Doha Development Round, three are potentially relevant to the economic performance of YL countries and households whose livelihoods greatly depend on trade. These areⁱⁱ:

Agricultural liberalisation: this centres on the elimination of subsidies to producers in OECD countries and the elimination of tariff barriers to commodities from developing countries. Some experts argue that even if negotiations proved favourable to developing countries, the benefits are likely to accrue to a few middle-income developing countries, eg Brazil or Thailand. In the case of least developed countries (LDCs), perhaps with the exception of the removal of subsidies in some specific products (like cotton), the agreements reached during the current discussions are likely to have a marginal or even negative effect as their preferences will be eroded given the relatively improved positions of competitors with efficient supply capacity (mainly middle income countries). There is indeed a complex debate on winners and losers from agricultural liberalisation.

Non-Agriculture Market Access (NAMA): proposed measures are not likely to lead to improved competitiveness since tariff barriers remain high in this sector, negatively affecting consumers. In the case of textiles and clothing, China and India, who have strong competitive capacity will gain, but other LDCs and developing countries that favour from the current system of preferences are likely to lose out. The relevance of improving NAMA for LDCs is that currently developing countries have higher protection of their manufacturing industry than OECD countries, so LDCs actually face a higher protection from other developing countries, with which they compete, than from developed countries

Aid for Trade: Aid for Trade is intended to help countries to trade, and in particular, to help them take advantage of WTO agreements. Proposals cite both the long-term need to develop supply capacity and the short-term needs created by trade agreements such as implementation and adjustment costs. An Aid for Trade framework could be agreed during Hong Kong, which may bring benefits to developing countries, especially those who might gain little or lose in the negotiations on market access in agriculture and other goods.

One of the outcomes from the meetings should be setting a timetable for further negotiation of Aid for Trade structures, levels and recipients.

Micro-level impacts of economic policies

Understanding the possible impacts of trade liberalisation on poverty among children involves two steps:

- Identifying the different mechanisms through which trade liberalisation may affect household wellbeing.
- Identifying intra-household dynamics and decisions that mediate impacts on children.

Trade liberalisation and household well-beingⁱⁱⁱ

- 1) Trade policy changes impact on domestic prices, and thus the consumption of goods and services. Net consumers will experience a greater welfare loss if prices rise more than their incomes, whereas net producers stand to gain.
- 2) Liberalisation generally affects wages and employment opportunities. Changes in wages and employment opportunities are likely to have a direct bearing on household wellbeing as they shape both consumption and savings decisions, and household labour supply decisions. The latter may involve greater integration of women and children into the labour force, which may alter intra-household dynamics
- 3) Possible reductions in public revenue from loss of import tariffs and export taxes. Reduced tariffs and taxes are likely to translate into lower government revenue and

expenditure. In the case of children, the most serious outcome of such a change would be cuts in social sector expenditure.^{iv}

- 4) Changes in government expenditure may affect government transfers to households. These include pensions, food-for-work schemes, conditional cash payments, and the level of subsidies available for certain consumption goods (eg food, medicine).

Intra household effects

Although there is no simple correlation between changes in aggregate household poverty and child wellbeing, there are several ways in which the effects can be transferred.

- 1) First, changes in household consumption are likely to have an impact on *resources allocated to children*. In particular, the quantity and nutritional content of children's food, and their access to medicine, schooling, educational materials and clothing may be affected. The intensity and specific patterns and effects of these changes are likely to be mediated by intra-household decision-making and resource allocation dynamics. It will also depend on how households respond to economic shocks. For example, households may shield the effects of reductions in overall household income or children's consumption, at least in the short-run, by increasing the labour supply of adults, reducing food consumption among adults, or by selling household assets. These choices will partly be shaped by education levels of family decision-makers, the household wealth and asset base, by the family's eligibility for governmental or NGO social protection, and also very importantly by the wider policy context, given that it affects the real costs households will need to bear. For example, in some countries services such as schooling may be fully state financed with parents only having to cover day-to-day expenditure, while in others state subsidies may be minimal, thereby compelling parents to shoulder most of the costs.^v

