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# Fair Trade

'Reform of world trade is only one of the requirements for ending the deep social injustices that pervade globalisation. Action is also needed to reduce inequalities in health, education, and the distribution of income and opportunity, including those inequalities that exist between women and men. However, world trade rules are a key part of the poverty problem; fundamental reforms are needed to make them part of the solution. The existing trade system is indefensible and unsustainable. Large parts of the developing world are becoming enclaves of despair, increasingly marginalised and cut off from the rising wealth generated through trade.' Oxfam

Trade is the most important element of the process of globalisation. Yet no other form of interaction between rich and poor nations has caused so much disagreement. While the most powerful countries of the world point to the improvements in world trade in the last 50 years under first the General Agreement on Tariffs and Trade (GATT) and more latterly the World Trade Organisation (WTO), as the barriers to trade have continued to reduce, the poorer nations of the world argue that the global trading system is heavily rigged against them, making it more and more difficult for them to escape from poverty. At one end of the ideological spectrum are those who see trade as a force for good that will lift people out of poverty, while at the other end are those who argue that trade is responsible for widening the gulf between rich and poor.

Public awareness of this crucial issue increased considerably in December 1999 as the world's media focused on the large array of protest groups assembled in Seattle for the World Trade Organisation meeting. As at previous meetings, the poor nations of the world felt they were being pressurised into unfair agreements by the economic strength of the richer countries, in particular the USA and the EU. Low-income developing countries account for more than 40% of world's population, but less than 3% of world trade. The world's 49 least developed countries account for only 0.4% of world trade. The UN estimates that poor nations are denied $700 billion because of unfair trade rules.

## The Role of the WTO

In 1947 a group of 23 nations agreed to reduce tariffs on each other's exports under the General Agreement on Tariffs and Trade. This was the first multilateral accord to lower trade barriers since Napoleonic times. Since the GATT was established there have been nine 'rounds' of global trade talks, of which the most recent, the Doha (Qatar) round, began in 2001. 142 member countries were represented at the WTO talks in Doha.

The most important recent development has been the creation of the World Trade Organisation, in 1995. Unlike its predecessor, the loosely organised GATT, the WTO was set up as a permanent organization, with far greater powers to arbitrate trade disputes. Although agreements have been difficult to broker at times, the overall success of GATT/WTO is undeniable: today, average tariffs are only a tenth of what they were when GATT came into force, and world trade has been increasing at a much faster rate than GDP. However, in some areas, particularly clothing, textiles and agriculture, protectionism is still alive and well.

The WTO exists to promote free trade. Most countries in the world are members and most that are not want to join. The fundamental issue is this: does free trade benefit all those concerned, or is it a subtle way in which the rich nations can exploit their poorer counterparts? Most critics of free trade accept that it does generate wealth, but they deny that all countries benefit from it. For example, Barry Coates, Director of the World Development Movement wrote in the Observer (21/11/99):

'Trickle down to the poor hasn't happened. In the past 20 years, the developing countries' share of world trade has halved, income per person has fallen in 59 countries, and the number of people living on less than $1 a day has risen dramatically.'

The non-governmental organisation Oxfam is a major critic of the way the present trading system operates. Its 'Make Trade Fair' campaign has the following eight aims.

## Oxfam's 'Make Trade Fair' Campaign

1. End the use of conditions attached to IMF-World Bank programmes which force poor countries to open their markets regardless of the impact on poor people. Often, poor countries have been forced to open their markets far too quickly and to a much greater extent than market openness in rich countries.

2. Improve market access for poor countries and end the cycle of subsidised agricultural over-production and export dumping by rich countries. Rich nations spend $1 billion every day on agricultural subsidies which encourage surplus production, much of which is dumped on world markets, undermining small farmers in poor countries. When LEDCs export to MEDCs they face tariff barriers that are four times higher than those encountered by MEDCs. These barriers cost LEDCs $100 billion a year – twice the amount they receive in aid. WTO rules need to be changed so that developing countries can protect domestic food production.

3. Create a new international commodities institution to promote diversification and end over-supply in order to raise prices for producers and give them a reasonable standard of living. Low and unstable commodity prices are a major cause of poverty. Between 1997 and 2002 coffee prices fell by 70%, costing LEDC exporters $8 billion in lost foreign-exchange earnings. Change corporate practices so that companies pay fair prices to producers. For example, LEDC coffee farmers receive an average of $1 a kilogram, while consumers in MEDCs pay $15 a kilogram, a mark-up of 1400%.

