3 Structural adjustment

There is only one thing worse than structural adjustment; and that is not adjusting.

Kwafi Akoor, Finance Minister, Ghana

ESAP (Zimbabwe’s Enhanced Structural Adjustment Programme) has meant that we can only eat two meals a day. We can no longer afford meat, because prices are too high. Everything costs more. I cannot afford to pay the school fees for my son and daughter since they started charging. Government said it was because of ESAP. We can’t even go to the clinic when the children are sick because we can’t afford the medicines.

Zimbabwean woman, Harare

I have read that our country is stabilising. That may be true, but we have no jobs. We can’t send our children to school. Maybe stabilising is a good thing for the country’s we pay debt to, but here life is getting harder.

Zambian woman

In the old days, we provided soup for a few hundred people. Then, in 1990, we had ‘stabilisation’. Prices went up more than 2000 per cent. Look around you, you can see what stabilisation has meant. Look at the children hawking on the streets, when they should be in school; look at the numbers of people we are feeding; look at the numbers sleeping on the streets; look at the conditions in our slums. Has ‘stabilisation’ made things better?

Soup-kitchen worker, Lima, Peru

Introduction

The United Nations was born out of the two great failures of the inter-war period: the failure to prevent the Great Depression and the failure to avert war. In the eyes of the founders of the UN system, the two events were indissolubly linked. President Roosevelt urged delegates at the 1944 Bretton Woods Conference to recall how ‘the great economic tragedy’ of the 1930s had caused the ‘bewilderment and bitterness which became the breeders of fascism and, finally, war’.1 The blueprint for global economic governance which emerged from the deliberations at Bretton Woods was designed to prevent a recurrence of that tragedy, and to create the conditions for human security in the post-war era.

The overwhelming preoccupation of the conference delegates was to create the conditions for full employment and improved human
welfare. In the 1930s, the international trade and financial systems had imploded, with calamitous results for commodity prices, output, and employment. Governments had compounded the crisis by responding to global problems with deflationary economic policies, further damaging domestic and international prosperity. Speculative and unregulated capital transfers had added to the chaos. Above all, the crisis of the inter-war period revealed the dangers inherent in a global economic system which tied nations in a web of interdependence, but lacked an institutional structure to regulate it. The International Monetary Fund (IMF) and the World Bank were intended to provide that structure.

Although the IMF differed from the agency originally envisaged by Keynes, its most influential architect, its objectives were decidedly Keynesian. According to its first Article, the IMF's basic purpose was 'to contribute...to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members'. The Fund was charged with prime responsibility for assisting countries suffering from short-term trade imbalances in a manner which, with the memory of the inter-war period clearly in mind, enabled them to adjust 'without resorting to measures destructive of national or international prosperity'. The World Bank was set up to create the longer-term conditions for expansion, first by supporting reconstruction in Europe; and then by channelling resources to developing countries. Its over-arching purpose, as described by Keynes, was 'to develop the resources and productive capacity of the world with special attention to the less developed countries, (and) to raise the standard of life and conditions of labour everywhere'.

The changing role of the IMF and World Bank

During the 50 years that have elapsed since the Bretton Woods conference, radical changes have taken place in the world economy. The world the IMF and the World Bank were created to serve no longer exists. Yet their influence is greater than ever; and nowhere more so than in the developing world. As lenders of financial resources in their own right, the IMF and the World Bank directly control billions of dollars. Indirectly, they control considerably more. Most industrial countries demand an IMF-World Bank imprimatur as a precondition for providing development assistance and debt relief to developing countries. Their financial strength and role as intermediaries in North-South economic relations gives the Bretton Woods agencies an enormous influence over governments; and their structural adjustment policies influence the welfare of hundreds of millions of people, most of whom have never heard of Bretton Woods.

Because of their enormous influence, the IMF and the World Bank occupy a pivotal position in international efforts to eradicate poverty. The President of the World Bank at the time, Lewis Preston, acknowledged its obligations in this area. Launching the Bank's poverty reduction strategy in 1992, he stated: 'Sustainable poverty reduction is the overarching objective of the World Bank. It is the benchmark by which our performance as a development institution will be measured.' The IMF has similarly stressed the importance of poverty reduction to its programmes.