- 2) *Children's time allocation* may also be affected. They may be withdrawn from school and/or compelled to spend more time working in paid or unpaid activities. Even if children do not discontinue their education or start productive work, they may need to shoulder more domestic work responsibilities (including taking care of younger siblings) to compensate for the greater integration of their parents, especially women, into the paid workforce. Changes in the balance of time between school, work and play/rest are likely to be mediated by differential gender roles for girls and boys. For example, in many societies girls take on more domestic work and boys more agricultural activities. In some cultural contexts, parents also value sons' education more highly than that of daughters, rendering girls the first casualties of any such belt tightening decisions. If trade liberalisation necessitates greater adult involvement in the paid workforce, the quantity and quality of caring time for children is also likely to suffer, especially in the absence of affordable, quality childcare arrangements.

Empirical findings from Young Lives Peru and Ethiopia

Peru and Ethiopia are about to enter into important trade agreements that will impact on the socio-economic contexts in which children will grow up. This brief draws primarily on a quantitative analysis of the likely welfare implications for children of Peru's impending free trade agreement (FTA) with the US, and also integrates insights from preliminary qualitative work with households and children in Ethiopia. The latter is progressively liberalising its economy in preparation for accession to the World Trade Organisation (WTO) and the COMESA (Common Market for Eastern and Southern Africa) FTA around 2008.

PERU^{vi}

A member of the WTO, Peru will sign an FTA with the US in early 2006. It is predicted that the long run effects of FTA will have a positive effect on economic growth in Peru. However, Young Lives research suggests that impacts will differ markedly across sectors of the economy, some of which are likely to shape children's experiences of poverty.

Geographic and socio-economic disparities

A key finding is the differential impact of trade between urban/rural locations and different geographical regions. Whereas the FTA is predicted to generate an overall welfare gain^{vii} of approximately 2 per cent of household expenditure for most urban sectors, the estimated welfare loss among the bottom decile of rural households is almost 9 per cent. This will clearly exacerbate inequalities between rural and urban children. Findings additionally show that in urban areas, childless households stand to gain more from trade liberalisation than households with children, while the opposite is true in rural areas (given that in rural areas, children tend to be regarded as 'productive assets'). More specifically, the FTA might reduce the probability of children attending school by 0.3 per cent in rural areas, but increase the probability of attending school by 0.2 per cent in urban areas. Although the figures might seem marginal, they illustrate the differential impacts on urban and rural children, which are likely to exacerbate existing regional inequalities..

Impacts on caregivers

Our analysis suggests that female caregivers in Peru are likely to gain employment outside the home—either in waged occupations (particularly the manufacturing sector) or more intensively in agriculture, taking advantage of increased opportunities to sell export-oriented commodities to raise family incomes. This is likely to have spillover impacts on the division of labour in the household. In the absence of adequate public childcare services, care available to younger children may deteriorate and can result in greater pressures on older children to shoulder domestic work responsibilities (including caring for siblings) at the expense of their education and leisure time. In the case of women who take up employment in the formal sector, the absence of adequate social security provisions (including maternity leave), or increased workloads for self-employed females (mainly those involved in agriculture) may lead to a decline in breast-feeding with adverse consequences on infant health .^{viii}

Child labour

The FTA's effect on child labour will depend on changes in the opportunity costs of children's time and whether there is an income effect (higher expected gains) as a result of changes in employment or wages. Although analysis shows that it is unlikely that child labour in the tradable sectors (those that have export potential) will increase because of the FTA, child labour in non-tradable sectors (domestic work, local agriculture) may increase. This is because those households that lose income may be compelled to take their children out of school or reduce the time they dedicate to studying, to increase family income. To date, according to official statistics in Peru, 28.6 per cent of children between the ages of 6 and 17 work for wage or compensation, of which around 90 per cent work in the informal sector, more than 45 hours a week (this does not include children involved in domestic work) so work in many cases competes with schooling. Evidence shows that in rural areas in particular, children are still widely seen as an important source of household labour. Thus, children from jungle and highland areas—already some of the poorest in the country- stand to be further marginalised.

