9 Trade and Development

Bertrand Borg

John Fellowes, the fourth Earl of Ramsey, receives more than £500,000 a year in CAP subsidies for various crops grown on his three farms in Cambridgeshire and Lincolnshire. In addition, a minimum pricing system run by the CAP guarantees that sugar made from his beet is bought for at least three times more than world prices. Thousands of miles away, Inacio Albano, 25, cuts sugar cane until his hands bleed at a mill in Marremeo, north-east Mozambique, but is thankful to have a job in a country where more than two-thirds of the population live on less than £1 a day. Mozambique is heavily dependent on its sugar industry, but loses more than £20 million a year – equivalent to its entire national budget for agriculture and rural development – because of the trade distortions caused by the EU sugar scheme.

- **Source:** Bitter Harvest: how EU sugar subsidies devastate Africa, The Independent, 15/06/05

Consider this book: the paper has probably been produced in Scandinavia, the ink brought from Indonesia and it was published and printed in Ireland. Nowadays, we are surprised when a clothing garment is *not* produced in China or Taiwan. We take it for granted that our PCs and cars are made up of parts from all over the world and then put together in a final assembly plant. More than ever before, trade is now at the very heart of our economies.

Globalisation – which many predicted would lift poverty-ridden states out of their economic quagmires – is now coming under increasing criticism for its failure to help the world's poor. Increasing economic interdependence has only served to highlight the shortfalls and injustices of the global trading system. The poverty gap between rich and poor continues to grow and deepen.

Individual wealth has reached mind-boggling levels. The Tax Justice Network claims that around $11.5 trillion in undeclared funds are hidden in various tax havens, with a resulting $255 billion in lost tax revenue annually – equal to the annual funds needed to reach the UN's Millennium Development Goals.

Where then does the problem lie? With the developed countries, who maintain hidden trade barriers and harm poor nations' trade? With the developing world, whose inefficiencies and poor infrastructure make it hard for them to trade competitively? With the international financial system, which structurally favours its richest members?

The 8th Millennium Development Goal – developing a global partnership – states that UN members have committed themselves to *"develop further an open trading and financial system that is rule-based, predictable and non-discriminatory."* We are still a good deal away from achieving this state of affairs and, in the following pages we will discuss how, and why, this is.

Trends in global trade since 1945 – key points to remember

- The volume of international trade has grown massively since 1945, but only a small number of states have enjoyed the lion's share of this growth
- Only a few 'tiger economies' within South East Asia and Latin America have benefited
- As trade has grown in importance, it has gradually led to greater economic interdependence between countries and economies - this "economic globalisation" is primarily a result of the growth in trade since 1945
- As trade itself has grown, its patterns have changed – generally, exports from developed countries have become more expensive, while imports from developing countries have declined in value.

Exports

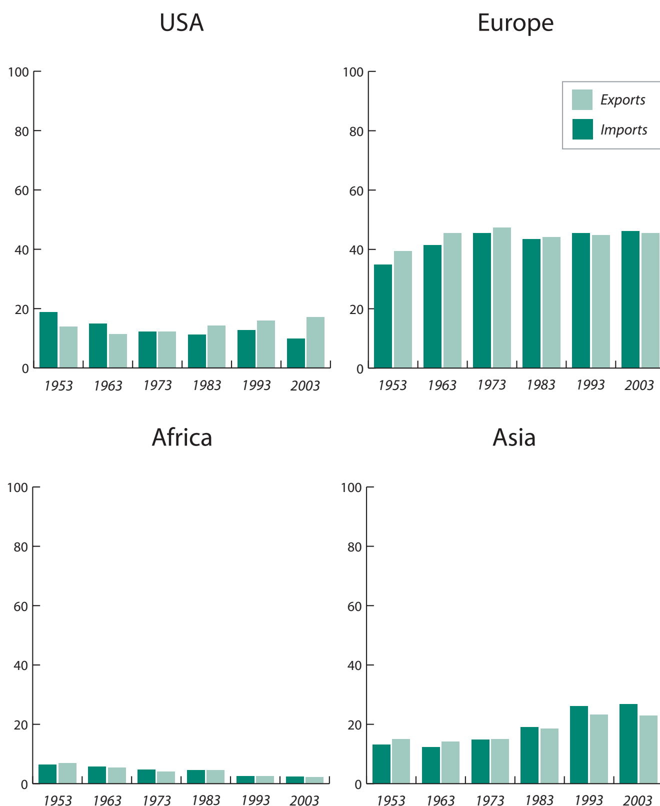
Contrary to popular belief, the USA's share in world exports has *shrunk* over the past 50 years. One must keep in mind, however, that in the post-war 1950s, the USA was an unparalleled world power. As Europe got back onto its feet, its share in global exports grew. Asia's development (especially that of Japan, and to a lesser extent that of the tiger economies and China) is reflected in its growing share. Contrast this with African figures, from a high of 6.5% in 1953, Africa's share of world exports had fallen to a mere 2.4% by 2003 and overall, Africa's share in exports has seen gradual decreases in each decade since the 1950s.

Imports

Over the past 50 years America has increasingly imported a greater share of world exports while Europe's share of imports has remained relatively stable – its share in 1963 was identical to its share 40 years later – 45.4%. Asian imports have increased to reach 23% of world total in 2003 while Africa's isolation is further highlighted as its imports have collapsed, from a high of 7% in the post-war period, to a low of 2.2% in 2003.