These are important commitments. However, in Oxfam's experience, there is a gulf between the policy statements of the Bretton Woods agencies and the design and implementation of their policies. Charged with facilitating expansionary responses to macro-economic imbalances, the IMF has become a guardian of the type of deflationary measures which the Bretton Woods conference sought to consign to history. These policies have undermined the economic growth which is a necessary condition for poverty reduction in the developing world, with damaging consequences for employment and household income. Whereas the Bretton Woods conference envisaged the regulation of markets in the
Structural adjustment

public interest, the IMF and the World Bank have consistently promoted market deregulation as the solution to poverty. This approach ignores the fundamental reality of the market place: namely, that people enter markets as unequal partners, and they leave them with rewards which reflect that inequality. Market deregulation has brought major gains for the wealthy. But for poor communities, such as those with whom Oxfam works, deregulation of markets has often meant further marginalisation. At the same time, the Bretton Woods agencies have failed to protect expenditure on health care, education, and other social provision needed to eradicate poverty.

This is not to suggest that the objectives of structural adjustment, which include the restoration of financial stability to countries racked by economic crisis, are misplaced. Nor is it to argue for a return to the flawed policies of the past. Fifteen years ago, many governments defended to the death over-valued exchange rates, the blanket protection of industries, and stifling forms of state control over the economy. Today, there is a growing consensus that markets have a vital role to play in development; and that sustainable budgets, realistic currency alignments, viable trade balances, and individual initiative are vital to economic growth and poverty reduction. The issue is no longer one of 'state versus markets', but of which policies are most likely to meet the two equally important objectives of achieving sustainable growth and eradicating poverty.

There are no ready-made, painless solutions to the economic crisis which, in varying degrees of intensity, has affected so many Third World countries since the early 1980s. However, from the standpoint of the poor, the ideologically-driven prescriptions of deflation and deregulation now on offer are not working. The challenge as we approach the twenty-first century is to develop new approaches to adjustment, which are compatible with the objectives identified 50 years ago at Bretton Woods. That means developing expansionary responses to economic crisis; and it means placing poverty reduction at the heart of policy design. The collusion between the Bretton Woods agencies and governments in designing adjustment policies which transfer the social costs of adjustment disproportionately to the poor, must give way to a new poverty-focused compact for recovery. Such a compact will require far-reaching reforms in the Bretton Woods agencies. It will also require international action to address the debt crisis which, 15 years after it gave birth to structural adjustment, continues to undermine prospects for social and economic recovery.

Structural adjustment programmes

Structural adjustment policies evoke powerful emotions, on all sides of the debate. The IMF, the World Bank, and governments all recognise the social costs of adjustment, but insist that these are symptoms of an economic crisis, for which structural adjustment offers the only cure. There is, in the familiar refrain of countless IMF-World Bank statements, 'no alternative' to adjustment. In the cities and villages of Latin America and Africa, on the other hand, structural adjustment has become a euphemism for suffering, as the quotations at the head of this chapter suggest. Zimbabweans have reinterpreted the acronym for their Enhanced Structural Adjustment Programme, ESAP, as 'Enhanced Suffering for African People'. For people in the South, the argument that there is no alternative to adjustment provokes the almost universal response that there must be. Oxfam believes that they are right — and that there is an alternative.

The background: debt and the failures of state intervention

Structural adjustment policies were a response to the severe financial crisis which visited much of the developing world in the early 1980s. The slow down in the world economy, and the lethal interaction of falling commodity prices and
rising interest rates, caused by changes in US monetary policy, devastated one economy after another. As export earnings fell, debt repayment obligations rose, leaving much of Africa and Latin America in a state of financial bankruptcy. By the middle of the 1980s, Latin America was transferring some 5 per cent of regional income to its creditors in the industrial world. Between 1980 and 1987, Africa’s debt stock rose from the equivalent of one-third of its income to almost three-quarters. By the late 1980s, Africa’s debt-to-export ratio (the value of its debt relative to its export earnings) had risen to 500 per cent, which was even higher than that for Latin America.

