Summary

RIGGED RULES AND DOUBLE STANDARDS

trade, globalisation, and the fight against poverty

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Make Trade Fair

Oxfam is determined not only to present a powerful case for change, as we do in this report, but to work to make change a reality. That is why we have launched the Oxfam trade campaign, Make Trade Fair. We know that real change will come only when large numbers of people demand it, in rich countries as well as poor. We want to work with the many organisations and individuals around the world who are already campaigning to ensure that trade makes a real difference in the fight against global poverty. Together, we seek to build the kind of movement that has brought an end to apartheid, banned the use of land-mines, and made real progress in reducing Third World debt. The ambition is great and the task is not easy, but we believe that if this campaign succeeds, the lives of poor communities could be transformed in a way never seen before.

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Foreword

Global interaction, rather than insulated isolation, has been the basis of economic progress in the world. Trade, along with migration, communication, and dissemination of scientific and technical knowledge, has helped to break the dominance of rampant poverty and the pervasiveness of 'nasty, brutish, and short' lives that characterised the world. And yet, despite all the progress, life is still severely nasty, brutish, and short for a large part of the world population. The great rewards of globalised trade have come to some, but not to others.

What is needed is to create conditions for a fuller and fairer sharing of the enormous benefits from trade. Can this be done without destroying the global market economy? The answer is very firmly yes. The use of the market economy is consistent with many different resource distributions, rules of operation (such as patent laws and anti-trust regulations), and enabling conditions for participating in the market economy (such as basic education and health care). Depending on these conditions, the market economy itself would generate different prices, dissimilar terms of trades, distinct income distributions, and more generally diverse overall outcomes. Institutional change and policy reform can radically alter the prevailing levels of inequality and poverty, without wrecking the global economy.

This report is concerned precisely with that task. The work involves the diagnosis of institutional features that impede a more equitable sharing of the fruits of trade and exchange. The organisational arrangements that require reform include, for example, the prevailing patent laws that effectively exclude the use of the most needed drugs by the most needy people (while giving little incentive for the development of particularly appropriate drugs, such as preventive vaccines, which are less attractive to pharmaceutical companies).

I will not try to summarise the report. There is a very useful executive summary – the excellence of which would not, I hope, deter the reading of the entire report. The authors of the report have proposed specific institutional changes which deserve serious attention. In addition, the broader object of the report is to promote discussion of the kind of institutional architecture that may best serve the interests of the poor and the deprived. The basic objective is to combine the great benefits of trade to which many defenders of globalisation point, with the overarching need for fairness and equity which motivates a major part of the anti-globalisation protests. The constructive agenda of the report draws on both concerns.

Amartya Sen
Honorary President of Oxfam
March 2002

Rigged Rules and Double Standards:
trade, globalisation, and the fight against poverty

Summary

There is a paradox at the heart of international trade. In the globalised world of the early twenty-first century, trade is one of the most powerful forces linking our lives. It is also a source of unprecedented wealth. Yet millions of the world's poorest people are being left behind. Increased prosperity has gone hand in hand with mass poverty and the widening of already obscene inequalities between rich and poor. World trade has the potential to act as a powerful motor for the reduction of poverty, as well as for economic growth, but that potential is being lost. The problem is not that international trade is inherently opposed to the needs and interests of the poor, but that the rules that govern it are rigged in favour of the rich.

If Africa, East Asia, South Asia, and Latin America were each to increase their share of world exports by one per cent, the resulting gains in income could lift 128 million people out of poverty.

The human costs of unfair trade are immense. If Africa, East Asia, South Asia, and Latin America were each to increase their share of world exports by one per cent, the resulting gains in income could lift 128 million people out of poverty. Reduced poverty would contribute to improvements in other areas, such as child health and education.

In their rhetoric, governments of rich countries constantly stress their commitment to poverty reduction. Yet the same governments use their trade policy to conduct what amounts to robbery against the world's poor. When developing countries export to rich-country markets, they face tariff barriers that are four times higher than those encountered by rich countries. Those barriers cost them $100bn a year – twice as much as they receive in aid.

Various polite formulations can be found to describe the behaviour of rich-country governments. But the harsh reality is that their policies are inflicting enormous suffering on the world's poor. When rich countries lock poor people out of their markets, they close the door to an escape route from poverty.

Lack of market access is not an isolated example of unfair trade rules, or of the double standards of Northern governments. While rich countries keep their markets closed, poor countries have been pressurised by the International Monetary Fund and World Bank to open their markets at breakneck speed, often with damaging consequences for poor communities. The problem of low and unstable commodity prices, which consigns millions of people to poverty, has not been seriously addressed by the international community. Meanwhile, powerful transnational companies (TNCs) have been left free to engage in investment and employment practices which contribute to poverty and insecurity, unencumbered by anything other than weak voluntary guidelines. The World Trade Organisation (WTO) is another part of the problem. Many of its rules on intellectual property, investment, and services protect the interests of rich countries and powerful TNCs, while imposing huge costs on developing countries. The WTO's bias in favour of the self-interest of rich countries and big corporations raises fundamental questions about its legitimacy.