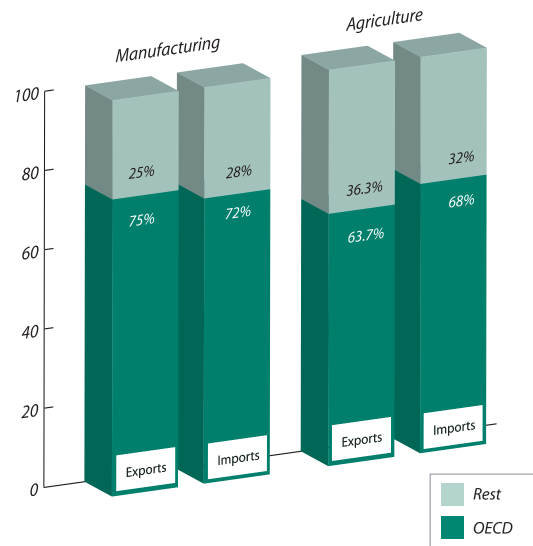
Trade Trends

World imports and exports 1953 - 2003



Trade Shares

Share of World Imports/Exports



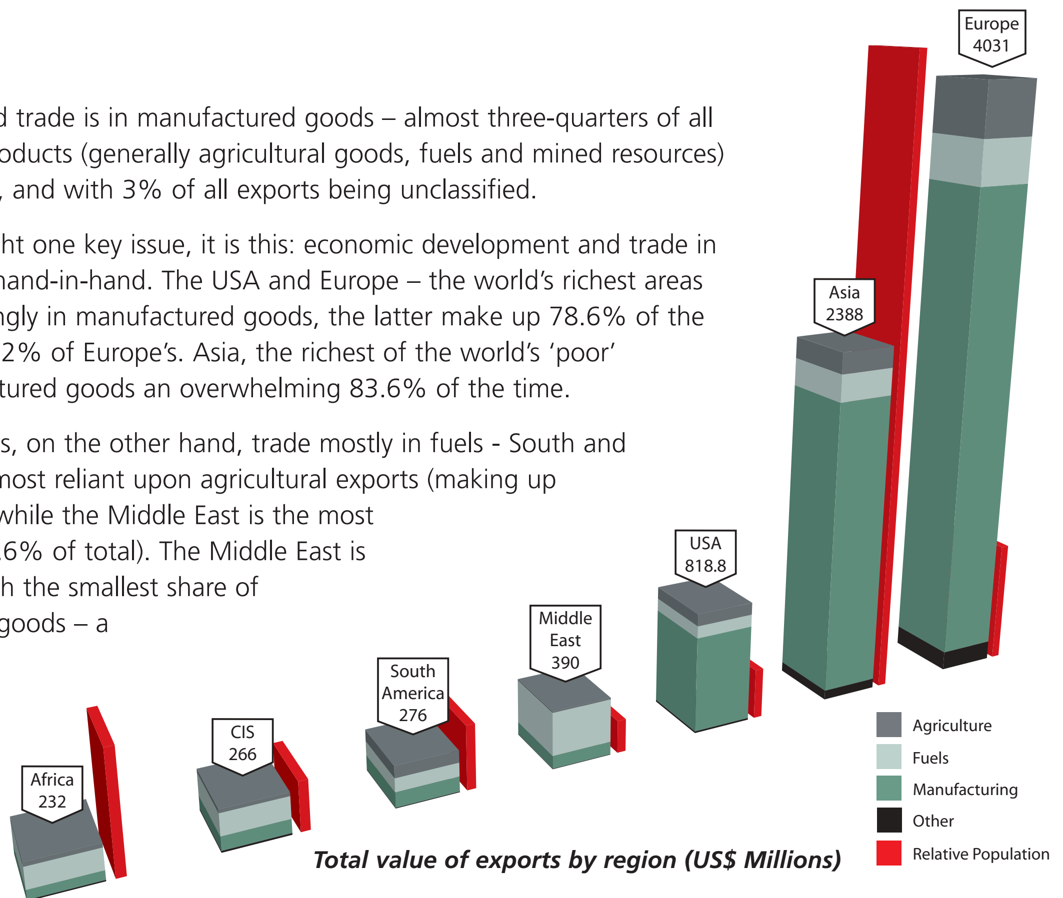
As might be expected, the OECD nations possess the lion's share of world trade in manufactured goods - 75% of exports and 72% of imports, with the rest of the world trading the remaining 25% and 28% respectively. Perhaps more surprisingly, the OECD states trade the majority of agricultural products too, although they import a greater share than they export.

Trade Share by sector

The vast majority of world trade is in manufactured goods – almost three-quarters of all exports – with primary products (generally agricultural goods, fuels and mined resources) making up the remainder, and with 3% of all exports being unclassified.

If current statistics highlight one key issue, it is this: economic development and trade in manufactured goods go hand-in-hand. The USA and Europe – the world's richest areas – both trade overwhelmingly in manufactured goods, the latter make up 78.6% of the USA's total trade, and 80.2% of Europe's. Asia, the richest of the world's 'poor' regions, exports manufactured goods an overwhelming 83.6% of the time.

The globe's poorer regions, on the other hand, trade mostly in fuels - South and Central America are the most reliant upon agricultural exports (making up 28.9% of total exports), while the Middle East is the most dependent upon fuel (74.6% of total). The Middle East is also the global region with the smallest share of exports in manufactured goods – a mere 22.1% – with Africa not far behind, at 25.1%.



Total value of exports by region (US$ Millions)

Why do we trade?

Trade arises out of necessity. Take a basic agricultural example - northern climates are unsuited to coffee beans, while southern climates are not ideal for growing potatoes. Therefore, northern countries must import coffee, while southern countries import potatoes.

Even if a country is capable of producing all of its needs domestically, economic theory argues that it should still engage in trade in order to maximise productivity - this is known as the *theory of comparative advantage.*

Comparative advantage is basically the idea that even if a country can produce a number of goods more efficiently than another country, it is advantageous for both countries to focus production upon the product in which they are most efficient. If the USA can produce both potatoes and coffee better than France, but is best at growing potatoes, while France is stronger at growing coffee than potatoes, then the USA should focus on potatoes and leave the coffee growing to France, since it will gain more by exporting its extra potatoes and using its profits to buy coffee from France.

In theory, therefore, maximising trade would maximise productivity and, subsequently, economic growth. Yet the statistics prove otherwise.

Belgian economist Paul Bairoch has estimated that in 1750, GNP per head of people in north and south was about the same; in 1930 it was four times higher in the north; 60 years later it is around eight times higher. Under the theory of comparative advantage, such imbalances were not meant to happen.

- John Madeley, 'Trade and the Poor'

Comparative advantage only works when it occurs between states that are roughly equal – like all economic theories, it assumes that all things are equal. As the north industrialised and began to export manufactured goods (which provide a higher profit margin than agricultural products), it grew richer than the south, beginning the cycle which has led to an ever-increasing wealth gap. As Gunnar Myrdhal predicted over 30 years ago:

"International Trade will generally tend to breed inequality and will do so more strongly when substantial inequalities are already established".