4. Establish new intellectual property rules to ensure that poor countries are able to afford new technologies and basic medicines. Many of the current WTO rules protect the interests of MEDCs and powerful TNCs, but impose huge costs on LEDCs.

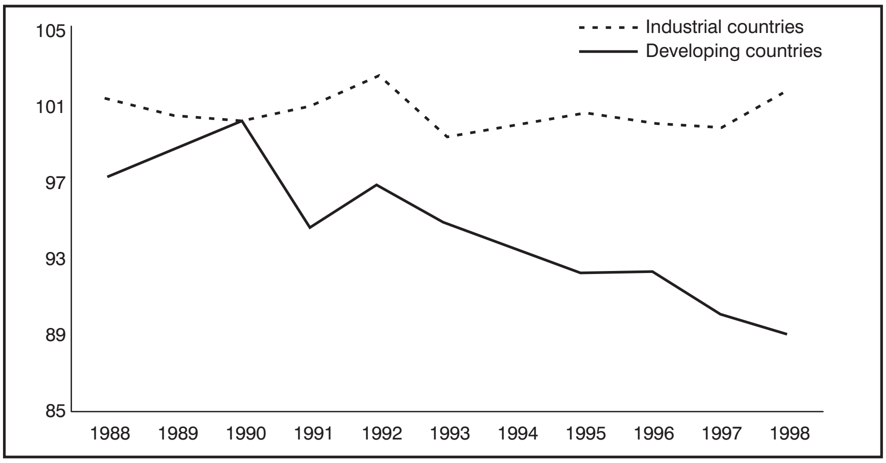
5. Prohibit rules that force governments to liberalise or privatise basic services that are vital for poverty reduction.

6. Enhance the quality of private-sector investment and employment standards. For example, Oxfam argue that in many countries, export-led success is built on the exploitation of women and girls. The foreign sales of the largest TNCs are equivalent in value to one-quarter of world trade. TNCs are continually linking producers in LEDCs more closely with consumers in MEDCs. Many governments, in order to attract foreign investment, deny workers rights which are commonplace in MEDCs.

7. Democratising the WTO to give poor countries a stronger voice. In principle, every nation has an equal vote in the WTO. In practice, the rich world shuts the poor world out in key negotiations. In recent years agreements have become more and more difficult to reach, with some economists forecasting the stagnation or even the break-up of the WTO.

8. Change national policies on health, education, and governance so that poor people can develop their capabilities, realise their potential, and participate in markets on more equitable terms.

*Figure 1: Terms of trade for industrialised and developing countries (index 1990 = 100)*



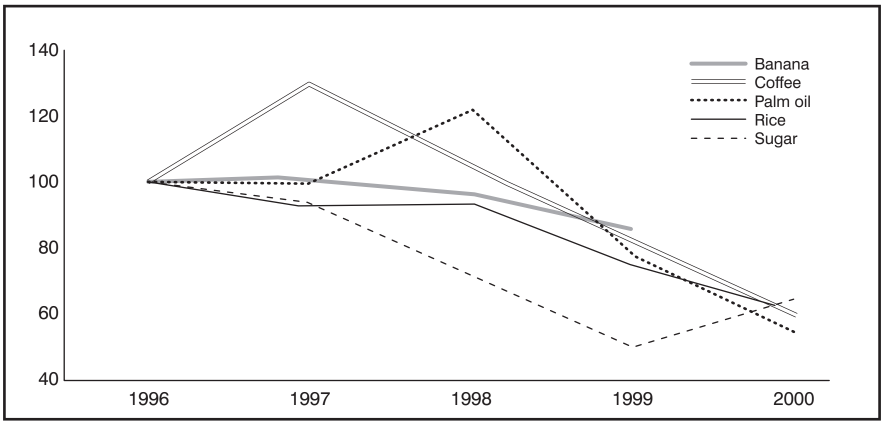

Source: International Financial Statistics Yearbook, 2000

*Figure 2: Price-decreasing commodities, real terms, 1980–2000*

| Decrease by 0–25% | | Decrease by 25–50% | | Decrease by over 50% | |
|---|---|---|---|---|---|
| Banana* | –4.4 | Aluminium | –27.2 | Cocoa | –71.2 |
| Fertiliser | –23.1 | Coconut oil | –44.3 | Coffee | –64.5 |
| Iron ore* | –19.5 | Copper | –30.9 | Lead | –58.3 |
| Phosphate rock | –21.6 | Cotton | –47.6 | Palm oil | –55.8 |
| Tea | –7.5 | Fishmeal | –31.9 | Rice | –60.9 |
| | | Groundnut oil | –30.9 | Rubber | –59.6 |
| | | Maize | –41.6 | Sugar | –76.6 |
| | | Soybean | –39.0 | Tin | –73.0 |
| *note: 1980–1999 | | Wheat | 45.2 | | |