Increased medical expenses

The FTA is likely to lead to changes in the consumption of goods and services. Of particular relevance for children, it is estimated that the consumption of health services for children

might be reduced because of higher costs of medicines that will result from stricter intellectual property rights on patents that will be part of the FTA^{ix}. This is of particular concern given the dearth of free health services for the poor in Peru.

ETHIOPIA

Since 1990, when the socialist Derge regime was forced to introduce an Economic Reform Programme, Ethiopia has been undergoing a gradual process of trade liberalisation. Although the Derge was overthrown shortly after, the succeeding Transitional Government of Ethiopia strengthened this reform process by undertaking a structural adjustment programme, including trade liberalisation, sponsored by the World Bank and the IMF. More recently, Ethiopia has entered into a number of trade agreements to promote national development, regional integration and international cooperation. Key among these is the Common Market for East and Southern Africa (COMESA). Although membership has compelled Ethiopia to reduce some tariff and non-tariff barriers, it has not yet complied in full due to projections of short –to medium term negative effects. In order to join the COMESA Free Trade Area (FTA), in 2008, Ethiopia will need to implement an additional 90 per cent of tariff reduction on goods imported from other COMESA members.^x

With regard to Ethiopia's accession to the WTO, which is also planned for 2008, Ethiopia has already been complying with many conditions. In order to protect its domestic producers and minimise welfare losses, it is recommended that Ethiopia consider the re-installment of protective tariffs allowed within the organisation's framework for LDCs^{xi}. Although the short run static analysis projections indicate (very small) welfare depressing impact of liberalisation on the household, the dynamic effects are likely to be positive in the long run.

Trade liberalisation in Ethiopia has had mixed impacts:

Positive changes:

- a) Most of Ethiopia's trade consists of imports, chiefly of raw materials, manufactured goods and some capital goods, which have entered the market at lower prices than domestic goods. In aggregate, this has translated into greater consumption.
- b) Liberalisation has improved the efficiency of the domestic market – especially in the manufacturing industry. However, given that this is not as labour intensive as agriculture, it has not contributed to greater employment of unskilled workers and thus its effects have not been pro-poor.
- c) The overall effect of liberalisation on Ethiopian coffee has been positive, with coffee producers enjoying access to a large world market. Thus, Coffee contributes to around 60 per cent of total Ethiopian export earnings and coffee exports account for approximately 47 per cent of total production.

Negative consequences:

- a) Coffee price fluctuations have exacerbated vulnerability. As a result of the collapse in coffee prices in the early 1990s, YL quantitative analysis findings showed that the poverty head count, gap and severity increased in coffee-growing regions and surrounding urban areas. The decrease in the price of other important export commodities during the second half of the 1990s, including oil crops and skin and hides, also resulted in a slight decline in welfare.

b) In 2003, foreign trade taxes (tariffs) accounted for 35 per cent of Ethiopia's total government revenue. Further tariff liberalisation from joining COMESA-FTA and WTO is likely to exacerbate the loss of such revenue. Nevertheless, to date Ethiopia has managed to sustain and actually increase its level of spending in 'pro-poor sectors' (education, agriculture and development of rural roads) during the post-reform period, despite reduced revenues from agriculture and trade liberalisation. However, the current level of public expenditure is not sufficient to tackle the root causes of poverty in the country, implying greater future difficulties for sustaining public expenditure in the face of revenue reductions.^{xii}

c) Given a largely unskilled labour force, the shift to more capital intensive sectors, including textiles, is likely to lead to increased unemployment.

d) The removal of import tariffs for fertiliser was accompanied by the removal of government subsidies on them, thereby increasing the net price of fertilisers, a major input needed by farmers, who comprise over 85 per cent^{xiii} of the population.