Trade – some key issues

- Trading through comparative advantage has, according to some, led to poorer states being caught within a ***vicious poverty cycle***. Underdeveloped states tend to base their economy on agricultural produce, and therefore specialise in trading these products. However, technological advances within the developed world (e.g. the green revolution), together with economic measures (e.g. farm subsidies, CAP) have cut away at the developing world's meagre comparative advantage in even these agricultural products. These have resulted in the prices of coffee, cocoa, etc. dropping significantly over the past decades.

- ***Instability of export products*** - items such as cotton, coffee and cocoa are susceptible to
  a) Price instability (see above)
  b) Production instability - a drought, flood, etc. can wipe out an entire harvest.

- ***Single-commodity markets.*** The economy of several underdeveloped states is characterised by an overwhelming reliance upon a small number of export products. Fuel accounts for over 90% of Nigeria's exports, 70% of Zambian exports are copper-related, while Benin, Mali and Burkina Faso all rely on cotton for 70% of their exports. Compare this to Britain's top exports – cars and automatic data processing equipment – which only account for some 5% of total exports. If a nation's economy hinges upon the export of just one or two commodities, then a shift in price/production can violently shake that country's economy.

- ***Terms of trade have shifted*** a great deal over the past 25 years, with underdeveloped states the unfortunate victims. The phrase *terms of trade* refers to the rate at which exports are exchanged for imports – the relative price of a country's exports compared to its imports. Negative terms of trade imply a situation in which a nation must spend more on its imports than it can earn on its exports. Falling commodity prices (see point 1 above), compared with a rise in prices of manufactured goods, have meant that sub-Saharan Africa's terms of trade in 2000 were 21% worse than they were in 1970. UNCTAD has estimated that, had the terms of trade remained at 1980s levels, sub-Saharan Africa's share in global exports would be twice as high as it currently is.

- ***Irony of the product refinement cycle*** - Least Developed Countries export unrefined products at low cost, which are then refined within the technologically rich developed world, and re-exported to these LDCs at a significantly higher price. If LDCs attempt to refine their raw materials themselves, they run into high tariff and non-tariff trade barriers when attempting to export them to developed nations (see 'Fair Trade' section below).

- LDCs constantly find themselves ***playing catch-up*** – LDCs were predominantly rural while the rest of the world was industrialising, they joined the fossil fuel agenda just as the developed world began to debate CO_2 emissions, and they began to produce goods for export just as trade in services proved to be more profitable.

- Difficulty in ***bridging the technology gap***. Developed nations spend $billions on R&D, developing more efficient means of production, etc. LDCs are unable to match this or even to purchase the resultant technologies.

- ***Trade barriers and tariffs*** tend to eat away any of the profits brought about by trade, for every $1 earned by a sub-Saharan nation through trade, it cost it at least $1.06 in tariffs, levies and losses incurred due to negative terms of trade.

Globalisation or localisation?

One of the key debates in recent decades has been that about the nature and impact of globalisation.

Anti-globalisation commentators and activists argue that as global trade has increased, the poverty gap between the rich and poor (between, as well as within, countries) has increased significantly. For them global trade serves only to tighten the dependency relationship between developed and underdeveloped states with some arguing that there is no proof that increased world trade has led to economic growth. When you also add the issue of whether economic growth can be equated with development, there is little in favour of globalisation, they argue. Furthermore, anti-globalists argue that the structure of the international economic system is itself unfairly loaded in favour of developed states.

Finally, anti-globalists reject the claim that the globalisation process is irreversible; although the technological progress brought is here to stay, policy decisions are most certainly reversible if nations so wish. To anti-globalists, Margaret Thatcher's famous claim that 'there is no alternative' is patently untrue.

Pro-globalistion theorists and writers, on the other hand, argue that globalisation is the only real means of generating international wealth on any significant level. Generally pro-globalists tend to be from the free market school of thought [open, free markets with minimal government intervention is the key to economic growth], and they therefore promote globalisation as the best way of ensuring the consolidation of free market economies. Some pro-globalists defend globalisation the other way around - implementing Washington Consensus-style reforms (i.e. encouraging exports through currency devaluation, minimising government intervention and pushing forward with privatisation of state-owned entities) will naturally lead to a pro-trade, global economy. Pro-globalists often also argue that globalisation brings with it a greater demand for transparent, accountable institutions, as well as encouraging sustainable development.

Others still - '**neutralists**' - claim that the pro- and anti- globalisation debate is a pointless one - globalisation is a reality which is here to stay. What they choose to focus on is:

- finding the best form of globalisation - one with the maximum economic benefits for the maximum numbers of people, with the minimum amount of damage
- working with states and individuals in order to ensure that state and social structures are capable of dealing with the significant changes globalisation demands of them.

Perhaps the most apparent changes that globalisation has brought about have been the important rise of transnational corporations and financial speculation – stock market economies.

Globalisation or Localisation: a key debate in trade talks

Transnational Corporations (TNCs)

In 1970 there were approximately 7,000 transnational corporations in the world but by 2000, that figure had grown to over 50,000. Today:

- 25% of all global trade is controlled by 200 companies
- Of the world's 100 largest economies, 51 are corporations
- The world's 10 largest TNCs have a total income which dwarfs that of the world's 100 poorest nations
- TNCs employ approximately 5 -10% of the global workforce, but control 35% of the world's productive assets.

The wealth of individuals has reached incredible levels. The world's richest individual – Bill Gates – has a net worth of $46.6 billion. The combined net worth of the all world's billionaires is $2.6 trillion. The real issue lies with the influence that such massive economic entities wield. TNCs form extremely powerful lobby groups at WTO meetings, and can influence trade policy far more effectively than developing states can. If money talks, then TNCs speak with a much louder voice than several countries.

TNCs are driven by a desire to maximise profitability. This may mean shutting down factories, keeping wages to a minimum, and pushing for more favourable terms of trade. When a TNC has more economic strength than its host nation, these considerations can override imperative human development factors such as education, health, or working standards. Environmental concerns play a role too: developing nations, eager to attract TNC investment, are often willing to compromise on environmental regulations.

Bullying Brands?

TNC involvement in developing countries has resulted in a number of humanitarian and environmental scandals, including:

Child Labour: under-age children being forced to work, often in dangerous or hazardous environments.

Sweat Shops: these are essentially factories in developing countries with extremely poor labour conditions. Workers are often at rates below the minimum wage, forced to work unpaid overtime and, in extreme cases, made to sleep beneath their work benches.