Reform of world trade is only one of the requirements for ending the deep social injustices that pervade globalisation. Action is also needed to extend opportunity, and reduce inequalities in health, education, and income distribution. However, world trade rules are a key part of the poverty problem. Fundamental reforms are needed to make them part of the solution.

The Oxfam Trade Campaign

The existing trade system is indefensible. No civilised community should be willing to tolerate the extremes of prosperity and poverty that are generated by current trade practices.

This report sets out Oxfam's analysis of the rules that govern world trade. The campaign that it launches aims to change those rules in order to unleash the potential of trade to reduce poverty. It is motivated by a conviction that it is time to end double standards and to make trade fair. The following are among Oxfam's main policy goals:

- Improving market access for poor countries and ending the cycle of subsidised agricultural over-production and export dumping by rich countries.
- Ending 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.
- Creating a new international commodities institution to promote diversification and end over-supply, in order to raise prices to levels consistent with a reasonable standard of living for producers, and changing corporate practices so that companies pay fair prices.
- Establishing new intellectual-property rules to ensure that poor countries are able to afford new technologies and basic medicines, and that farmers are able to save, exchange, and sell seeds.
- Prohibiting rules that force governments to liberalise or privatise basic services that are vital for poverty reduction.
- Enhancing the quality of private-sector investment and employment standards.
- Democratising the WTO to give poor countries a stronger voice.
- Changing 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.

Why campaign on trade, and why now? There are three answers to this question. The first is that the existing trade system is indefensible. No civilised community should be willing to tolerate the extremes of prosperity and poverty that are generated by current trade practices. And none of us should be willing to accept the abuse of power, injustice, and indifference to suffering that sustains those practices.

As a global community, we sink or swim together.

The second reason for action can be summarised in a simple phrase: 'enlightened self-interest'. What is happening today is not just indefensible, it is also unsustainable. Large parts of the developing world are becoming enclaves of despair, increasingly marginalised and cut off from the rising wealth generated through trade. Ultimately, shared prosperity cannot be built on such foundations. Like the economic forces that drive globalisation, the anger, despair, and social tensions that accompany vast inequalities in wealth and opportunity will not respect national borders. The instability that they will generate threatens us all. In today's globalised world, our lives are more inextricably linked than ever before, and so is our prosperity. As a global community, we sink or swim together. No country, however strong or wealthy, is an island.

The third motivation for Oxfam's trade campaign is the conviction that change is possible. The international trading system is not a force of nature. It is a system of exchange, managed by rules and institutions that reflect political choices. Those choices can prioritise the interests of the weak and vulnerable, or they can prioritise the interests of the wealthy and powerful. Trade is reinforcing global poverty and inequality because the international trading system is managed to produce these outcomes. The rules of the game reflect the power of vested interests. Concerted public campaigning can change this. As demonstrated by the international campaign to cancel the debts of poor countries, public action can force the interests of the poor on to the international agenda. And it can achieve real gains for human development.

Ultimately, there is a clear choice to be made. We can choose to allow unfair trade rules to continue causing poverty and distress, and face the consequences. Or we can change the rules. We can allow globalisation to continue working for the few, rather than the many. Or we can forge a new model of inclusive globalisation, based on shared values and principles of social justice. The choice is ours. And the time to choose is now.

1. Trade and globalisation in the twenty-first century

'We are told that the American computer market is failing. They say that means there will be less production here. Without this job, my life will be very hard.'

JOSEPHINE LARANJA, EMPLOYED IN AN ELECTRONICS FACTORY SOUTH OF MANILA, THE PHILIPPINES

Well-managed trade has the potential to lift millions of people out of poverty. However, increased trade is not an automatic guarantee of poverty reduction. The experience of developing countries exposes the gap between the great potential benefits of trade on the one side, and the disappointing outcomes associated with growing integration through trade on the other.

Current debates about trade are dominated by ritualistic exchanges between two camps: the 'globaphiles' and the 'globaphobes'. 'Globaphiles' argue that trade is already making globalisation work for the poor. Their prescription for the future is 'more of the same'. 'Globaphobes' turn this world-view on its head. They argue that trade is inherently bad for the poor. Participation in trade, so the argument runs, inevitably leads to more poverty and inequality. The corollary of this view is 'the less trade the better'.

The anti-globalisation movement deserves credit. It has raised profoundly important questions about social justice – and it has forced the failures of globalisation on to the political agenda. However, the war of words between trade optimists and trade pessimists that accompanies virtually every international meeting is counter-productive. Both world views fly in the face of the evidence – and neither offers any hope for the future. The false debate raging on trade is an unfortunate diversion, not least because of the revolutionary changes that are transforming the global trading system. Those changes have profound implications for all countries – and their future direction will determine the prospects for success in eradicating poverty.