Sector Case Studies

In order to better understand the impacts of liberalisation on poor Ethiopian households and children in particular, Young Lives undertook qualitative research in September 2005 in two coffee producing sites in SNNP (Dale and Gimma) and one textile-producing site in Awassa city, Sidamo.

Given that agriculture accounts for 45 per cent of GDP, and that most of the population is involved in agriculture, the greatest impacts of trade liberalisation are felt in this sector. Thus, to minimize the vulnerability of farming households it is important that the government uses the mechanisms available within the WTO framework to assist these affected groups. Also, within the agreements reached in the Hong Kong Ministerial, developing countries should still be permitted to continue their domestic agricultural support programmes, ensuring more stable benefits to the population dependent on agriculture. The case studies focus on coffee given that smallholders produce 95 per cent of total coffee output and the sector is particularly vulnerable to international market shifts as over half of the total product is exported.

In the manufacturing sector, textiles in particular are relevant since they make up 8.42 per cent of gross value of production and involve the greatest number of individuals (comprising 27 per cent of employment and 19.3 per cent of wages in the manufacturing sector). Thus, the textile and apparel industry is another strategic activity promoted by the Ethiopian government given the country's comparative advantage in the sector, its potential for generating employment (among semi-skilled and skilled workers) and its use of indigenous cotton which can stimulate local production. To take advantage of the potential benefits in this sector, successful agreements in WTO discussions are needed with regards to: (1) reducing distorting protectionist barriers in middle income developing countries (like India and China) which undermine Ethiopia's competitiveness in this sector and (2) the elimination of subsidies on cotton production from developed countries which artificially reduce market prices for cotton

COFFEE

YL qualitative research findings suggest that in coffee producing areas, entire communities—not only coffee farmers—are vulnerable to changes in international coffee prices. When coffee prices are high, the impacts on households and children involved in the retail and wholesale trade of coffee are very positive. Both male and female traders emphasised that compared to other community members they were better able to provide

food, clothes, education fees and school supplies, save for future emergencies and invest in household assets.

The impact of higher coffee prices led to increases in pickers' daily wage rate (eg from 3 to 4 birr per day). However, because this is only seasonal work the impact is less dramatic, although it allows poor families to supplement their income and invest in assets such as small livestock.

Because coffee production is labour -intensive, the demand for children's involvement in picking and selling is also very high. Although children's work might be positive for children whose families are dependent on these wages for survival, it also encourages school dropouts which are likely to have long term impacts on children's economic potential over time.

"I stopped attending school because I had to sell coffee and earn an income because my father and mother are both teachers and they stay at their workplace all day long. I was thus, responsible for taking care of my younger brothers and sisters by selling coffee" (Girl 15 yrs, coffee retailer)".

Given women's relatively greater involvement as coffee traders and farmers, qualitative findings also highlighted the contradictory impacts on caregivers and their care work burden. Women emphasised both the important income effects and their greater sense of independence and decision-making power within the family as the main reasons for their involvement.

However, they recognised that the quantity and quality of time with their children did suffer, including the inability to exclusively breast-feed babies during the first six months and provide food when older children came home from school.

Reductions in international coffee prices have often had serious effects on households and children. Dependence on coffee translates into multi-dimensional vulnerability^{xiv}. Some farmers were compelled to destroy their coffee plants during price troughs because of the unavailability of surplus land for diversification. Others moved into the production of chat^{xv} which is easier to tend and more lucrative due to multiple annual harvests, but this raised concerns about the effects of chat on children's behaviour:

"Chat brought about a negative impact on my children, changing their behaviour in the wrong way – they started chewing chat and became idle" (Former male coffee farmer, Jimma).