Pesticides: In the 1980s it transpired that a number of pesticide producers had sold developing countries dangerous, illegal DDT pesticides. More recently, a number of transnational corporations have been sued by their workers in developing countries for pesticide exposure, following high incidences of sterility and mutilated foetuses.

Drugs: Although literally dozens of issues have arisen, the most significant has been that tied to the TRIPS debate: large pharmaceuticals have taken out patents on certain medicines, and supply them to developing countries at an astronomical cost. They attempt to block these countries from buying generic drugs, which can be 10 times cheaper than the branded equivalent.

Environmental Degradation: Environmental standards are often much more lax in developing countries than within the developed world. TNCs tend to take advantage of this by minimising their environmental obligations.

The International Financial System

Then

Following the Second World War, it was clear that the inter-war economic structure could not go on – inflation in pre-war Germany had gone past the 1,000% mark. The vast majority of states met at Bretton Woods, in New Hampshire, in 1945, to determine the shape of the new economic order. The preference was for free trade over protectionism with the following results emerging from the negotiations (results which have shaped and influenced international development since then):

- A currency exchange rate system in which currencies set their value against the US$, which was pegged to a fixed value of gold
- The creation of the International Monetary Fund (IMF)
- The creation of the International Bank for

Gap – A Case Study in TNC Wealth and Power

Gap, Inc is the largest specialty retailer in the United States, with revenues of $16.2 billion in 2005. Their headquarters are located in San Francisco, California. Its namesake chain, **Gap,** operates in the U.S. as well as in Canada, United Kingdom, France, Ireland and Japan.

Gap was founded in 1969 by Donald and Doris Fisher. As of April 2, 2005, Gap Inc. had approximately 150,000 employees and operated 3,005 stores worldwide. In April 2006, Gap unveiled plans to expand into the Middle East,

Gap has received mounting criticism over working conditions in its factories. During the spring of 2003 Gap, along with 21 other companies, was involved in a class action lawsuit filed by sweatshop workers in Saipan. The allegations included "off the clock" hours, where workers were not paid for working overtime, unsafe working conditions, and forced abortion policies. A settlement of 20 million dollars was reached, but Gap contends that the allegations were without merit, saying that lumping the companies together in one lawsuit was unfair.

Gap was no stranger to issues regarding working conditions: as early as 1995, it faced a barrage of Canadian criticism regarding its treatment of factory workers. In order to counter this criticism and stem the damage to its image, in December of that year Gap became the first major North American retailer to accept independent monitoring of the working conditions in a contract factory producing its garments. In its *Social Responsibility Report 2003* Gap provided an unusually frank assessment of its supply chain, acknowledging that several of its factories were failing to live up to its code of conduct.

- Sources: Businessweek, UNITE, The Rough Guide to Ethical Shopping

Reconstruction and Development (IBRD)
- Plans for an International Trade Organisation, which would push for free trade and scrap protectionist measures.

Now

60 years on, the Bretton Woods system is still functioning – more or less. The US dollar's parity with gold was scrapped in 1973; the IMF and IBRD (more commonly referred to as the World Bank) play pivotal roles in determining economic monetary policies; the International Trade Organisation was never formed but a similar organisation, the World Trade Organisation (WTO), was finally formed in 1995, taking over from the *ad hoc* General Agreement on Tariffs and Trade (GATT) that had been in place since Bretton Woods.

International Monetary Fund

The Bretton Woods agreement required an international organisation to monitor balance of payments and currency exchange rates and the IMF was created and assigned this role. However, from its initially limited remit, the IMF has grown to be an incredibly powerful organisation as international trade has grown and economic globalisation has bound national economies closer together.

The controversial role of the IMF relates to its monitoring role vis-à-vis developing country economies - in order to restructure a struggling nation's balance of payments, the IMF demands certain economic measures. Ostensibly designed to fix its economic woes, IMF measures tend to require currency devaluation (thus boosting exports), removal of trade barriers and privatisation of major government-owned enterprises.

From a human development perspective, the problems associated with IMF reform include:

- The 'suggestions' mooted by the IMF are actually *demands* – if a country disagrees with the IMF, it soon finds that international banks will not lend it any more money
- The IMF has adopted a blanket approach to reform, with a one-size-fits-all mentality. Reforms tend to be predictable and inflexible, failing to take into account the particular situation of struggling nations

- Conditionality and Structural Adjustment - this is one of the most controversial issues - the IMF generally requires a nation to implement certain reforms, or alter fiscal policy, before it qualifies for loans, this was especially true of the 1980s and 1990s. Literally hundreds of studies have shown that conditionality is counter-productive, since it hampers social stability – yet the IMF continues to push for it, albeit to a lesser degree
- Voting Inequality - France, Germany, Japan, UK and USA hold 40% of the IMF's votes. The USA holds 17%, giving it a *de facto* veto, since major IMF decisions require an 85% consensus or in other words: the richest 9% of the world's population hold 40% of the voting rights and the poorest 31% have 5% of the voting rights.

The World Bank

Originally designed to help LDCs work their way out of poverty by lending them money at preferential rates for infrastructure projects and for issuing grants, it has grown to resemble the IMF's little brother, since decisions on whether or not to lend money often hinge upon IMF approval. As the IMF's remit has spread into development economics, the World Bank has struggled to redefine its identity and role. It is nowadays a major source of economic data, with its publications having significant weight and influencing both governments and lending agencies.

Over the past decades, the Bank has shown a growing sensitivity towards human development issues, with an increasing focus on corruption and poverty eradication as opposed to its earlier goal of economic growth. It has acknowledged the importance of sustainable development in the improvement of quality of life, and has begun to measure factors such as education and health within its reports.

Nevertheless, critics point to its imbalanced voting system (like in the IMF, the USA can

International Labour Standards

International Labour Standards are treaties, conventions and other such mechanisms created with the aim of protecting workers and their rights. The International Labour Organisation (ILO) is entrusted with safeguarding these standards.

Developed countries have increasingly called for punitive trade measures to be taken against states which don't respect international labour standards. A number of developing states have fiercely criticised this pressure, claiming that such trade measures essentially amount to hidden protectionism. Proponents of these measures deny this, and say that their pressure is born out of human rights considerations.