Part of the change is quantitative. Exports have been growing much faster than global gross domestic product (GDP), so that trade now accounts for a greater share of world income than ever before. As a result, changes in trade patterns will have an increasing influence on patterns of income distribution – and on the prospects for poverty reduction. Developing countries have registered particularly rapid increases in their ratios of exports to GDP. Exports now account for more than one-quarter of their combined GDP, a proportion which is higher than for rich countries.

The composition of exports from developing countries has also been changing. While many remain dependent on primary commodities, the share of manufactured goods has been growing. Over the past decade, there has been a boom in high-technology exports, with countries such as China, India, and Mexico emerging as major suppliers of cutting-edge technologies, as well as labour-intensive goods.

The changing role of developing countries in the international division of labour reflects powerful technological forces that are driving globalisation. The marriage of computer technology and telecommunications – or digitalisation – is revolutionising international economic relations. Under the auspices of TNCs, it has facilitated the development of global production systems. Increased trade within companies has been one of the most powerful forces behind the expansion of world trade. The foreign sales of the largest 100 TNCs are equivalent in value to one-quarter of world trade; approximately two-thirds of all trade takes place within companies.

Through their production, investment, and marketing activities, TNCs are linking producers in developing countries ever more closely with consumers in rich countries. From women workers in Bangladesh's garment factories, to workers in China's special economic zones and workers in the free-trade zones of Central America, to small farmers and agricultural labourers across the developing world, globalisation is generating forces which create major opportunities, along with huge threats.

2. Trade as a force for poverty reduction

'If you ask me how our lives compare with our parents' lives, I will tell you that things are better. We are still vulnerable. But there is less poverty today.'

LAM VAN, RICE FARMER, MEKONG DELTA, VIETNAM

History makes a mockery of the claim that trade cannot work for the poor. Participation in world trade has figured prominently in many of the most successful cases of poverty reduction – and, compared with aid, it has far more potential to benefit the poor.

If developing countries increased their share of world exports by just five per cent, this would generate \$350bn – seven times as much as they receive in aid. The \$70bn that Africa would generate through a one per cent increase in its share of world exports is approximately five times the amount provided to the region through aid and debt relief.

Apart from the financial benefits, export growth can be a more efficient engine of poverty reduction than aid. Export production can concentrate income directly in the hands of the poor, creating new opportunities for employment and investment in the process. However, the 'aid versus trade' dichotomy can be overstated: aid can play a critical role in enabling poor people to benefit from trade, notably by supporting investments in health and education services and economic infrastructure.

Export success can play a key role in poverty reduction. Simulations conducted for this report have attempted to capture the potential impact on poverty of an increased share

of world exports for developing countries. At one level, these simulations are artificial. Gains from trade are dynamic and cumulative: they cannot be captured by a static snapshot. Even so, the figures are striking. They suggest that a one per cent increase in world-export share for each developing region could reduce world poverty by 12 per cent. The decline would be greatest in sub-Saharan Africa and South Asia, the two regions with the highest concentrations of poverty.

This shift in distribution of world export activity implied by our simulation is very modest, especially when measured against the current imbalance between population and world-export shares. Low-income developing countries account for more than 40 per cent of world population, but less than 3 per cent of world trade. Whereas rich countries export goods and services worth approximately \$6000 per capita, the equivalent figure for developing countries is \$330, and less than \$100 for low-income countries.

Experience from East Asia illustrates what is possible when export growth is broad-based. Since the mid-1970s, rapid growth in exports has contributed to a wider process of economic growth which has lifted more than 400 million people out of poverty. In countries such as Vietnam and Uganda, production for export markets has helped to generate unprecedented declines in the levels of rural poverty. Where export growth is based on labour-intensive manufactured goods, as in Bangladesh, it can generate large income gains for women.

There are caveats to be attached to all of these success stories. Rising inequality has slowed the rate of poverty reduction in East Asia, and export growth has been accompanied by extreme forms of exploitation, especially among female workers. Yet these outcomes are not inevitable. They are the result of governments failing to protect the interests of the poor.

The benefits of trade are not automatic – and rapid export growth is no guarantee of accelerated poverty reduction. Yet when the potential of trade is harnessed to effective strategies for achieving equitable growth, it can provide a powerful impetus to the achievement of human-development targets. Access to larger markets and new technologies creates incentives for investment, which in turn generates economic growth and employment. If countries are able to engage in higher-value-added trade, as in East Asia, export growth can contribute to rapid increases in living standards.

3. Left behind: poor countries and poor people in the global trading system

Some countries that appear to be successfully integrating through trade are trapped in low-value-added ghettoes, and the growth in their exports has little impact on their levels of poverty.