The debt crisis which evolved in the 1970s and culminated in the early 1980s was precisely the type of event which the IMF and World Bank were created to prevent. Under the original Bretton Woods plan, the IMF would have provided the resources to enable countries to adjust without recourse ‘to measures destructive of national prosperity’. In the event, both institutions simply took it for granted that debtor countries should honour their debts in full. Instead of calling for a large-scale debt write-off, they devoted themselves to maintaining creditor claims, in effect acting as debt collectors in indigent states. The preferred solution to the debt crisis was to divert resources on a scale bound to destroy growth and orderly adjustment. The IMF lent money to indebted countries at market interest rates, enabling them to repay creditors. When it became clear that the poorest countries would be unable to repay the IMF, a new system of loans, the structural adjustment facility (SAF), was created to provide more concessional credit; and when the money from this ran out yet another facility was created in the form of the enhanced structural adjustment facility (ESAF), inaugurated in 1987. These concessional facilities are now the main form of IMF credit for low-income countries. For its part, the World Bank provided loans at market interest rates, which were recycled to commercial bank creditors in the form of debt repayments. Subsequently, the Bank expanded its soft-loan International Development Association (IDA) facility for low-income countries, providing them with what amounted to grants.

The financial resources provided by the Bretton Woods agencies were both inappropriate (since most countries could not afford the repayment terms), and insufficient to enable countries to grow out of recession. However, their response to the debt crisis profoundly changed the relationship between the Bretton Woods system and the developing world. Both agencies assumed an increasingly pivotal policy role in developing countries. The World Bank shifted its focus from project-based lending to the provision of balance-of-payments support for programmes of economic reform. The IMF became increasingly involved in providing ‘stabilisation’ loans to cover budget deficits. Along with their loans came conditions for policy reforms which, for practical purposes, transferred control over economic policy in those countries to Washington. These policy reforms were broadly aimed at expanding exports and depressing domestic demand sufficiently to maintain debt repayment capacity. As we argue below, this strategy was doomed to failure, in part because of the failure of Western governments to address the debt crisis; and in part because of the inherent shortcomings of the structural adjustment strategy itself.

As the debt crisis deepened, more and more countries came under IMF-World Bank tutelage. Around 30 countries in Africa have had near-continuous programmes with the IMF and the World Bank since the early 1980s. In Latin America, there were 107 IMF-World Bank programmes in 18 countries during the 1980s. These programmes were intended not merely to address the immediate symptoms of the debt crisis, but to initiate wider policy reforms. In particular, the systems of state intervention which had contributed to the economic crisis of the early 1980s were to be radically overhauled.
The need for reform

The case for reform was a powerful one. During the 1970s, the failures of development models aimed at import-substituting industrialisation (ISI), or the displacement of imports through the promotion of local manufactured goods, were becoming increasingly apparent. Fiscal profligacy and extreme corruption were part of the problem in many countries. But the deeper failure of ISI was rooted in its own contradictions. In sub-Saharan Africa, smallholder agriculture was regarded by governments not as an engine of growth but as a source of foreign exchange and finance for industry. State marketing boards levied taxes of up to, and even over, half of the export value of the crops. On average, these taxes were 70 per cent higher in sub-Saharan Africa than in other developing regions. Blanket protection was provided to manufacturing industries, most of which required heavy public subsidies to survive. Over-valued exchange rates were used to lower the costs of industrial and food imports, and to lower the incomes of agricultural producers. In contrast to what was happening in South-East Asia, most industries in Latin America and Africa relied heavily on imports but produced mainly for domestic markets.

In Latin America, industrial growth in the 1960s and 1970s was accompanied by persistent balance of payments deficits, as the cost of imports for local industries outstripped foreign exchange earnings. Those deficits were covered by foreign borrowing. In Africa, the high import-content of industrial growth reinforced dependence on primary commodities to generate foreign exchange, making industrial development ever more vulnerable to the vagaries of world commodity markets. At the same time, heavy taxation of export producers, intended to generate resources for industry, reduced their competitiveness, most disastrously in sub-Saharan Africa, where market shares collapsed. Thus, import substitution became a victim of its own contradictions, by undermining the very foundations upon which its success depended.

Both in Latin America and Africa, governments increasingly resorted to overseas borrowing to cover trade deficits. That borrowing in turn generated inflationary pressure and exchange-rate appreciation, discouraging exports and putting strain on the balance of payments in the process. State regulation of foreign exchange markets and import quotas provided a valuable source of political patronage, as well as windfall profits for powerful vested interests, paid for at vast public expense. By the end of the 1970s, these economic policies engendered the unstable budgetary and trade conditions which were exposed, with disastrous effects, by the surge in US interest rates and slump in commodity prices.