What developed nations argue:

"...the failure of any nation to adopt humane conditions of labour is an obstacle in the way of other nations which desire to improve the conditions in their own countries;"

- Universal respect of international labour standards is an important prerequisite for the creation of an equitable global order
- WTO rules and disciplines would provide a powerful incentive for WTO member states to improve workplace conditions
- International Labour Standards are an essential part of the development process, and it is therefore in the best interest of all states to respect them
- Developing countries' lack of labour standards allow them to keep labour costs low, providing them with an unfair trading advantage over states which go to great lengths to ensure that workers are well treated.

What developing nations argue:

- International Labour Standards are monitored by the ILO – the WTO should concern itself with trade regulations
- Pressure to include International Labour Standards in the WTO's remit is simply a hidden form of protectionism, since it will result in developing countries' exports becoming more expensive
- Certain countries lack International Labour Standards simply because they cannot afford to monitor and enforce these standards, rather than due to a lack of political will
- Transnational corporations are often willing to invest in developing countries precisely due to the lack of these International Labour Standards. Governments of these countries thus find themselves in a Catch-22 situation: if they enforce labour standards they risk losing foreign direct investment; but if they turn a blind eye they are condemned by the developed states these transnational corporations come from.

effectively block any decision by virtue of its 16.5% voting weight) and its dogmatic neo-liberal measures as serious weaknesses. According to these critics, the World Bank, like the IMF, attempts to 'homogenise' countries' economic systems and regulations.

Interestingly, a World Bank research paper has recently stated that this homogenisation is ineffective:

"...good institutions promote trade much more than similar legal systems and have much more explanatory power. This effect is economically large – up to 10 times the effect of different legal systems. Moreover, better infrastructure matters as much as good institutions".

- 'Trade and Harmonisation: If your institutions are good, does it matter if they are different?' 2006 World Bank working paper

The World Trade Organisation

Although established in 1995, the WTO has its roots in the Bretton Woods negotiations of 1945, at the time negotiations for an international trade organisation collapsed, and were replaced by a General Agreement for Tariffs and Trades (GATT). By 1995 a number of states had decided that a more permanent organisation was required in order to regulate world trade with the resultant WTO established. The WTO is the only global international organisation dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business.

At the time of writing, 149 states are WTO members, constituting over 90% of all world trade with a further 31 in the process of joining. The WTO functions through a number of high-level ministerial conferences with each set of trade negotiations (involving multiple meetings of the various member states' delegations) often referred to as a trade 'round'.

There are three main organs - GATT (General Agreement on Tariffs and Trade), GATS (General Agreement on Trade in Services) and TRIPS (Trade-Related Aspects of Intellectual Property Rights) – this latter dimension has been the subject of very considerable disagreement and dissatisfaction. Each nation possesses one vote, and consensus must be achieved in order for a rule to pass. However, power politics and heavy-handed lobbying tend to distort the democratic value of this system.

The statute of the WTO lists five key principles:

- **Non-Discrimination**: A state cannot protect or aid a local firm to the detriment of a foreign counterpart wishing to establish itself within that country

BUT

While this may seem logical and fair in theory, in practice it often prevents local enterprises from emerging within developing states as such enterprises must compete with far larger, richer and more experienced transnational corporations.

- **Transparency:** WTO member states must provide clear, timely trade figures and other reports and policy decisions must be accountable and reporting accurate

BUT

Administration and reporting are too costly for poor countries, with the World Bank estimating that implementation of the Sanitary, Customs and TRIPS agreements of the WTO alone would cost poor countries the equivalent of one year's aid. Furthermore, the WTO itself has been singled out for criticism about a lack of transparency.

- **Fair Trade:** States must avoid hidden, non-tariff barriers to trade, 'unfair' trading practices, or dumping

BUT

The WTO has been the forum in which developed countries have increased their agricultural subsidies while forcing developing countries to slash their tariff barriers.

- **Special & Differential Treatment for Underdeveloped Nations:** The poorest nations are granted certain exemptions and allowed to delay trade liberalisation within certain sectors

BUT

Critics argue that continuing protectionism by developed states completely wipes away any benefits that such special and differential treatment offers poorer states.

- **Progressive Trade Liberalisation:** The WTO aims to continuously liberalise more trade until full free trade is achieved (although complete free trade is not mentioned anywhere in the WTO Statute). Furthermore, it aims to agree 'binding' concessions – meaning that decisions are non-reversible

BUT

To date, trade liberalisation has been a case of two weights and two measures. Furthermore, the concept of 'bound' concessions is undemocratic, since it ties a nation's future economic well-being to a decision which may have proven to be detrimental to it.

Supporters of the WTO point to these results:

- The creation of a forum in which 149 states (plus a further 30 observers) can reach a consensus on world trade. Never before in history has there been such a broad representation of the entire world's population within an economic forum
- A re-structuring of the way in which the global economy functions, simplifying the old system in which states would engage in bilateral agreements, and creating one multilateral set of ground rules
- The creation of a means and a forum in which trade disputes can be settled. The WTO has its own dispute settlement mechanism, and any state can bring its grievances to the attention of this tribunal
- The WTO has become synonymous with the globalisation process, and the whole 'no to globalisation' protest movement
- The WTO has grown to be the most powerful political-economic forum in world history. It has cut tariffs by an average of 30%, domestic support by 15% and the value of export subsidies by 30% since 1995.

Financial Speculation

Free market economics have brought about an exponential growth in capital flows (or speculative money) which are now approximately 100 times greater in value than international trade. Professional speculators can earn millions in mere minutes simply by speculating against a currency, anticipating the correct exchange rate shifts. On the 16th September 1992 the most audacious and lucrative series of financial speculations occurred bringing the Bank of England to its knees.

According to the Bank for International Settlements, in 2004 financial trading had reached at least $1.9 trillion *every day.* To put this into perspective – the annual GDP of the USA and EU combined is equivalent to just 13 days of financial trading.

Hot currency flows can cripple an economy, as happened in the South East Asian markets in 1997. But there is little one can do to stop them. One suggestion - the so-called 'Tobin Tax' - is to introduce a tiny tax on each international currency transaction. The idea behind such a tax is twofold: first, to *'put sand in the wheels of international finance'* and create stability; and to raise funds for development.