Despite some notable successes, the expansion of world trade under globalisation has produced disappointing outcomes for poverty reduction. Rising tides are supposed to lift all boats; but the rising tide of wealth generated by trade has lifted some boats higher than others, and some are sinking fast.

Persistent poverty and increasing inequality are standing features of globalisation. In the midst of the rising wealth generated by trade, there are 1.1bn people struggling to survive on less than \$1 a day – the same number as in the mid-1980s. Inequalities between rich and poor are widening, both between and within countries. With only 14 per cent of the world's population, high-income countries account for 75 per cent of global GDP, which is approximately the same share as in 1990.

Inequalities in trade are reinforcing these wider inequalities. For every \$1 generated through exports in the international trading system, low-income countries account for only three cents. Even though developing countries have been increasing their exports more rapidly than rich countries, large initial inequalities mean that the absolute gap between them is widening. In the 1990s, rich countries increased the per capita value of their exports by $1938, compared with $51 for low-income countries and $98 for middle-income countries.

Export success in developing countries has been highly concentrated. East Asia accounts for more than three-quarters of manufactured exports, and an even larger share of high-technology products. South Asia and sub-Saharan Africa together account for less than two per cent, and (with the exception of Mexico) Latin America's share is shrinking.

Some countries that appear to be successfully integrating through trade are trapped in low-value-added ghettoes, and the growth in their exports has little impact on their levels of poverty. International trade data identify Mexico as a major exporter of high-technology goods and services. However, less than two per cent of the value of its exports derives from local inputs. The same is true of a number of countries with high rates of export growth in the garments sector, such as Bangladesh and Honduras. In each case, export production is dominated by the simple assembly and re-export of imported components under TNC auspices, with limited transfer of technology.

Other countries have failed to escape long-standing problems. Exporters of primary commodities have seen their shares of world trade shrink, with sub-Saharan Africa bearing the brunt of problems associated with low prices. Deteriorating terms of trade since the late 1970s have cost the region the equivalent of 50 cents for every $1 that it receives in aid.

Trade theory predicts that poor people in developing countries will benefit from integration through trade, but the theory has been confounded by reality. In Latin America, rapid growth in exports has been associated with rising unemployment and stagnating incomes. Real minimum wages in the region were lower at the end of the 1990s than at the start of the decade. Evidence presented in this report shows that the rural poor in particular are losing out.

Not all of the problems associated with trade can be assessed through their effects on incomes. In many countries, export growth has been built on highly exploitative employment practices. Women employed in China's economic zones are often forced to work twelve-hour days in appalling conditions. Garment workers in Bangladesh are denied the right to join unions. Long working days for poverty-level wages make heavy demands on the time and energy of women. Meanwhile, many governments have imposed 'flexible' labour practices – a euphemism, in this context, for violating basic employment rights.

4. Market access and agricultural trade: the double standards of rich countries

Northern governments reserve their most restrictive trade barriers for the world's poorest people…Trade restrictions in rich countries cost developing countries around $100bn a year – twice as much as they receive in aid.

The full potential of trade to reduce poverty cannot be realised unless poor countries have access to markets in rich countries. Unfortunately, Northern governments reserve their most restrictive trade barriers for the world's poorest people.

Competition in the international trading system can be likened to a hurdle race with a difference: the weakest athletes face the highest hurdles. When desperately poor smallholder farmers or women garment workers enter world markets, they face import barriers four times as high as those faced by producers in rich countries. Trade restrictions in rich countries cost developing countries around $100bn a year – twice as much as they receive in aid. Sub-Saharan Africa, the world's poorest region, loses some $2bn a year, India and China in excess of $3bn. These are only the immediate costs. The longer-term costs associated with lost opportunities for investment and the loss of economic dynamism are much greater.

Trade barriers in rich countries are especially damaging to the poor, because they are targeted at the goods that they produce, such as labour-intensive agricultural and manufactured products. Because women account for a large share of employment in labour-intensive export industries, they bear a disproportionate share of the burden associated with the lower wages and restricted employment opportunities imposed by protectionism.

Who are the worst offenders in damaging the interests of developing countries through trade barriers? Oxfam has attempted to answer this question through its Double Standards Index (DSI). This measures ten important dimensions of rich-country trade policies, including average tariffs, the sizes of tariffs in textiles and agriculture, and restrictions on imports from the Least Developed Countries. We call it the Double Standards Index, because it measures the gap between the free-trade principles espoused by rich countries and their actual protectionist practices. No industrialised country emerges with credit, but the European Union (EU) emerges as the worst offender, beating the United States by a short head.

Nowhere are the double standards of industrialised-country governments more apparent than in agriculture. Total subsidies to domestic farmers in these countries amount to more than $1bn a day. These subsidies, the benefits of which accrue almost entirely to the wealthiest farmers, cause massive environmental damage. They also generate over-production. The resulting surpluses are dumped on world markets with the help of yet more subsidies, financed by taxpayers and consumers.