Under structural adjustment, state intervention was to be reduced to a minimum, and the impetus for economic growth was to come not, as in the past, from the domestic market, but from closer integration into the world economy. Governments were to withdraw from the market to provide better incentives for exporters; public spending was to be reduced in the interest of balancing budgets; protectionist barriers were to be withdrawn; and currencies were to be devalued to more realistic levels. These objectives remain central to adjustment policies. In recent years, however, the IMF and the World Bank have claimed that structural adjustment represents not merely an agenda for macro-economic stability, but a comprehensive strategy for poverty reduction.

A range of reforms

The term 'structural adjustment' is shorthand for a wide range of policy reforms. These typically start with an IMF stabilisation programme, which is intended to reduce fiscal deficits (the difference between government spending and revenue) and restore the balance of payments to a viable position. The rationale behind the IMF approach is that both deficits are caused by excess demand, which is reflected in inflationary pressure. Stabilisation programmes are almost always designed to reduce demand,
notably by cutting government expenditure, controlling money supply, and raising interest rates, stringent targets being set in all of these areas. Devaluation, which is intended to correct currency over-valuation, restrict imports, and expand exports, is an almost universal part of IMF programmes.

World Bank adjustment programmes are considerably wider in scope than those of the Fund, being intended to establish the foundations for longer-term recovery. Import liberalisation, designed to increase exposure to foreign competition, figures prominently. So, too, does the removal of domestic market 'distortions', such as labour protection, food subsidies, and state control of agricultural marketing. More recently, the Bank's influence has extended into social sector reform, including health financing and the design of social welfare safety nets. In practice, IMF-World Bank programmes are complementary in two respects. First, the principle of 'cross-conditionality' means that the World Bank seldom initiates a programme unless a government has become a client of the IMF. Second, the World Bank, like the IMF, stresses the importance of stringent monetary discipline, the deregulation of labour markets to lower wages, economic policy liberalisation, and a reduced role for the state.

Any assessment of structural adjustment programmes must start out by acknowledging the severity of the problems they are introduced to address. Consider, for example, the case of Zimbabwe. During the 1980s, the country maintained a growth rate which was considerably higher than the average for sub-Saharan Africa, at around 2.7 per cent a year. However, this was lower than the population growth rate, so that living standards declined. Deteriorating living standards were accompanied by an increasingly untenable budget deficit, which the government covered by printing money (which created inflationary pressure) and raising taxes. By the end of the decade, government spending was a quarter higher than revenue, so that the fiscal deficit reached 11 per cent of GDP. At the same time, there was a recurrent trade deficit, which gave rise to growing debt service obligations. These rose from less than 3 per cent to more than 20 per cent of export earnings during the 1980s. Meanwhile, slow growth was associated with low levels of savings and investment (which was diverted into financing the government deficit), and slow rates of employment creation. In 1990, the year in which the country negotiated a structural adjustment agreement with the IMF-World Bank, employment creation was sufficient to absorb only one out of every three school leavers, so that unemployment had risen to 26 per cent. Social welfare expenditure had already started to come under pressure, jeopardising the gains made since Independence. By comparison with other countries in Africa and Latin America, Zimbabwe's economic problems were not of chronic proportions. But they illustrate the depth of the economic crisis facing countries which turn to the IMF-World Bank. They also lend weight to the IMF-World Bank claim that macro-economic adjustment is unavoidable. The first victims of chronic instability are to be found not among elites, who have access to foreign currency, but in the shanty towns and villages, where hyperinflation and the collapse of public services exact a very high price.