TEXTILES

Our research shows that some households have indeed benefited from the expansion of textile production. However, in the absence of adequate labour regulations, the entry of foreign investors who have implemented efficiency measures has resulted in the displacement of many workers or excessive working hours.

In Awassa, a city with several major textile factories, employment in textile factories brings significant material benefits but also entails serious health and job security risks with potentially serious spillover effects on children. Men and women employed as factory workers all stressed the way in which the material wellbeing — including health and education expenses, clothing and even leisure time activities — of their families had improved as a result of their employment. Nevertheless, the work has had a negative toll on the time they spend with their children and on their personal health (and the potentially negative economic costs associated with long-term ill-health). One mother emphasized that

the hours and intensity of the work in the factory are having both tangible and intangible impacts on the time she spends with her children, including reduced energy to have fun and be patient with her children.

“...working at a factory is not good for my health because of the difficult working environment there. Other female workers are also victims because some of them have suffered physical injuries; some have miscarried due to the heavy labor involved. ...Comparing my home activities with those women who work normal (office) jobs I have a problem when I get home from work, to have fun with my kids because I am always very tired after work. I also have a very small time to spend with them because of the night shifts” (Textile factory worker, Awassa, woman aged 33 years)

Factory work also results in vulnerability as it forces people to specialise when they are typically engaged in multiple activities to cushion income fluctuations. The demanding nature of textile factory work means that workers often lack the energy to balance additional occupations. Moreover, since the recent negative experience of declining wages and working conditions when factory management was taken over by new foreign investors, a number of workers expressed a sense of job insecurity. This was exacerbated by the perception that some workers who had been laid off had been the most vocal about problems with working conditions.

Redundant workers revealed the harsh impacts of market structural adjustments on poor households and children who lack any government social security measures. As one former female factory worker who was laid off three years ago explained:

“When I was dismissed the world turned upside down. I thought I was going to die. I thought I may have to get back to my parents. I was worried about what to feed my two kids. Added to my kids, there was a 15-year-old orphan girl who I adopted. I used to prepare “kolo” (traditional food) so that she could take it and sell it at school. She used to get a one birr and fifty-cent profit a day. I keep this profit in a safe place and used to help buy supplies for me to sell other small items...”

Other laid off workers mentioned the loss of benefits such as subsidised healthcare and education fees that they had enjoyed as factory employees; they also noted the loss of prestige in the community, the difficulties with gaining access to credit to move into a new occupation, and the need to sell family assets.

POLICY IMPLICATIONS

Our findings point to three broad areas for policy interventions to ensure that trade liberalisation translates into a reduction in levels of poverty, but more importantly, that gains from trade are beneficial to children: child-focused policies, policies geared towards supporting sustainable household livelihoods and adjustments to broad economic policies. In each one of these areas, we distinguish two categories of policies: *trade and non-trade related*. The first refer directly to possible modifications in domestic policies that can help mitigate the negative and take advantage of the positive short-term effects of trade liberalisation on the population. The second set is concerned with compensatory policies that are needed given the differential impact of liberalisation on individuals within the family to ensure more equitable results.

1) Child-focused policies:

Trade related measures

Policies to **improve the quality of schooling** and **promotion of post-school opportunities** (such as technical training) could encourage children to stay in school, in the hope of obtaining better paid jobs located in trade-related sectors. In Ethiopia, for example, increasing the skill of young men and women through training would enable them to take advantage of more highly paid work opportunities in the manufacturing sector. There is also evidence that greater availability of an inexpensive skilled workforce will strengthen the country's comparative advantage and thus become more attractive for investment, promoting greater employment opportunities^{xvi}.