Oxfam has developed a new measure of the scale of export dumping by the EU and the United States. It suggests that both these agricultural superpowers are exporting at prices more than one-third lower than the costs of production. These subsidised exports from rich countries are driving down prices for exports from developing countries, and devastating the prospects for smallholder agriculture. In countries such as Haiti, Mexico, and Jamaica, heavily subsidised imports of cheap food are destroying local markets. Some of the world's poorest farmers are competing against its richest treasuries.

Rich countries have systematically reneged on their commitments to improve market access for poor countries. Instead of reducing their own farm subsidies, they have increased them. Having pledged to phase out the Multi-Fibre Arrangement, which restricts imports of textiles and garments, they have liberalised fewer than one-quarter of the products for which they had agreed to open their markets.

Improved market access could provide a powerful impetus to poverty-reduction efforts, especially if linked to domestic strategies for extending opportunities to the poor and overcoming gender-based barriers to market access. Among the priorities are the following.

- Duty-free and quota-free access for all low-income countries.
- A general reduction in tariff peaks, so that no tariffs applied against developing-country exports exceed five per cent.

- Accelerated phase-out of the Multi-Fibre Arrangement, to allow market access for textiles and garments, which are the main labour-intensive exports of the developing world.
- A comprehensive ban on export subsidies, and a restructuring of farm subsidies to achieve social and environmental objectives, rather than increased output.
- Recognition of the right of developing countries to protect their agricultural systems for food-security purposes.

Reforms such as these would create an enabling environment for poverty reduction. They would offer new opportunities for poor countries and poor people. However, improved market access is only one of the requirements for strengthening the links between trade and poverty reduction. Many of the poorest countries lack the infrastructure to take advantage of market openings. Within countries, poor people similarly lack access to productive assets – such as land and credit – and to health care, education, and infrastructure provision.

5. Trade liberalisation and the poor

'Imports are killing our markets and our communities.'

HECTOR CHAVEZ,
SMALLHOLDER FARMER, CHIAPAS, MEXICO

The removal of trade barriers in rich countries would produce clear benefits for poor countries. Carefully designed and properly sequenced import liberalisation in developing countries can also benefit the poor, especially when the lowering of trade barriers is part of a coherent poverty-reduction strategy. However, rapid import liberalisation in developing countries has often intensified poverty and inequality. Loan conditions attached to IMF and World Bank programmes are a major part of the problem.

The IMF, the World Bank, and most Northern governments are strong advocates of trade liberalisation. In the case of the IMF and the World Bank, advocacy has been backed by loan conditions which require countries to reduce their trade barriers. Partly as a result of these loan conditions, poor countries have been opening up their economies much more rapidly than rich countries. Average import tariffs have been halved in sub-Saharan Africa and South Asia, and cut by two-thirds in Latin America and East Asia.

International financial institutions and governments have sought to justify their support for rapid import liberalisation by reference to World Bank research which seeks to establish that trade liberalisation is good for growth, and that the poor share in the benefits of growth on an equitable basis. In this report we challenge the evidence presented by the World Bank. We show that the research on which it is based is deeply flawed, and that it is producing bad policy advice.

One of the problems stems from confusion over the meaning of 'openness'. The World Bank uses an economic outcome (ratio of trade-to-GDP) as an indirect measure of the impact of policy changes in favour of liberalisation. Using a different indicator of openness, based on the speed and scale of import liberalisation, we show that many of the countries that are integrating most successfully into world markets – such as China, Thailand, and Vietnam – are not rapid import liberalisers. Conversely, many rapid import liberalisers have a weak record on poverty reduction, despite following the spirit and the letter of World Bank–IMF policy advice.

In many countries, rapid liberalisation has been associated with rising inequality. Case studies from Peru show smallholder farmers in highland areas operating at a disadvantage, compared with commercial farms. In Mexico, the 'poverty belt' states in the south are becoming poorer, in comparison with states in the north. In India, import liberalisation is intensifying inequalities within rural areas, and between urban and rural areas. These inequalities matter, because they slow the rate at which economic growth is converted into poverty reduction.

Poverty Reduction Strategy Papers (PRSPs) provide the IMF and the World Bank with an opportunity to place trade at the centre of their dialogue with governments on poverty. That opportunity is being lost. In a review of twelve PRSPs we found that only four mentioned the possible impact of trade reform on poor people, of which two considered measures to protect the losers. In Cambodia, the IMF and the World Bank are supporting a strategy which will sharply reduce import tariffs on agricultural goods, exposing millions of rice farmers to competition from Thailand. Yet no poverty assessment has been carried out.

Among the recommendations set out in this report are the following.