Source: IMF, International Financial Statistics Yearbook, various issues

*Figure 3: Declining prices, 1996–2000 (index 1996 =100) for developing countries' top 5 commodities (excluding tobacco)*




Source: Oxfam 'Make Trade Fair'

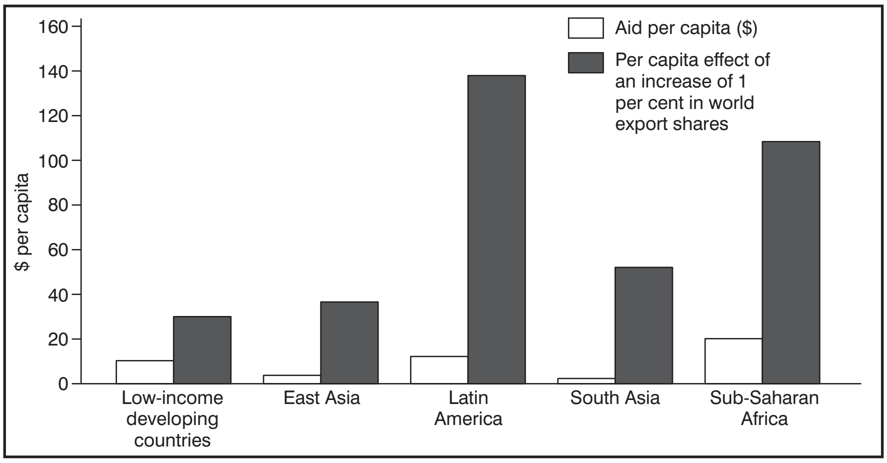
## The terms of trade

The most vital element in the trade of any country is the terms on which it takes place. If countries rely on the export of commodities which are low in price, and need to import items which are relatively high in price, they need to export in large quantities to be able to afford a relatively low volume of imports. Many poor nations are primary product dependent, that is they rely on one or a small number of primary products to obtain foreign currency through export. The world market price of primary products is in general very low, compared to manufactured goods and services.

Also, the price of primary products is subject to considerable variation from year to year, making economic and social planning extremely difficult. In contrast the manufacturing and service exports of the developed nations generally rise in price at a reasonably predictable rate, resulting in a more regular income and less uncertainty for the rich countries of the world. The terms of trade for many developing countries are worse now than they were a decade ago (Figure 1). Thus, it is not surprising that so many nations are struggling to get out of poverty. The region that has suffered most from unfavourable terms of trade is sub-Saharan Africa.

More than 50 LEDCs depend on three or fewer primary commodities for more than half of their export earnings. As prices fall, family incomes decrease resulting in lower general consumption, taking children out of school and difficulties meeting health costs. Also, family and community structures come under strain, as women are forced to increase their off-farm labour and men to migrate

*Figure 4: Trade and aid – the impact on per capita income of a 1 per cent increase in world export market shares for selected regions*



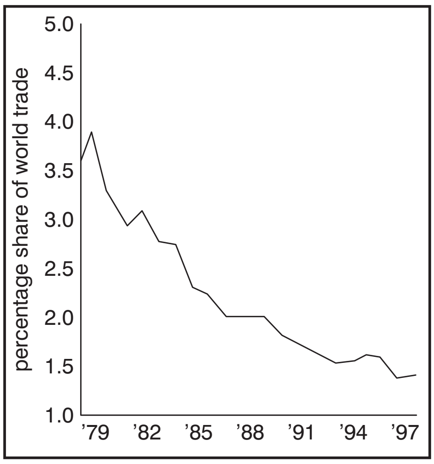

Source: Oxfam 'Make Trade Fair'

in search of work. Figures 2 and 3 show how prices have fallen for so many primary products in recent years.

