Will Trade Liberalisation Lead to the Eradication or the Exacerbation of Poverty?

Claire Slatter
Member, Pacific Network on Globalisation (PANG)
General Coordinator, Development Alternatives with Women for a New Era (DAWN)

Address to Council for International Development Trade Forum
21 February 2003

Trade liberalisation, or free trade through the rules-based multilateral trading system that is being put in place through the World Trade Organisation (WTO), is touted by free trade advocates as not only a reliable route to attaining development, but also a primary means of alleviating poverty. The argument of 'trade-led development' has been used in the lobby for a new, so-called 'development round' of comprehensive trade negotiations within the WTO. The argument is premised on successful 'trade creation' and expansion in production for trade, in response to expanded market access. These premises need closer examination.

John Madeley has documented the 'overwhelming recent evidence' (published in 1999-2000) of trade liberalisation leading to huge increases in *food imports* into developing countries, damaging the livelihoods of small scale farmers, and not helping to achieve food security.[1] A 1999 Food and Agriculture Organisation (FAO) study[2] which he cites looked at the experience of 16 developing countries *including Fiji*[3] in implementing the Uruguay Round Agreement on Agriculture, and found a common impact in terms of *import surges* in dairy products (mostly milk powder) and meat products (mainly poultry), with some regions (notably the Caribbean and the South Pacific) coping badly, and experiencing detrimental effects on competing domestic sectors.[4] Twelve of the 16 countries had reduced their domestic support to farmers, the result of which was they were not able to raise their exports. Significant supply side constraints therefore prevented them from taking advantage of the (theoretical) 'market access' and the study noted that this was completely contrary to what these countries expected/were led to expect.

Thailand was the only country to increase its food *exports*; in all other countries *imports had risen much faster than exports.* The examples cited are instructive:

- In Guyana imports of food and live animals almost doubled between 1994 and 1998. And, without adequate market protection, accompanied by agricultural development programmes, many products which were produced domestically

[1] John Madeley, *Hungry for Trade: How the Poor Pay for Free Trade*, London, Zed Books, 2000, ch 5
[2] FAO Symposium on Agriculture, Trade and Food Security, Geneva, 23-24 September 1999, Synthesis of Case Studies, X3065/E, Rome: FAO, September 1999
[3] Bangladesh, Botswana, Brazil, Egypt, Fiji, Guyana, India, Jamaica, Kenya, Morocco, Pakistan, Peru, Senegal, Sri Lanka, Tanzania and Thailand.
[4] Madeley, p 74

(milk, poultry, fruit, juice, beans, peas, cabbage and carrots) were likely to be replaced by imported equivalents.

- In Brazil, it was noted that the size of farms was increasing, with large-scale industrial processing firms (Nestle, Parmalat) moving in, and traditional cooperatives collapsing.
- In Sri Lanka, increased imports was followed by a decline in domestic production of a number of food products (eg onions and potatoes) leading to a drop in rural employment (an estimated 300,000 jobs were lost, following a drop in the production of onions and potatoes.) A trend towards a concentration of farms was common, resulting in increased productivity and competitiveness on the one hand, but also marginalisation and impoverishment of small producers, on the other.

Another series of case studies of trade and food security published in 1999 indicated that trade liberalisation has an in-built bias towards large food producers (such as absentee landlords and transnationals) at the expense of smaller producers.[5] Structural adjustment programmes had reduced the role of the state and eroded the support provided to small farmers while creating an economic environment favourable to the corporations. Transnational corporations (TNCs) were more interested in export crops than in food crops, in lucrative foreign markets (supplying high-income food buyers) than in meeting local food needs. Yet, governments were giving priority to export crops and food imports rather than to domestic food producers:

- In Ghana, small producers were demoralised as they could not obtain economic prices for the foods they produce, even in their domestic markets. Their produce could not compete with imported maize, rice, soya beans, chicken and turkey. Small-holder incomes had fallen and malnutrition among the rural poor had risen.
- Trade liberalisation was also resulting in the dumping of food surpluses in developing country markets (eg Kenya).
- In Benin, government incentives for export crops like cotton were expanding the land under cotton cultivation, while food security for the poor was being undermined.
- In India, cotton production had also expanded under government encouragement between 1986 and 1997, replacing some traditional food crops. While high prices for cotton exports made it attractive to farmers and explained the growth in cotton production from 35,000 tonnes in 1980s to 374,000 tonnes in 1990, rising costs of inputs made it unsustainable for farmers and many were facing severe financial pressure.