- IMF–World Bank programmes should not impose further loan conditions requiring trade liberalisation.
- Rich countries should reciprocate past liberalisation undertaken by developing countries under IMF–World Bank conditions by making equivalent reductions in their own import barriers.
- All PRSPs should include a detailed analysis of the potential impact of trade liberalisation on income distribution and poverty reduction.

6. Primary commodities: trading into decline

Coffee…prices have fallen by 70 per cent since 1997, costing developing-country exporters some $8bn in lost foreign-exchange earnings.

'Proper economic prices should be fixed not at the lowest possible level, but at a level sufficient to provide producers with proper nutritional and other standards.' (John Maynard Keynes, 1944)

More than half a century has passed since Keynes argued for a new international institution to address the problems facing exporters of primary commodities. Today, low and unstable prices for commodities are among the most powerful influences that prevent trade from working for the poor.

Many of the world's poorest countries remain heavily dependent on primary commodities. More than fifty developing countries depend on three or fewer such commodities for more than half of their export earnings. The national economies of these countries and the household economies of millions of poor people have been devastated by a protracted decline in prices.

Coffee has been one of the commodities worst affected. Prices have fallen by 70 per cent since 1997, costing developing-country exporters some $8bn in lost foreign-exchange earnings. For some countries, these losses have outweighed the benefits of aid and debt relief. Poor households have suffered particular hardship. Our research among coffee farmers in Tanzania, southern Mexico, and Haiti found families reducing their general consumption, taking children out of school, and facing extreme difficulties in meeting health costs. Family and community structures were coming under strain, as women were forced to increase their off-farm labour, and men to migrate in search of work.

The underlying causes of the crisis in commodity markets vary from product to product. However, the general problem is one of structural over-supply. Output across a wide range of products is consistently exceeding demand, which leads to excessive stocks and periodic price collapse.

'The price of coffee is destroying this community.'

TATU MUSEYNI, COFFEE FARMER, KILIMANJARO REGION, TANZANIA

Any change in world market prices generates winners and losers, and commodity markets are no exception. The losers include in their ranks millions of the world's most vulnerable households. The winners, in this case, include the large TNCs that dominate global markets. These TNCs – such as the Nestlé corporation – have been able to take advantage of ruinously low producer prices to enjoy high profit margins.

Resolving the protracted crisis in commodity markets is a fundamental requirement for more inclusive globalisation. The issues raised are complex, but the current piecemeal approach to reform is not working. This report sets out an agenda for reform, including the following recommendations:

- **A new institution to oversee global commodity markets, and a new system of commodity agreements.** This would seek to reduce price volatility. In contrast to the failed agreements of the past, the new institution would include financing mechanisms designed to bring supply back into balance with demand, at reasonable price levels. It would also work to support diversification, and to increase the value of exports through strategies for adding value to the products of low-income countries.
- **The adoption by TNCs of socially responsible purchasing operations.** This would include an increase in the proportion of commodities purchased under long-term contract arrangements, and a fair price when world market prices fall below levels consistent with reasonable living standards in exporting countries.

7. Transnational companies: investment, employment, and marketing

Technological change has made globalisation possible. Transnational companies have made it happen. Through their investment, production, and marketing activities, TNCs bring the world's economies and people more closely together. They have the potential to spread the benefits of globalisation more widely, but they are failing to do so.

Many developing-country governments have introduced an 'open door' policy for foreign investment. Encouraged by Northern governments and financial institutions, they have sought to generate rapid export growth by attracting TNCs. But this strategy is flawed.

Foreign direct investment (FDI) has many potential benefits. It can provide access to new financial resources, technologies, and markets. However, the current financial benefits have been exaggerated. High levels of profit repatriation, high-cost incentives to attract investors, and tax avoidance combine to reduce real financial transfers. For every $1 of foreign investment, around 30 cents are repatriated through profit transfers.

Not all investment is good investment. In development terms, good-quality investment transfers skills and technology, and creates dynamic linkages with local firms. Much FDI does not fit into this category. In Latin America, increased FDI has been associated with reduced capacity for research and development, and a growing dependence on technology imports. Free-trade zones appear to attract the worst-quality FDI. In many cases – as in Bangladesh and Mexico – these zones operate as enclaves, almost totally isolated from the domestic economy. FDI in the extraction of mineral resources has a particularly bad development record. It has often intensified conflicts, caused extreme environmental damage, and led to the displacement of local communities.

TNCs have a major influence on employment standards in developing countries, partly as direct employers, but mainly through their sub-contracting activities. While most TNCs have adopted codes of conduct on employment, the benefits have been limited. With their emphasis on voluntarism, these codes have failed to address the erosion of workers' rights, or to prevent the emergence of extreme inequalities based on gender.