With regards to **children's health**, two key issues emerge in the context of trade liberalisation:

- Specific attention should be paid to the potential rise in prices of basic medicines that may result from the introduction of stricter intellectual property rights. Governments should develop **compensatory measures to subsidise medicines** for low income families, as well as providing **targeted free healthcare** for the poor, particularly children.
- The **financing of children's healthcare** is also key. In Ethiopia, for example, expenditure in the health sector has been reduced as government revenues have declined as a result of reduced tariff income. An alternative within the WTO framework is the privatization of health services, which could be positive in terms of financing and accountability, but could also imply the exclusion of the poorest population, including children.

Non-trade related measures

Given that children's time allocation is often affected by economic shocks, especially in rural areas where children are often viewed as a labor-intensive asset, governments need to **generate incentives for children to continue in school**. This can be done in two ways:

- *By providing families with alternative income sources, including cash transfer programmes:* In Peru, the recently introduced conditional cash transfer programme, '*Juntos*' (Together) could help reduce vulnerabilities that the FTA may cause by providing an additional incentive for families to keep their children in school with minimal income loss. The '*Oportunidades / Progresas*' programme in Mexico, for example, has shown to have partially offset the adverse effects of Mexico's FTA with the US.
- *By supporting women's increased engagement in the workforce through the provision or promotion of childcare services (communal or public).* In Peru, financing of public child-care programmes like *Wawa Wasi* and *PRONOEI* (early education) as well as subsidies for private and / or communal childcare services needs to be augmented to reduce the burden on older children who otherwise shoulder their mothers' childcare responsibilities.

2) Household livelihood support

Trade related measures

To ensure that the benefits of trade liberalisation reach poor families, it is important to **invest in infrastructural improvements**. This includes fostering greater access to markets and market-related information and measures to reduce poor farmers' reliance on exploitative intermediaries and promote their direct connections to international markets, reducing transaction costs and taking advantage of potential market efficiencies.

Non-trade related measures

Households can mitigate the negative impact of price changes and reinforce any positive impacts by substituting consumption away from goods that have risen in price. However, the extent to which this is possible depends on a number of broader policy-environment variables including **access appropriate credit**, and the **availability of substitute goods**. It is therefore important that credit loaning possibilities are assessed to ensure that they are appropriate for the type of products in which households are investing and the timeframe needed to accrue profits (for example if the crop is harvested only once annually then the loan needs to be at least one year in duration).

To ensure that the impacts of trade liberalisation are more pro-poor, measures need to be undertaken to reduce the vulnerability of households that depend on single crops, such as coffee growers in Ethiopia, against natural disasters, including drought and deforestation. In addition **promoting livelihood diversification**, governments could introduce **emergency funds** that can improve farmers' resilience during crises without dramatically altering their livelihood patterns. The Ethiopian government should disseminate **information on the consequences of environmental degradation**, as well as providing **training for farmers** to maintain production levels to supply international demand without harming the environment.

Economy

Trade related measures

An essential mechanism to minimise general welfare losses caused by the differential distributional impacts of liberalisation is *ensuring that the timeframe for liberalisation is adequate*. A **gradual transition towards liberalisation** will help ensure that losses in tariff revenues are compensated by increased revenues from growth, thereby smoothing out any potential shocks on social expenditure allocations. This process should be accompanied by policies aimed at **strengthening social safety nets, social protection measures and welfare programmes**. This includes the need to promote and enforce reasonable labour, health and safety standards, especially in the case of small and medium factories.

Non-trade related measures

Although government revenues might decrease in the short-term as a result of lower incomes from export and import tariffs the composition of expenditure needs to be reallocated so that **key pro-poor sectors** (eg education, health, nutrition), and particularly those targeting child poverty, **are shielded from aggregate funding cuts**.

The Ethiopian government has managed to sustain its level of expenditure in three pro-poor sectors: education, agriculture and road development, despite lower levels of total public revenue but it has not fared as well in health spending. However, even when pro-poor allocations are retained, this does not mean that the resources available will be sufficient to cover sectoral requirements: for example in Ethiopia, expenditure in the education sector is still well under international standards. Moreover, a country's liquidity constraints can limit the government's capacity to reallocate expenditure or raise revenue from alternative sources, at least in the short-to-medium-term.