EU Subsidies deny Africa's farmers their livelihood

British households pay an extra £832 a year in grocery bills due to the huge EU subsidy system that is also depriving tens of thousands of African farmers of their livelihoods, a charity warns. At the same time, dumping of subsidised produce in African countries is forcing local producers out of business.

The £30 billion a year EU agricultural subsidy regime is one of the biggest iniquities facing farmers in Africa and other developing counties. They cannot export their products because they compete with the lower prices made possible by payments. In addition, European countries dump thousands of tons of subsidised exports in Africa every year so that local producers cannot compete in their own land.

Meanwhile, governments of developing countries come under intense pressure from the World Bank and the International Monetary Fund to scrap their own tariffs and subsidies as part of free trade rules. World trade talks aimed at reaching agreement on subsidy reform have stalled because of the EU's intransigence over its CAP.

The CAP costs British taxpayers £3.9 billion a year and also adds £16 pounds per week - £832 a year - to the average family of four's food bill. The £1.34 billion a year EU sugar regime was ruled illegal by the World Trade Organisation last year and European countries were found guilty of dumping too much subsidised sugar in developing countries, under-cutting local farmers.

But at the moment, proposed reform of the regime will only end up hurting the poorest African and Caribbean farmers who currently have special access to European markets and will be denied any compensation for the losses generated by the changes.

Mozambique loses more than £70 million a year - equivalent to its entire national budget for agriculture and rural development - because of the trade distortions, and South Africa loses £31 million a year. While chicken producers in Europe do not receive direct payments, the grain that feeds the birds is subsidised, substantially reducing the cost of farming.

The effects

Sugar - farmers in Europe are guaranteed a price for their sugar which is three times higher than the world price. Mozambique loses more than £70 million a year because of restrictions on importing into Europe, coupled with the dumping of cheap exports at its door, while 12,000 workers in Swaziland have lost their jobs because the local industry cannot compete.

Wheat - Kenya, Nigeria and Senegal have been hit by cheap, subsidised imports from Europe while the £30 paid to British farmers for every tonne of wheat they produce inflates the price of breakfast cereals, bread and other goods in Britain.

Milk - thousands of tonnes of surplus powdered milk from the EU are dumped in West African countries such as Mali at a cheaper price than local cattle owners can sell at, holding economic growth back. The dairy subsidies have driven farmers in India and Jamaica out of business.

Chicken - our preference for chicken breasts and legs means that thighs and wings are often frozen and exported to Africa where they are sold for rock-bottom prices. Chicken farmers in Senegal and Ghana used to supply most of the country's demand - now their market share has shrunk to 11 per cent because subsidised imports are 50 per cent cheaper.

- **Source:** The Independent (RED Edition), 16 May 2006

Trade does not equal development

Trade most often leads to economic growth, which may or may not, in turn, lead to development; however, trade is a means to an end, rather than an end in itself. Maximising trade may reap developmental benefits, but – if conditions are imbalanced - it may also be detrimental to the development of a country or, more importantly, its people.

The value of world trade had reached $13 trillion by 2000 – twenty times greater than of 1950, but throughout the 1990s, 20 countries posted negative growth rates (i.e. their economies actually shrunk rather than grew). Of those 20, 13 were in sub-Saharan Africa.

In a similar vein - between 1950 and 2003, global exports grew by an astonishing 2,000%, from $0.4 trillion in 1950 to $9 trillion in 2003. Nevertheless, sub-Saharan Africa's share of these exports actually fell - from 3.1 % in 1950 to 1.2 % in 2000. Foreign Direct Investment (FDI) within the African region increased by a significant 25% in 2003, but in absolute terms FDI is still meagre – according to UNCTAD (1994), of the $560 billion in FDI which circulated the globe in 2003, just $15 billion went to the entire African continent.

To illustrate just how marginalised sub-Saharan Africa is in terms of world trade – the entire region, with an estimated population of 689 million, accounts for a smaller share of world exports than does Belgium, a country of 10 million people. Something is clearly malfunctioning. The problem lies in identifying the so-called 'culprit' - is it the global economic system which is hurting these LDCs, or is it the fault of the LDCs themselves in that they have fallen behind or have failed to change with the times?

For many commentators, the answer lies somewhere in between - there are undoubtedly severe 'double standards' at work within the system and these are preventing LDCs from reaping the full benefits of their labour and investment.

However, many LDCs also face severe limitations - corruption is often widespread (at a variety of levels and including government officials, private, local and international companies, and even community organisations), democracy and governance is weak and institutional transparency and accountability often non-existent. Bureaucracy can often hamper foreign and local investment initiatives. Fiscal and monetary policy in a number of LDCs is poorly managed, with inflation out of control (Zimbabwe's inflation rate had reached 900% by mid-2006, a rate not seen since inter-war Germany) and currency revaluation the norm. Within an international financial system which favours stability, transparency and low inflation rates, it is hardly surprising that LDCs find it hard to attract foreign investment.

Nevertheless, to equate trade with automatic development is erroneous and, as the UNDP has pointed out, developing states which have advocated market openness and export growth, like Mexico or Guatemala, have been less successful in achieving human development. When it comes to trade and development, it is increasingly evident that the clichéd phrase *quality, not quantity* rings true - rather than focus upon maximising exports, many now argue that developing countries need to pay greater attention to the terms on which it trades.

Fair or Unfair Trade?

Over the past two decades there has been a shift in trade perspectives within development circles. Rather than simply preaching the mantra of 'free trade' as the engine of growth, many began arguing and organising for more 'fair trade'.

What is so 'unfair' about current trading rules?

Unfair economics is not a contemporary phenomenon, richer nations have exploited their poorer counterparts historically as well as in present times but as the international economy has brought countries closer together, the impact of economic 'double standards' has increased exponentially with disastrous results for many of the world's poorest people.

Despite the free market rhetoric, many developed states practice a masked protectionism, with various trade tariffs and non-tariff barriers limiting (and sometimes preventing) LDCs from accessing a number of markets. Oxfam has estimated that eliminating First World farm subsidies could raise poor countries' income by anything from $50 to $100 billion per year (Oxfam, 2002). Export subsidies simply exacerbate an already-crippling situation.

