

Handout 3: Trade Justice

What was agreed at the Gleneagles Summit?

Trade (Africa)

"The G8 [...] agreed a comprehensive plan to support Africa's progress. This is set out in our separate statement today. We agree to stimulate growth, to improve the investment climate and to make trade work for Africa, including by helping to build Africa's capacity to trade and working to mobilize the extra investment in infrastructure which is needed for business.

Trade (Subsidies)

"We reaffirmed our commitment to open markets more widely to trade in agricultural goods, industrial goods and services, and in agriculture to reduce trade distorting domestic subsidies and eliminate all forms of export subsidies by a credible end date.

Trade (Least Developed Countries)

"We also committed to address products of interest to Least Developed Countries in the negotiations, and to ensure Least Developed Countries have the flexibility to decide their own economic strategies."

Background

China and India illustrate the fact that trade can be worth more than aid in terms of poverty reduction. Africa would need to grow at a rate of around 8 per cent per year to have any hope of meeting the Millennium Development Goal of halving the proportion of people living in poverty.¹ However, as the G8 rightly recognised, if Africa is to trade its way out of poverty, it needs investment in roads, ports and know-how. Growth is necessary but it must be the sort of growth which provides new opportunities for the poor, most of whom are farmers. Expansion of trade in African farming products, like cotton, sugar, coffee, cocoa, green beans or flowers, can benefit the rural poor by providing opportunities to earn cash, either as small farmers or labourers. Rural families need cash for essentials: tools, medicines, clothing and food when harvests fail. They are trapped in poverty by the current trading rules.

The World Trade Organisation (WTO)

The WTO deals with the rules of trade between nations and was established in 1995 from the General Agreement on Trade and Tariffs (GATT). WTO negotiations are carried out in rounds, with final agreement by a full meeting and ratification by member states. The WTO has 150 members, accounting for 97 per cent of world trade governments. One of the key principles of the WTO is trade liberalisation, the lowering of trade barriers to allow trade to flow more freely, on the assumption that free trade boosts economic growth and has the potential to create employment and reduce poverty.

¹ EU Strategy for Africa: towards a Euro-African plan to accelerate Africa's development, Commission of EU, Brussels, 12th October 2005



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The WTO agreements make special provisions for developing countries, but still the smaller nations are less powerful within the forum. In between the main meetings, which are conducted by consensus, groups of trade ministers meet to hammer out details. The head of the WTO calls this 'the no surprises principle', leaving room for the more powerful nations to collaborate and work out agreed positions. However, recent talks have seen powerful new entrants like China and India lining up alongside developing countries in Africa and elsewhere, suggesting that the rich nations may now face co-ordinated pressure.

When the WTO met in Doha in 2001 it launched a round of talks devoted to development. Hopes were raised that something would be done about two key problems for poor farmers: firstly and most importantly, the large production subsidies paid to farmers in North America, Japan and Europe. Subsidies make it hard for African farmers to compete in markets in the North but also lead to overproduction, lowering world prices and allowing big business to buy up surpluses cheaply and sell them in developing countries thereby undermining local markets. The second major problem faced by poor farmers is tariffs which prevent farmers selling into wealthy markets. Africa is disadvantaged in trade talks. In order to become attractive to foreign capital in the 1990s, African states were encouraged to take down protective barriers without asking the rest of the world for anything in return. They are now caught up in trade negotiations where Europe is looking for reciprocity. All they can offer is to tear up remaining protection for local industries and put banks, electricity and water up for privatisation.

What has happened since the Gleneagles Summit?

Trade (Africa)

Quite a lot of funding has come forward to support investment in Africa. All but three of the G8 have taken action. Britain has donated US\$30 million for investment and sent £200 million to Africa through the World Bank. In November, a further £100 million for 'aid for trade' was announced. Canada launched an Investment Fund for Africa which would provide risk capital to attract foreign direct investment and will match each investment dollar for dollar, providing US\$162 million for the purpose. Germany granted Euro 54 million for agriculture; Japan is currently spending \$300 million for overseas development investment loans and is sharing technology with Africa through the United Nations; the USA has agreed to double funds for infrastructure and has created a microfinance fund for small entrepreneurs and poor farmers. The EU will double its "Aid for Trade" fund to Euro 2 billion.

