

Endnotes

- (1) Note the recent US stance of reneging on its WTO commitments in the case that Antigua has brought to the WTO.
- (2) A transnational corporation (TNC) is generally regarded as an enterprise comprising entities in more than one country which operate under a system of decision-making that permits coherent policies and a common strategy. Definition by UNCTAD <http://www.unctad.org>
- (3) www.aidharmonization.org/secondary-pages/Paris2005
- (4) Europe's Double Standards: How the EU should reform its trading policies with the developing world, Oxfam International, 2002; Ha-Joon Chang, "Kicking Away the Ladder", Post-autistic economics review, issue no. 15, September 4, 2002, article 3. http://www.btinternet.com/~pae_news/review/issue15.htm; The economics of failure: The real cost of 'free' trade for poor countries; A Christian Aid briefing paper, June 2005; What progress? A shadow review of World Bank conditionality, Action Aid International, 2006; Kicking the Habit, Oxfam Briefing Paper, Oxfam International, November 2006.
- (5) Tariffs are government taxes imposed on goods being imported into a country. Tariffs allow governments to gain revenue from international trade and also ensure that the imported goods are higher in price than they would otherwise be, thus providing some protection for locally produced goods of a similar type.
- (6) Hassett, Kevin A. and Shapiro, Robert, How Europe sows misery in Africa; Washington Post, June 22, 2005.
- (7) The Economics of Failure – the real cost of 'free' trade for poor countries, a Christian Aid briefing paper, June 2005.
- (8) <http://www.corpwatch.org/article.php?id=14466> for a number of cases.
- (9) World Bank, Attacking Poverty, 2000; Federici A, Montalbano P, Pietrobelli C, Triulzi U. Eastern Europe and trade liberalization: A vulnerability approach, from GDN – University of Rome "LA SAPIENZA" and IPALMO Research Group, presented to the Fifth Annual Global Development Conference "Understanding Reform", New Delhi, India January 28-30, 2004.
- (10) Baldwin, Robert E., Trade and growth: Still disagreement about the relationships, OECD, 2000.

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CID discussion paper

Missing the Point: Why Trade is
Insufficient for Development

– June 2007 –

Key facts about trade

The World Trade Organisation (WTO):

- Since its establishment in 1995, the WTO has worked towards the liberalisation of international trade and the negotiation of global trade frameworks between governments. It is at this forum that smaller countries can come together as blocs to have a stronger voice for their concerns and in an attempt to get trade deals within a better trade framework.
- The Uruguay Round (1986-1994) expanded the WTO's remit to include intellectual property rights, services and investment.
- Currently the Doha Round of trade discussions is being negotiated. This round focuses on lowering international trade barriers and providing greater global market access.
- The WTO regulatory system is in danger of letting the smaller countries down, as larger states and blocs attempt to ignore WTO rulings⁽¹⁾ by continuing to pick and choose which rules they will adhere to, while insisting upon full adherence from other countries.

International trade trends:

- Over half of international commodity trade volume is by multinational or transnational companies⁽²⁾. It is estimated that the 500 largest control 70 percent of the world's trade in goods. They have the power to manipulate prices. Through their subsidiary companies they shift billions of dollars around the world within a matter of minutes.
- Trade in services now accounts for 24 percent of world trade with over half of this trade originating from only six countries. Least developing countries are not major initiators of trade in services, enjoying just 0.8 percent of the international total.
- Goods traded by developing countries amount to less than half of global seaborne trade. Most of this trade is in oil and unprocessed materials. This indicates that production of goods for export by sea is most valuable to developing countries with mineral resources and less important for those without.
- In 2002, the Least Developed Countries (LDCs) exported only 0.6 percent of world goods exports, while that of other developing countries was 31 percent.
- International financial transactions are a much larger consideration in world trade than the trade in goods and services.
- The trade in intellectual property is growing. The rules and regulations regarding this are still being debated. It is unclear how developing countries may fare in this field, but without specific protection there is every possibility that they will suffer from this exploitation unless fair trade rules are instituted.

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Conclusion

International trade regulations as they currently exist are not fair and they serve to emphasise the inequality of power between the developed world and other countries. Fair trading practices will provide better opportunities for countries to take advantage of their unique competitiveness. Better opportunities and fairer rules should enable countries to expand their revenue and provide them with options to open their domestic markets to low cost imports that could otherwise not be provided domestically.

Access by global traders to revenue does not automatically lead to development outcomes. Trade can provide some economic benefits but by itself it is not sufficient to achieve economic and social progress⁽¹⁰⁾.

There are more factors to be taken into consideration to achieve good development outcomes than free market access internationally. More opportunities and resources have to be available to poorer communities.

To achieve sound progress there needs to be a number of concurrent factors working together such as good governance, support and protection of human rights and the involvement and participation of people in any projected development processes. If these are the platform for fair trade regulations then a more sustainable outcome would be secured.

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– Baldwin
(2000)



Market domination by multinational companies – how being big and operating globally gives an unfair advantage

Adherents of international trade liberalisation maintain that globalised markets will foster growth efficiently as each country can play to its own strengths and specialise in those products and services where it is most competitive.

Liberalisation would ensure that the most competitive countries get access to markets. Countries that are not particularly competitive in one area would utilise goods and services from the more efficient trading partner. However, the international markets tend to be dominated by bigger players and large transnational corporations that, due to their size and manifold capacities, can easily squeeze out smaller, less competitive actors.

The international trading market can be and often is dominated by a handful of companies with wide interests – transnationals.

They gain great profits by exploiting market niches and then returning profits to their own countries. In many instances, they exploit the opportunities to benefit from tax free status provided by some countries to increase their profits and return very little to the local economy by way of investment⁽⁸⁾.