The study findings that Madeley cites are not surprising. For all the hoopla about 'market access' and its promise of economic wealth, the fact of the matter is that it is a two way street. Attaining market access for exports from, say, the Pacific Island countries, would entail opening up Pacific Island markets to the entry of imported goods, foreign service providers, and prospective resource users. As the evidence from the FAO study amply demonstrates, on balance, developing countries are being more

[5] Madeley, pp 75-79

disadvantaged than advantaged by liberalisation, with resultant marginalisation and impoverishment of vulnerable sectors of their populations.

Theoretically, the influx of cheaper products and services from external suppliers is all to the good for national consumers, providing them with wider choices. But this pre-supposes that all would-be consumers are earning and can therefore access these expanded choices. If, however, the liberalisation process results in undermining and closing down domestic businesses and crowding out local suppliers who are unable to compete, people will lose jobs and be without income to enjoy what the market has to offer. Moreover, the opening up through deregulation and privatisation of basic services such as water, health and education to competitive foreign suppliers, will likely see increased charges for these basic services, making them unaffordable for the poor.

The trade-led development model encourages an emphasis on production for export at the expense of production for domestic consumption. In much of the Pacific region, more than 75% of the population pursue semi-subsistence livelihoods, facilitated by communal land-owning systems. While most in this category are engaged to some degree in cash crop production for export, the extent of their engagement in the production of tradeables is essentially self-determined. The social implications of allocating land presently used for subsistence food production to 'more productive users' (eg export crop farmers) are enormous, and would without a doubt entail impoverishment for thousands. For local producers of cash crops, export market opportunities may be short-lived with the entry of more competitive, larger scale, rival producers in the form of foreign companies. Last week, at a Symposium in Suva organised by the Pacific Islands Forum and the Commonwealth Secretariat on gender and the multilateral trading system, a Niuean woman farmer who has been successfully producing vanilla for export shared her disquiet with participants over the recent granting of a lease of 100 acres of land in Niue to a foreign (Korean) investor to produce vanilla. The investor was required by the Niuean government to take on a local partner, supposedly to provide opportunities to a national investor. At the same time, the investment seemed likely to threaten vanilla production by existing small-scale vanilla producers who will more than likely be swamped by the larger scale operation.

The expansion of production for trade - or earning income from expanded exports - can have other impoverishing consequences in the long term. In the fisheries sector in Fiji, combined with affirmative action policies for the advancement of Fijians in business, it is reportedly leading to the issuing of more fisheries licences - to Chinese companies in joint ventures with Fijians. Fiercely defended as an entitlement to a share in the wealth that is being reaped from the tuna fishery (and enjoyed up till now by only a few nationals), the additional licenses granted to foreign investors through the provinces involved in the joint ventures encourage rent-seeking 'investment' and natural resource plundering, which will have adverse long term impacts on the sustainability of Fiji's commercial fisheries. In other countries, in a similar way, forest owners have been encouraged by the expectation of overnight enrichment, to exploit their forestry resources, in tandem with foreign companies which come in to plunder.

The global free trade regime being institutionalised through the WTO is grossly inequitable. The interests of large corporations are evident in the trade rules that have emerged - indeed, free trade is primarily about open access to resource, labour, consumer and investment markets for those with global reach. The much cited ‘level playing field' being sought via economic and trade liberalisation is not about making the terms of trade fairer for those countries which have been long disadvantaged in international trade (with prices for their commodities and for the finished goods they import being set for them). It is about removing all obstacles to TNCs accessing markets everywhere. And while markets in the developing world are being prised open to conform with WTO rules, blatant new market protections (eg in the US steel industry) and subsidies (eg for US farmers) are being put into place.

Regional trade agreements like the Pacific's PICTA and PACER agreements[6] primarily serve to encourage and facilitate compliance with WTO trade rules, while engendering a sense of collective ownership, and a perception that regional interests are being served. For Pacific Islands states, small producers without the technology, resources and other factors of production and economies of scale to ever be effective competitors in the global market, whose economies are especially vulnerable to the vagaries of the market and to natural disasters, and who have long been the beneficiaries of non-reciprocal preferential trading agreements, it is ludicrous to expect trade liberalisation to work miracles and achieve either economic growth or poverty reduction.