Weak auditing of corporate codes is a serious problem, but even the best auditing practices would not resolve the deeper tensions. In many major exporting economies, governments have dismantled employment protection in order to attract FDI, often with the encouragement of TNCs. This report documents cases in which Northern-based companies, many of which have exemplary codes of conduct, are being supplied by sub-contractors which violate basic employment rights on a systematic basis. Moreover, the market conditions created by TNCs, including intense price pressures on suppliers and stringent delivery deadlines, make it difficult to raise standards.

As the most vulnerable members of the workforce in export industries, women face special challenges. Inadequate social-insurance rights, obligatory over-time work, hazardous work conditions, and poverty-level wages are common. In many countries, export-led success is built on the exploitation of women and girls.

'Work in the factory is hard. We are not well treated. Do people in your country think about our condition when they buy the shirts we make?'

NAWAZ HAZARI, SEWING-MACHINE OPERATOR, GANAKBARI EXPORT-PROCESSING ZONE, DHAKA, BANGLADESH

Through their marketing activities, some TNCs are posing grave threats to public health. Efforts to create markets for tobacco and infant-formula milk are two activities which inflict especially serious damage.

The recommendations presented in this report include the following:

- Governments should enact and enforce national employment laws consistent with the core standards of the International Labour Organisation (ILO).
- The WTO's Trade Policy Reviews should report on trade-related labour standards.
- Employment rights in export-processing zones should be strengthened, with an emphasis on improving the employment status of women.
- The ILO's capacity to monitor and enforce core labour standards should be strengthened.
- Northern governments should establish (under their Guidelines for Multinational Enterprises) better mechanisms for investigation, monitoring and reporting, in order to hold TNCs accountable for their actions in developing countries.
- Governments should establish a legally binding international protocol, based on the (currently draft) UN Fundamental Human Rights Principles for Business Enterprises, to govern the production, trade, and consumption of natural resources from conflict areas.

8. International trade rules as an obstacle to development

Good international trade rules can create an enabling environment for poverty reduction. Bad rules have the opposite effect. They can prevent governments from initiating the strategies that are needed to make trade work for the poor. Many of the provisions of the World Trade Organisation are bad rules.

The agreement on the Trade-Related Aspects of Intellectual-Property Rights (TRIPs) is

The TRIPs agreement is an act of institutionalised fraud, sanctioned by WTO rules…Developing countries will lose approximately $40bn a year in the form of increased licence payments to Northern-based TNCs.

a prime example. Adam Smith once warned governments to guard against the instincts of private traders: 'People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some diversion to raise prices.' He could have been writing about the TRIPs agreement. More stringent protection for patents will increase the costs of technology transfer. Developing countries will lose approximately $40bn a year in the form of increased licence payments to Northern-based TNCs, with the USA capturing around one-half of the total. Behind the complex arguments about intellectual-property rights, the TRIPs agreement is an act of institutionalised fraud, sanctioned by WTO rules.

The application of the TRIPs agreement to medicines will have grave consequences for public health. Evidence from developing countries suggests that reinforced patent protection could double the costs of medicines. Given that poor households already spend more on drugs than on any other item of health care, this will significantly raise the cost of treating illness. Premature death and unnecessary sickness are inevitable corollaries. Because of their higher levels of vulnerability to illness and their role as primary carers, women will suffer the gravest consequences.

Current approaches to patenting directly threaten the interests of small farmers. Northern governments have effectively authorised corporate investors to undertake acts of bio-piracy, by permitting them to patent genetic materials taken from developing countries. If a royalty of two per cent were to be levied on these materials, it would generate some $5bn. To add to their problems, smallholder farmers could lose the right to save, sell, and exchange seeds.

Under the General Agreement on Trade in Services (GATS), industrialised countries are seeking to open new markets for TNC investors. These include markets for financial services and basic utilities, such as water. Service-sector activities in which developing countries stand to benefit – such as labour supply – have not been prioritised. Meanwhile, by applying free-market principles to the provision of essential utilities, the GATS agreement threatens to promote forms of privatisation which will damage the interests of the poor.

Many of the industrial policies that facilitated successful integration into world markets in East Asia are now either restricted or prohibited by WTO rules. These include policies that would require TNCs to source products locally, along with restrictions on foreign investment. By requiring countries at very different levels of economic development to apply the same rules, the WTO system is out of touch with the challenges that confront poor countries.

Among the reforms advocated in this report are the following:

- An end to the universal application of the WTO intellectual-property blueprint: developing countries should retain the right to maintain shorter and more flexible systems of intellectual-property protection.
- A clear commitment to put public-health priorities before the claims of patent holders, building on the commitments made at the Doha Ministerial Conference in 2001.
- A prohibition on patent protection for genetic resources for food and agriculture, and stronger rights for poor countries to develop more appropriate forms of plant-variety protection, and to protect farmers' rights to save, sell, and exchange seeds.