## The importance of trade

If Africa, East Asia, South Asia and Latin America could all increase their share of world exports by 1%, the income gained could lift 128 million people out of poverty. It has been estimated that in Africa a 1% increase in exports would generate $70 million, about five times the amount Africa receives in aid. Export production can concentrate income directly in the hands of the poor, as opposed to aid channels which often benefit the middle and higher income groups in LEDCs more than those on the lowest incomes. Figure 4 compares the value of a 1% increase in exports compared to the aid received by regions in the developing world. However, Figure 5 shows that Africa's share of world trade fell considerably between 1979 and 1999.

*Figure 5: Africa's share of world trade*




Source: Oxfam 'Make Trade Fair'

It is not surprising that most of the least developed countries of the world are in Sub-Saharan Africa. This region faces the biggest challenge in eradicating poverty in the future.

## The unfairness of tariffs and subsidies

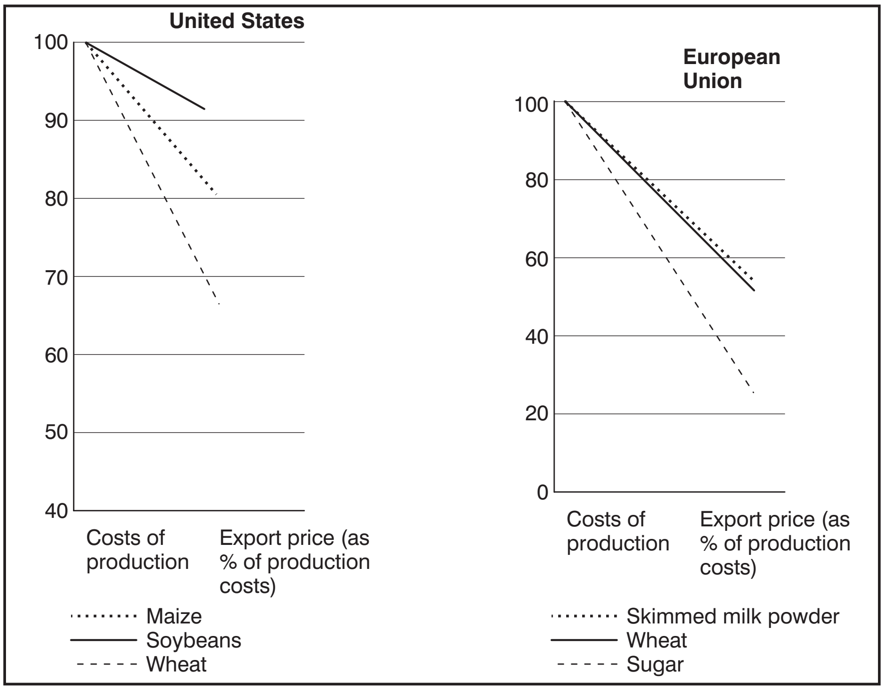
The benefits of trade are not automatic, largely because of the absence of a level playing field. For example, average OECD tariffs on manufactured goods from LEDCs are more than four times those on manufactured goods from other OECD countries. Critics of the WTO also ask why it is that MEDCs have been given decades to adjust their economies to imports of textiles and agricultural products from LEDCs when the latter are pressurised to open their borders immediately to MEDC banks, telecommunications companies and other components of the service sector. The removal of tariffs can have a significant impact on a nation's domestic industries. For example, India has been very concerned about the impact of opening its markets to foreign imports.

Since India was forced by a WTO ruling to accelerate the opening up of its markets, food imports have quadrupled. Large volumes of cheap, subsidised imports have flooded in from countries such as the US, Malaysia and Thailand. The adverse impact has been considerable and includes the following:

- prices and rural incomes have fallen sharply. The price paid for coconuts has dropped 80%, for coffee 60%, and pepper 45%.
- Foreign imports, mainly subsidised soya from the US and palm oil from Malaysia have undercut local producers and have virtually wiped out the production of edible oil.

The new emphasis on exports, in order for India to compete in the world market, is also threatening rural livelihoods. For example, in

*Figure 6: US and EU dumping subsidies: export prices as a percentage of production costs (selected products)*




Source: Oxfam 'Make Trade Fair'

*Figure 7*

> 'Thank you for killing my onion growing business. Thank you for flooding my market with cheap foreign imports. Thank you for reducing my profit to zero. Thank you for taking away my only chance to stand on my own two feet. Thank you whoever thought up world trade rules.'
>
> Christian Aid newspaper advertisement.