In recent years it has become a conventional wisdom to deride protectionism, due to it being the enemy of free trade. There is, however, no real evidence to prove that one is 'better' than the other – it depends on what 'better' might mean. For a long period of time, the world functioned under protectionist economics but since 1945, 'free trade' has taken over and has now been elevated to an unquestioned ideology. However, in reality, free trade very often does not exist – with double standards and contradictory policies regularly the norm. These double standards and policies in effect force poorer countries to apply free market economics whilst developing states employ hidden (and not so hidden) protectionist tactics.

Taxation generally runs parallel to income - the more you earn, the more you pay - this helps to balance wealth inequalities and ensure that poor individuals are not crippled by taxation. When it comes to trade levies and barriers, however, this logic is flipped onto its head - developing countries exporting to rich countries face trade barriers three or four times higher than those faced by rich countries trading with each other.

Tariff Barriers

Tariff barriers are essentially a direct form of protectionism – they are a tax on an imported good. The European Union's Common Agricultural Policy (CAP) is constantly criticised for its high tariffs on imported agricultural products. For example, for every 100kg of sweetcorn Zimbabwe exports to the EU, it must pay €9.20 in tariffs. In addition, the Lomé Convention (now superseded by the similar Cotonou Agreement) granted preferential access to EU agricultural markets to certain North and East African states to the detriment of their Southern neighbours.

African states themselves are also guilty of tariff protectionism - the World Bank estimates that the average African unweighted tariff is a staggering 17% – this partially explains the low level of trade amongst African states themselves (there is no African organisation to match the EU or NAFTA free trade zones).

Non-Tariff Barriers

In 2000, EU aid to sub-Saharan Africa amounted to an average of $8 per African citizen, in the same year farm subsidies meant that, on average, every cow within the EU received $913.

These are trade barriers which utilise more subtle approaches than a tariff, often in order to bypass WTO rules barring protectionism. Examples include import quotas – which limit the amount of a certain product allowed into the nation – import levies, or stringent health and safety regulations are applied and introduced under a pretence (other than simple protectionism) and this makes them difficult to eliminate.

What does 'Fair Trade' mean?

Many third world farmers sell products that are also produced in the developed world but farmers in better-off countries often receive subsidies and other forms of government assistance, which allows them to sell these products at an artificially cheap price. Third World farmers, forced to compete, must drop their prices to match their richer competition – at times to loss-making levels.

This is the essence of 'fair trade' – ensuring that Third World producers sell their wares at a price that covers the cost of production, regardless of the world price of that commodity. This often means that fair trade products are somewhat more expensive than their 'unfair' equivalents.

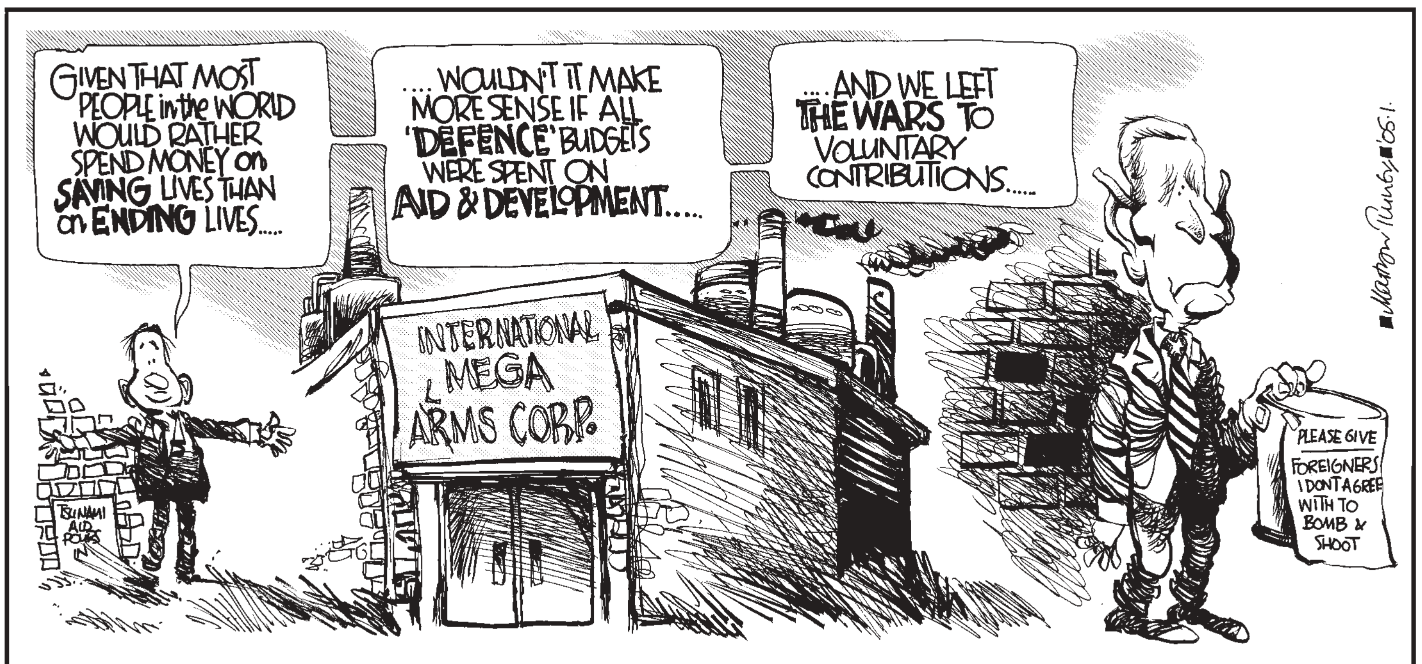
'Fair Trade', however, has also grown to encompass a number of other justice-based principles. The major ones are listed below:

- ***Democratic organisation*** – producers must be able to exercise control, by owning the land on which they work, by being organised into co-operative or democratic associations or in other ways appropriate to particular settings.
- ***Price that covers the cost of production*** – this usually means providing a minimum-price guarantee, regardless of world commodity prices.
- ***Recognised trade unions*** – where ownership is vested in others, then workers producing for fair trade must have the right to organise and negotiate through free trade unions.
- ***No child labour*** – child labour is a complex issue but it is now increasingly accepted that it is incompatible with fair trade principles.
- ***Environmental sustainability*** – fair trade is becoming increasingly 'green', in part because prices for greener products (like organic food) are generally better, but primarily because producers themselves prefer it.
- ***Social premiums to improve conditions*** – fair trade is a different kind of transaction, and so in many cases a premium is paid that doesn't go directly to individual producers but to their organisations for collective projects.
- ***Long-term relationships*** – that extends beyond specific contracts to purchase and may involve a much longer-term commitment if mutually agreed conditions are met. This matters both to producers (so that they can have some certainty for the future) and to fair-trade purchasers, so that supplies are available even in the rare 'boom' years when prices are high and the need for fair trade seems less pressing.
- ***Decent working conditions*** – the above measures help to create good working conditions and pay, but there is a need to ensure them in any event.