Political will is also likely to play an important role. It would be valuable to have policies that both **bind governments to a minimum threshold of social spending** and **mechanisms to monitor resources allocated to children over time** (child-sensitive budget monitoring).

ⁱ Young Lives is a 15-year longitudinal policy-research project in 4 countries: Ethiopia, India (Andhra Pradesh), Peru and Vietnam, which aim to influence policies in these four countries to improve the wellbeing of children living in poverty.

ⁱⁱ Draws on Te Velde, D. (2005); *The WTO: Towards Hong Kong, A 10 point summary of relevant research at the ODI*; Overseas Development Institute (ODI) Briefing, December 2005.

ⁱⁱⁱ See also Anderson, A, Gillson, I. and Bird, K.; (forthcoming) Guidelines for empirical case studies of the effects of trade liberalisation on children; Overseas Development Institute, and Waddington, H. (2004); *Linking Economic Policy to Childhood Poverty: A review of the evidence on growth, trade reform and macroeconomic policy*; CHIP Report No. 7, Childhood Poverty Research and Policy Centre.

^{iv} See Winters, A., McCulloch, N., and McKay, A. (2004); *Trade Liberalisation and Poverty: The Evidence So Far*; Journal of Economic Literature, vol. XLLII, 72-115.

^v Ansell, N. (2005); *Children, Youth, and Development*; London; New York: Routledge

^{vi} The finding for Peru are taken from the following YL working paper:

Escobal, J. and Ponce, C. (forthcoming); *Trade Liberalisation and Children's Welfare: Assessing the Impact of a FTA between Peru and the United States*.

^{vii} The welfare effects are modelled based on two links: the impact of trade liberalisation on domestic prices and the effects caused by these price changes (mainly consumption and hourly income).

^{viii} Winters, Winters, A., McCulloch, N., and McKay, A. (2004); *Trade Liberalisation and Poverty: The Evidence So Far*; Journal of Economic Literature, vol. XLLII, 72-115.

^{ix} Valladares, G. (2005); *Evaluacion sobre los Potenciales Efectos Sobre Acceso a Medicamentos del Tratado de Libre comercio que se negocia con Estados Unidos*; Peruvian Ministry of Health.

^x For more details, see Ferede, T. (2005); *A Synthesis of Trade Policy Regimes and Trade Liberalisation in Ethiopia*; Addis Ababa University.

^{xi} Birhanu, F. (2005); *Ethiopia's WTO Accession: A Strenuous Step for a Poor Nation Seeking Economic Prosperity*; Policy Research and Advocacy Department of Action Aid Ethiopia; Addis Ababa.

^{xii} UNDP (2005); *Linking the National Poverty Reduction Strategy to the MDGs: a case study of Ethiopia*; <http://www.undp.org/mdg/goodpractices/Ethiopia-casestudy.pdf>

^{xiii} According to Ethiopia's PRSP, the agriculture sector is a source of livelihood to over 85 per cent of the population.

^{xiv} Note that vulnerability to fluctuating international coffee prices has been exacerbated by natural disasters—especially drought—and deforestation which is in turn believed to be aggravating the effects of climate changes in the area.

^{xv} Chat is a drought resistant crop with mild narcotic effects, which is traded and used legally in Ethiopia.

^{xvi} Ferede, T. (2005); *A Synthesis of Trade Policy Regimes and Trade Liberalisation in Ethiopia*; Addis Ababa University.

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Based on country case studies by:

Peru: Escobal, J. and Ponce, C. (forthcoming); *Trade Liberalisation and Children's Welfare: Assessing the Impact of a FTA between Peru and the United States*

Ethiopia: Ferede, T. (2005); *A Synthesis of Trade Policy Regimes and Trade Liberalisation in Ethiopia*; Addis Ababa University.