- A rebalancing of the services agreement in order to prioritise development objectives, to exclude essential public services from liberalisation negotiations, and to strengthen national sovereignty.
- Strengthening of the WTO's provisions for the 'special and differential treatment' of developing countries; and the removal of restrictions on the rights of governments to regulate foreign investment and protect their countries' infant industries.

9. Making trade work for the poor

Trade can realise its full potential only if rich and poor countries alike take action to redistribute opportunities in favour of the poor. This requires action at the national level, new forms of international co-operation, and a new architecture of global governance at the WTO.

The challenge of extending opportunity at the national level goes beyond the narrow confines of trade policy. Inequalities in health and education services, and in the ownership of assets, are a formidable barrier to making markets work for poor people. Lacking access to land, marketing infrastructure, and financial resources, the poor are often least equipped to take advantage of market opportunities, and the most vulnerable to competition from imports. In many countries, extensive corruption and excessive bureaucracy act as a tax on trade – and the tax falls most heavily on the poor.

Trade can realise its full potential only if rich and poor countries alike take action to redistribute opportunities in favour of the poor.

International co-operation must be strengthened in a range of areas. Developing countries need development assistance if they are to integrate into world markets on more favourable terms and to extend opportunities to the poor. Yet rich countries reduced their aid budgets by $13bn between 1992 and 2000. Some of the heaviest cuts fell on the poorest countries and in areas – such as agriculture – where well-targeted aid can make a difference to levels of poverty. Failure to resolve the long-standing debt problems of low-income countries, and to respond effectively to new problems in private capital markets, poses further threats. There is a growing danger that many developing countries will be forced by unsustainable debt to transfer the wealth that is generated by exports to creditors in rich countries.

The WTO is one of the youngest international institutions, but it is old before its time. Behind the façade of a 'membership-driven' organisation is a governance system based on a dictatorship of wealth. Rich countries have a disproportionate influence. This is partly because of a failure of representational democracy. Each WTO country may have one vote, but eleven of its members among the least-developed countries are not even represented at the WTO base in Geneva. Informal power-relations reinforce inequalities in negotiating capacity at the WTO. Meanwhile, beyond the WTO, powerful TNCs exercise a disproportionate influence over the direction of trade policy.

Reforms to trade governance are needed in order to make trade work for the poor at all levels. They include the following:

- Redistributive reforms linked to national poverty-reduction strategies. These reforms include land redistribution, changes in public-spending priorities, infrastructural development, and measures to overcome gender-based barriers to equity in local markets.
- Action to tackle the problems of corruption. At the national level, this implies stronger auditing through bodies answerable to the legislature, along with

adherence to the OECD anti-bribery convention and guidelines on corruption.

- Increased technical support for poor countries through a Financing Facility for Trade-Related Capacity Building. This would include an annual budget of approximately $250m to enhance the negotiating capacity of developing countries at the WTO.
- Improved transparency and accountability in developing countries. All governments should submit to their respective legislative bodies an annual report on their activities at the WTO. Trade-policy reviews at the WTO should include an assessment of the quality of dialogue between governments and civil society on trade-policy reform.
- Greater transparency on informal influence. All national governments should be required to disclose contacts and submissions made by organisations that seek to influence trade-negotiating policies.
- The development of a Global Anti-Trust Mechanism. In view of the massive concentration of corporate power in the global economy, the principles of anti-monopoly legislation should be extended beyond national borders to the international economy.

Just as in any national economy, economic integration in the global economy can be a source of shared prosperity and poverty reduction, or a source of increasing inequality and exclusion. Managed well, the international trading system can lift millions out of poverty. Managed badly, it will leave whole economies even more marginalised. The same is true at a national level. Good governance can make trade work in the interests of the poor. Bad governance can make it work against them.

At present, trade is badly managed, both at the global level and, in many countries, at the national level. Continuing on the current path is not an option. But a retreat into isolationism would deprive the poor of the opportunities offered by trade. It would counteract a powerful force for poverty reduction. That is why we need a new world trade order, grounded in new approaches to rights and responsibilities, and in a commitment to make globalisation work for the poor.

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RIGGED RULES AND DOUBLE STANDARDS

trade, globalisation, and the fight against poverty

www.maketradefair.com

Oxfam is determined not only to present a powerful case for change, as we do in this report, but to work to make change a reality. That is why we have launched the Oxfam trade campaign, Make Trade Fair. We know that real change will come only when large numbers of people demand it, in rich countries as well as poor. We want to work with the many organisations and individuals around the world who are already campaigning to ensure that trade makes a real difference in the fight against global poverty. Together, we seek to build the kind of movement that has brought an end to apartheid, banned the use of landmines, and made real progress in reducing Third World debt. The ambition is great and the task is not easy, but we believe that if this campaign succeeds, the lives of poor communities could be transformed in a way never seen before.

MAKE
TRADE
FAIR

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