Andhra Pradesh, funding from the World Bank and the UK will encourage farm consolidation, mechanisation and modernisation. In this region it is expected that the proportion of people living on the land will fall from 70% to 40% by 2020. Farmers, trade unionists and many others are against these trends, or at least the speed with which they are taking place. They are calling for the reintroduction of import controls, thus challenging the linchpin of the globalisation process – the lowering of trade barriers.

Oxfam estimates that the EU and the USA are exporting agricultural products at prices more than a third lower than the costs of production. These subsidised exports (Figure 6) are driving down prices for exports from LEDCs. Prices received by OECD farmers for their produce are on average 31% greater than world prices.

## Oxfam's double standards index

The aim of the index is to measure the gap between the free-trade principles that MEDCs frequently talk about and their actual protectionist practices. Ten factors are collated including: average tariffs, the scale of tariffs in textiles and agriculture and restrictions on imports from the LEDCs. The EU emerges with the worst record, followed by the USA, Canada and Japan.

## TRIPS and GATS

Two relatively recent WTO agreements which are causing great concern are:

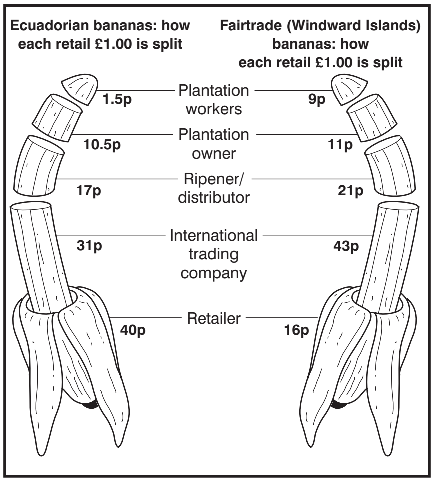
- TRIPS (the agreement on the Trade-Related Aspects of Intellectual-Property Rights) as a result of which more stringent protection for patents will increase the costs of technology transfer – LEDCs will lose about $40 billion in increased license payments to TNCs based in MEDCs.
- GATS (the General Agreement on Trade in Services) – the result of MEDCs seeking to open new markets for TNC investors, including markets for financial services and basic utilities such as water.

## 'Fair trade' products

Many supermarkets and other large stores in Britain and other MEDCs now stock 'fair trade' products. Most are agricultural products such as bananas, orange juice, nuts, coffee and tea, but the market in non-food goods such as textiles and handicrafts is also increasing. The 'fair trade' system operates as follows:

- Small-scale producers group together to form a cooperative or other democratically run association with high social and environmental standards.
- These cooperatives deal directly with companies (cutting out 'middlemen') such as Tesco and Sainsbury in MEDCs.
- MEDC companies (through their customers) pay significantly over the world market price for the products traded. The price difference can be as large as 100%. This might mean, for example, supermarket customers paying a few pence more for a kilo of bananas.
- The higher price achieved by the LEDC cooperatives provides both a better standard of living (often saving producers from bankruptcy and absolute poverty) and some money to reinvest in their farms.

*Figure 8: Fair trade vs free trade: what the worker receives*




Source: *The Times*, 8 December 2003

Advocates of the 'fair trade' system argue that it is a model of how world trade can and should be organised to tackle global poverty. This system of trade began in the 1960s with Dutch consumers supporting Nicaraguan farmers. It is now a global market worth £315 million a year, involving over 400 MEDC companies and an estimated 500,000 small farmers and their families in the world's poorest countries. Food sales are growing by more than 25% a year, with Switzerland and Britain being the largest markets. Figure 8 compares the prices received by plantation workers under 'normal' trading conditions with those received by workers in a fair trade scheme.

## Focus Questions

1. Why is the World Trade Organisation seen by many LEDCs as an undemocratic institution?

2. (a) Define 'the terms of trade'.
(b) How did the terms of trade between MEDCs and LEDCs change in the 1990s?
(c) What impact has this change had on LEDCs?

3. Why do agricultural subsidies in MEDCs cause huge problems for farmers in LEDCs?

4. Why has the GATS proved to be such a controversial element of world trade?

5. Explain the nature and benefits of fair trade schemes.