Trade (Export Subsidies)

The 6th Ministerial Conference of Trade Ministers took place in Hong Kong in December 2005. Japanese and Korean farmers, fisher folk and student groups marched to the convention centre as the 'bad deal' took shape. Nine hundred were arrested according to the police commissioner, 280 were estimated to be from the Korean peasants league, 100 Thai fishermen and similar numbers from the Philippines and South America.

Hong Kong was a chance to carry forward the G8 agenda and to make major changes to the world trading system. The "Development Round" of negotiations was supposed to favour the trade



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interests of poor countries, contributing to a more equal global trade system. At the 2003 conference in Cancun, talks had collapsed after the US, EU, Japan and Canada fell out with the developing countries, including Brazil, India and China. Negotiations were revived in August 2004 after the 'July package' was agreed, in which wealthy states would consider removing their agricultural subsidies in exchange for increased market access for manufactured goods and services in Less Developed Countries, including Africa.

Trade and debt in Zambia

A recent report from Zambia outlines the way that trade and international debt are linked.² Zambia's most important export is copper, the price of which has risen in the world market. However, cotton, flowers, tobacco, coffee and sugar are also important, especially to poor rural people who can grow them on their own plots or work on large estates to get the cash for essentials. Today, few manufactured goods are produced in Zambia; home industries collapsed as trade barriers were removed, largely at the insistence of Zambia's lenders, and overseas competition increased. Declining terms of trade (the prices of manufactured goods as compared to the prices of agricultural goods) has led to chronic deficits in the balance of national accounts, because the value of imports exceeds earnings. Higher prices for manufactured items, like shoes and medicines, also lead to inflation and strain the budgets of the poorest families. The impact of these economic shocks can be seen in the fall of Zambia's Human Development rating from a low 164th place to 177.

During the British Presidency of the EU Tony Blair attempted a 'fundamental review of farm policy' which was resisted, particularly by France, although a vague reform commitment was finally conceded by Brussels in December 2005.³ During the WTO talks Britain stuck to the Gleneagles agreement, denouncing EU subsidies and urging the EU to increase access to its agricultural markets.⁴ In Hong Kong, Canadian officials agreed in principle to the elimination of subsidies but resisted domestic reform. The French government put up a big resistance to change in the EU. The EU, along with other WTO members, agreed to eliminate only farm export subsidies by 2013, leaving domestic support intact. This is only a very small step forward because export subsidies are a mere 3.5 per cent of EU agricultural support. In return, poor countries conceded in principle to freeing up trade in industrial goods and services. This deal will not significantly improve poor countries' opportunities to trade, especially in farm produce.

Monitoring

Campaigners must keep up the pressure on their governments, in particular on the EU who must be shifted from their demand that developing countries make reciprocal concessions before removing farming subsidies. Hong Kong was not the end of the process: it was an agreement about the process and direction of talks only.⁵ The pressure is now on to finish the round by the end of

² *Zambian Trade Situation, implications for debt and poverty reduction*, Mudenda Dale, Jesuit Centre for Theological Reflection

³ Mandelson feels the heat in trade talks, Michael Sheridan; *The Times* 18th December 2005

⁴ Gordon Brown Speaking to CAFOD UK in Manchester 17th November, Government News Network.

⁵ It takes more than free trade to end poverty, Joseph Stiglitz, *Independent*, February 2006



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2006. The developing countries gave in on the key market access issues of services and non-agricultural markets but we must support the poorer countries to win reciprocity for poor farmers in places like Africa by insisting on reform of European policy.

“All WTO members should commit themselves to providing free market access in all goods to all developing countries poorer and smaller than themselves”⁶

Activity 1

The Common Agricultural Policy is a major stumbling block to creating trade justice.

Do European farmers have a right to demand protection for their industry?

What should Britain be arguing for in Europe and in the forthcoming G8 summit with regard to trade justice for developing countries?

Activity 2

UK citizens want value for money. The aim of multinationals is to make as big a profit as possible for their shareholders: they argue that this is their duty.

What can civil society groups in the UK do to make the UK public and major multinationals aware of the trade justice issue?

What are the best tactics?

⁶ Joseph Stiglitz, Andrew Charlton, Fair Trade for All, OUP 2005