\- **Source:** The No-Nonsense Guide to Fair Trade, David Ransom, New Internationalist Publications, 2001.

Readings

- Graham Dunkley (2004) *Free Trade: myth, reality and alternatives,* London, Zed Press (Global Issues series)
- Greg Buckman (2005) *Global Trade: past mistakes, future choices*, London, Zed Press (Global Issues series)
- Linda Starke (ed) (2005) *Vital Signs 2005*, New York, Norton



Some Big Ideas *(behind this book)*

The world is richer ... the poor are poorer

Poverty is not easy to measure internationally, the World Bank definition (those living on or below $1 per day = 1.3 billion people) underestimates the scale of poverty and other organisations use the $2 per day definition. The threshold in the US is $12 per day and other developed countries, have yet different definitions.

However we measure it, poverty remains a massive international issue - there were 35.8 million officially living in poverty in the US in 2003 (12.5% of the US population, up on 2002), 70 million in the EU, 200 million in Latin America, 315 million in Africa and, at the very least, 600million in Asia.

The world has never been richer (with the world economy estimated to now be worth just over $60 trillion) and, yet poverty continues to rise. Progress in reducing poverty has been highly uneven - extreme poverty is not declining and is even increasing in Africa, Latin America, the Middle East, Eastern Europe and most of Asia. Progress has occurred, however, in Vietnam, India and China.

If inequality is taken into account, the situation is even worse. According to Professor James K. Galbraith and other researchers, world inequality was reasonably stable from 1963 until 1971; it then declined until 1979 but has risen steeply since then.

Ours is a world of extremes

The poorest 40% of world population accounts for 5% of global income, while the richest 10% accounts for 54%.

In 1960, the richest 20% of the world's people shared between them 70% of the entire wealth of the planet, by the mid - 1990's, this figure had increased to over 85%. In 2005, just 8.7 million people had a net worth of $33 trillion (half of the total value of the world economy).

In 1990 the average American was 38 times richer than the average Tanzanian; by 2004 s/he had become 61 times richer.

In 2003/4, the world spent:

- at least $950 billion on arms
- $8 billion on mobile phone ring tones
- $15 billion on plastic surgery
- $12 billion on perfume
- $105 billion on alcohol in Europe

There has been real progress… BUT

Life expectancy in developing countries increased by over a third from 46 to 65 years between 1960 and 2003 BUT around 1.9 billion people are not expected to survive to age 65.

Between 1970 and 2003 the adult literacy rate in developing countries rose from 48% to 77% BUT in 2000 more than 850 million adults were illiterate, over 60% of them women.

The average GDP per capita for all developing countries rose from $330 to $4359 between 1960 and 2003 BUT 1 billion people live on less than $1 a day, and close to 1 billion people cannot meet their basic consumption needs.

Another half a billion, did anyone notice?

In 2006, the UN estimated world population at 6.5 billion, an increase of half a billion people since the landmark of 6 billion in 1999. World population is now increasing by 208,000 people every day - this still means that a child born in 2000 will witness a 50% increase in their planet's population to around 9 billion by the time they are 50. Only after 2200 is world population expected to peak and stabilise at a little over 10 billion.

The fastest growth rates are in 50 least developed countries and the implications of this growth for those countries, for the poor, for women and for the children born are massive.

If every second woman decides to have three rather than two children, the population of the world in 2050 will be 27 billion…. If, however, every second woman decides to have only one child instead of two, the world population will sink to 3.6 billion.

Without compromising the future

Our impact on the planet is massive – a 2004 report noted that in 2001:

- North America (population 319 million) had an 'ecological footprint' of 9.2 global hectares per person
- Western Europe (population 390 million) a footprint of 5.1 global hectares
- The Asia Pacific region (population 3407 million) 1.3 global hectares
- Africa (population 810 million) 1.2 global hectares.

If everyone on the planet wanted to live like Europeans and North Americans, we would need another 6 planets to cope – **and we do not have them.** We need to begin to live in a way that is sustainable into the future.

No country treats its women the same as its men

The Gender Equity Index is a measurement developed by NGO Socialwatch and it seeks to illustrate general gender equity in development. It measures education, economic activity and empowerment and, in 2005, found that of the 120 countries surveyed:

- 20 had critical levels of inequity
- 31 had low or very low levels
- 28 had medium levels
- 41 had high levels

The most startling conclusion of the survey is that in no country worldwide do women enjoy the same opportunities as men. But, in order to eliminate gender inequities, a country does not have to have a high level of income, so equality does not have to wait for wealth.

Almost an entire continent is being left behind

Over the past 50 years, average life expectancy at birth has increased globally by almost 20 years, from 46.5 years in 1950 -1955 to 65.2 years in 2002. Improvement has occurred everywhere - on average, the gain in life expectancy was 9 years in developed countries, 17 years in the high-mortality developing countries and 26 years in the low-mortality developing countries. BUT on far too many fronts Africa continues to fall behind and as many Africans note: *'we can't get ahead for falling behind'.*

Rights not charity

Every person, by virtue of their birth, has rights – they are not bestowed by governments or by communities, they cannot be given away, divided up and they apply to all regardless of the class, colour or creed. At least, that's the theory - the reality is different unfortunately, especially for those whose rights are denied on a daily basis.

Be the change you want to see

Perhaps more than ever before, events and situations thousands of kilometres away directly affect us and increasingly what we do, and how we live, affects millions of distant others. Environmentally, economically, politically, socially and culturally, we cannot, and do not, cut ourselves off from others – no matter how far away.

The vast majority of humankind do not want to be reminded daily of the gross inequalities that characterise the world, the majority want something done about it. The question is what and who is responsible?

Mahatma Gandhi believed that we must be the change we want to see in the world, working for change begins with the individual and that only when all of us take responsibility, will the world begin to change for the better.