The process leading to the negotiation of PICTA and PACER began after the 1997 Forum Economic Ministers meeting in Cairns, with the commissioning of a report on free trade options for the Forum Island Countries (FICs) given their obligations under the WTO, impending negotiations on a successor agreement to Lome, and FIC commitments to gradual trade liberalisation ‘in response to globalisation'. The resulting report, by free trade advocate Robert Scollay (1998) of the APEC Study Centre, University of Auckland, anticipated that the economic effects of a free trade agreement amongst the FICs were likely to be very small because of limited possibilities for increased trade among FICs - trade diversion, rather than trade creation, was the more likely outcome. Economic effects were anticipated to be positive in a majority of cases, although it was acknowledged that in some cases they could be negative. Scollay recommended a free trade agreement (and a negative list approach) as a feasible initial step in a longer term strategy of trade liberalisation, allowing the FICs to prepare for more comprehensive trade liberalisation. The notion of a FIC-only free trade area as a stepping stone to wider trade liberalisation was quickly incorporated as an integral element of the FIC approach in subsequent negotiations. The PICTA and PACER agreements, drawn up in 2001, have now been endorsed by all FICs (only the Compact countries have yet to ratify), with PACER (an agreement pushed for by Australia and New Zealand and aimed at extending free trade among FICs to Australia and NZ and deepening PICTA to include other areas, such as services) ironically entering into force in October 2002, ahead of PICTA.

---

[6] Pacific Island Countries Trade Agreement (PICTA) and Pacific Agreement on Closer Economic Relations (PACER)

What consultant Scollay neither anticipated nor forewarned of was that free trade amongst the FICs would see increased competition (and new tensions) between regional producers with smaller markets (and national industries) being overwhelmed by imports from stronger economies in the region. Not surprisingly, in November last year, Vanuatu announced that it would re-impose 40% customs tariffs on 6 products under the Melanesian Spearhead Group agreement, to protect local manufacturers in the face of Fiji and PNG goods flooding the Vanuatu market. This followed the Solomon Islands government's announcement in May that it would seek a temporary suspension of its MSG membership to allow it to revive its economy by promoting and protecting local manufacturing industries - the switch to a protectionist trade policy made sense - SI was earning a mere SI $70,000 in exports and incurring SI $28 million in import bills.

Moreover, while Scollay recorded that 64% of total tax revenue in Kiribati (57% in Vanuatu and 46% in Tuvalu) came from tariffs, he seemed to think that the problem that would be caused by the loss of this considerable amount of revenue through tariff reductions could be easily solved by restructuring the tax system ‘to develop alternative sources of revenue and lessen dependence on tariffs'. The raising of indirect taxes on goods and services to compensate for the loss of tariff revenue has been shown to primarily punish the poor, as the controversial Value-Added Tax increases introduced in the 2003 budget in Fiji have shown.

There seems to be an unhealthy inclination amongst Pacific leaders today towards following the policy prescriptions of multilateral and bilateral donors and a great reluctance to question their ‘wisdom', for fear of being considered ignorant or unintelligent - a case of the emperor's new clothes. Yet, despite official outward concurrence with the liberalisation agenda, there is growing disenchantment among people, and not just among the ‘usual suspects' - left- leaning academics and development critics within the NGO movement. At the earlier mentioned symposium in Suva last week, there was a serious questioning of assumptions and considerable doubt about the virtues of free trade expressed by Pacific Island government and NGO participants, albeit only in the small group discussions, and not in the plenary sessions.

The ability of stronger players in the international trading system to use trade rules and treaties to their advantage is already being demonstrated. Health and safety arguments have been advanced to block access to European markets of the agricultural crop, kava (yaqona), on allegations (by Germany and Switzerland - where large pharmaceutical companies are domiciled) of kava's links to liver damage. On the other hand, we witness Australia and New Zealand fiercely resisting the health and safety arguments put up by Pacific Island governments as they try to restrict Pacific imports of fatty lamb flaps (off-cuts/waste from the NZ and Australia sheep industry). With the onus placed on Pacific governments to prove that over-consumption of lamb flaps (a cheap but dubious source of protein) is linked to the high incidence of dietary-related illnesses in the Pacific, it is unlikely that exporters of lamb flaps will be denied market access in the near future. Last year, Fiji's sanitary/safety standards (aimed at protecting its domestic poultry industry against Newcastles Disease which is akin to Foot and Mouth disease) came under strong attack from the US when they resulted in the exclusion of US chicken imports for failing to meet the standards, and thereby broke the terms of a 6-year bilateral poultry protocol with the US under which Fiji is obliged to import a minimum of 1600 tonnes of US poultry a year.

Evidence abounds that trade liberalisation creates greater disparities, and results in new forms of exclusion and marginalisation which exacerbate poverty. This has to be recognized by multilateral and bilateral aid agencies which profess a concern with alleviating poverty. Paying lip service to poverty elimination, while vigorously promoting and implementing trade liberalisation, is inherently contradictory, and disingenuous.