The next step to development: can developing countries make good use of trade profits?

A further dimension to the issue is that trade, in its own right, does not necessarily bring development results.

Trade can increase income, but income does not automatically translate to development outcomes. How income and trade gains are utilised depends on the country and its governance. Thus working with governments on other issues can be more effective in building up good governance and targeting the needs of the poor and vulnerable of the country.

Trade liberalisation can also cause vulnerability if appropriate social reforms and measures to support local development are not in place. High reliance on international trade can make countries more vulnerable to external changes in the trading environment⁽⁹⁾.

Trade liberalisation can also have negative effects on local labour markets by reducing profits by local entrepreneurs and producers due to higher competition from external sources. This can reduce local business and lower local salary rate, thereby making labour more vulnerable. Competition can also force labour from the formal to the informal economy where they the workers are less protected. This hurts the poorer people in a society and reduces their opportunities to access resources and often their rights.

In many sectors...

...you will hear the argument that ‘trade is good for development’ and that it is ‘trade not aid’ in the form of Official Development Assistance (ODA) that will bring more development gains. These are catchy slogans which have the ring of authority from economic standpoints and the backing of many developed countries engaged in the process of disentangling themselves from the history of poor aid programmes and poor results.

They are also missing the point.

What is development?

We have to ask ‘what is development’. It is sometimes forgotten that development is tied to issues of human rights, diversity and sovereignty, to name just a few.

All nations are sovereign entities and need to be able to define their own terms of development. This is the first principle in the Paris Declaration on Aid Effectiveness⁽³⁾. It has taken decades of erroneous ‘aid’ programming for rich nations to understand this point. Imposing rules, regulations and norms on developing countries has not brought the outcomes that were desired by either the donors or recipients. So now, we are fostering the alignment of aid with our partners’ own plans for development (as set out in the Paris Declaration - Principle 2).

What is trade? Old and new rules

We also have to look at trade and what it means. Currently global trade practices are unfair, especially when considering the conditions they place on developing countries in order for these countries to gain access to markets⁽⁴⁾. Whilst many large developed countries maintain their support for their own domestic producers (particularly in agriculture) they try to cut tariff⁽⁵⁾ duties levied by developing countries, which currently give these countries some chance of competing domestically. This creates problems for governments as they would lose the income from tariffs and leave their domestic producers open to fierce competition from international exporters. Without some kind of protective measure to support

domestic producers they may struggle and collapse, creating problems in the local economy which are not adequately offset by the free flow of international trade⁽⁶⁾. Any subsequent damage to the local economy is clearly not in the interests of developing countries. It is also something that is not widely discussed when economists are arguing the benefits of free market and liberalisation.

In order for trade to work its ‘economic magic’ for developing countries the trading rules must be fair. This includes the need for special and differential treatment in trade for LDCs in order that they can compete internationally and earn enough income to invest in their own development programmes and work towards meeting the Millennium Development Goals.



Forcing market access – rich countries demanding access to developing country markets

Requiring trade liberalisation without putting into place special and differential treatment would be harmful economically for many LDCs as they have to compete with major trading partners that produce the same goods. Currently the LDCs must also grant these trading partners and their transnational companies access to their internal markets.

A 2005 study by Christian Aid on the effects of trade liberalisation (often described as ‘free’ trade) has shown that this relaxing of the market has cost Sub-Saharan Africa US\$ 272 billion over the last 20 years. This is roughly equivalent to the amount of aid the region received over the same period. “Effectively, this aid did no more than compensate African countries for the losses they sustained by meeting the conditions that were attached to the aid they received”⁽⁷⁾.

This same report goes on to sketch out the options for investing in their own development that these countries have missed due to the cost of adhering to trade liberalisation procedures.

Subsidies for the rich – hidden and obvious subsidies to rich country producers

Debates are ongoing on trade rules and regulations. They include a call for richer countries to give up their protective subsidies and create a more competitive environment for other trading nations. Currently the terms are weighted against developing nations in favour of industrialised nations. These richer countries place high tariffs on imported goods from developing countries. The most notable example is in the agriculture and garment sectors, where developing countries might have had the best chance of competing in the absence of these tariffs.

...over the last 20 years, relaxing of the market has cost Sub-Saharan Africa...

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- Christian Aid (2005)

However, tariff protection measures are being imposed in order to obstruct the developing countries’ ability to compete. Along with the obvious subsidies are those that are less obvious - funds directed at making imports less competitive include payments to generate local employment funded by governments.

These hidden subsidies are less efficient in the economy than subsidies that are more clearly linked to production - e.g. subsidies granted to farmers in Europe for each head of cattle. They are often preferred exactly because they are not obvious and can therefore be implemented without opposition from trading competitors.

Nurturing infant industries

Developing countries use protective measures to protect and nurture their indigenous industries. All industrialised nations have used this practice in their own development yet they often try to stop poorer countries behaving in the same way. If they are successful in stopping the practice, the consequences for developing countries can be disastrous as they face the opening of their markets to foreign companies.

As agriculture is one of the areas where developing countries are most dependent, this sector stands out as one where the impact of opening markets can have the most negative effect. Trade in itself will not be sufficient to prevent job losses, environmental impacts and social adjustments from having a negative impact on the poor.

For instance, if a developing country became a net importer of food whilst the prices were cheap, switching its own production capacity away from agriculture, what would then happen if the international market changed and the price of staples became too expensive? They would have abandoned their own food sovereignty and would now be at the mercy of international market fluctuations. Mauritius has experienced this problem.

There are many ways that trade can have distorting effects and governments need to ensure that their people as well as their economy are protected at all times.

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