The costs of adjustment

But while the costs of not adjusting might be high, so, too, are the costs of structural adjustment. The main thrust of IMF stabilisation has been to cut public expenditure, through controls on credit creation, reduced subsidies, and lower public sector wages, while concentrating resources on production for export. Below we argue that stabilisation measures have been inconsistent with the objective of achieving sustained economic recovery. However, they have also resulted in massive social costs, which have been borne disproportionately by women. An example is provided by the experience of Zimbabwe, where the simultaneous reduction of food subsidies and decline in wages which
accompanied structural adjustment dramatically reduced household incomes. Between 1990 and 1992, price decontrol increased by half the price of an average food basket for low-income urban families. At the same time, average wage settlements in 1992 were 25 per cent lower than the rate of inflation, implying a further erosion in purchasing power; and unemployment increased sharply as structural adjustment and drought combined to cause a deep recession. One study of Kambuzuma, a low-income urban settlement of 40,000 people in Harare, showed the proportion of families living below the poverty line doubling, to 43 per cent. Most households also changed their diets, eating less high protein foods and more carbohydrates. The poorest families cut their number of meals from two to one per day. Women bore the brunt of this household-level adjustment, foregoing meals themselves in order to maintain the food intake of children. Women-headed households were particularly badly affected, reducing their spending on food by one-fifth.

Increasing unemployment, declining real wages, and reduced social welfare provision, have been almost universal features of structural adjustment. In Tanzania, the minimum wage covered only 14 per cent of the cost of the most basic food requirements for a one-person household at the end of the 1980s. In Peru, a 'shock-therapy' programme introduced under President Fujimori in 1990, saw food prices rise by 2,500 per cent in one year, and the number of people living in extreme poverty double. Such trends impose costs on all poor households, but women and young girls suffer disproportionately from deteriorating access to food when household incomes fall, because of inequalities within the household. These inequalities, largely ignored by policy makers, have a crucial bearing on how the costs of adjustment are distributed.

Additional female employment is one of the mechanisms through which families survive economic crisis. In Latin America, the proportion of women in the work-force rose from 22 per cent to 38 per cent during the 1980s, as increased male unemployment reduced family incomes. There has been a similar trend towards increasing female employment outside of the home in Africa. In Zambia, a study of Chawama, a low-income settlement in Lusaka, showed that the number of women working outside the home tripled during the 1980s. Most of this employment expansion has taken place in the informal economy, where female labour is typically concentrated in sectors with the lowest economic returns, and where long hours of work are required to generate small amounts of income. As household managers, women have also been forced to compensate for the decline in social welfare provision which has accompanied economic crisis and structural adjustment. The Chawama study mentioned above discovered that a decline in the provision of public water-points had resulted in women walking greater distances to fetch water. One-third of the women in the compound spent over an hour a day in this task. Declining health sector provision has imposed considerable new demands on women, not least since lower nutritional status increases family exposure to illness. The dilemmas facing women in this area are summarised by a Zimbabwean woman living in a low-income settlement in Harare: 'My daughter is sick, but what am I supposed to do? If I take her to the clinic, I cannot afford to pay for treatment — so what is the point? If I stay at home to care for her, how will we buy the food we need to stay alive?'

These words capture some of the less visible costs associated with adjustment. Where adjustment policies result in a deterioration in food intake, health care, and public utilities, women are forced to compensate through a combination of paid and unpaid labour. Yet the female labour time spent on family care and the maintenance of resources does not figure in national accounts. In this sense, the costs to women and family life are invisible. They are, however, very real. The great rise in the number of street children observed in the cities of the developing world, are testament to the growing pressures on low-income households. Once again, the
real costs of depriving future generations of education are not reflected in national balance sheets. Nor are the personal costs to women, who are faced with increasingly impossible demands on their time. One detailed study of a low-income community in Ecuador showed that women were typically working in excess of 18 hours per day, and sacrificing time with their children in order to generate income outside the home. On the basis of interviews conducted with the women, the study concluded that about 30 per cent were coping; another 55 per cent were barely getting by, mortgaging the future of their children, and especially their daughters, to survive; and another 15 per cent were exhausted, their families disintegrating and children dropping out of school. The salutary conclusions drawn by the author was that: 'Not all women can cope under crisis and it is necessary to stop romanticising their infinite capacity to do so.'

An agenda for poverty reduction?

There are three main arguments which the Bretton Woods agencies present in defence of their claim that structural adjustment contributes to poverty reduction. The first is that failure to adjust will, ultimately, impose huge costs on the poor, with unsustainable budget and trade deficits leading to hyperinflation, currency instability, and economic collapse. This is uncontroversial, although it hardly amounts to a defence of the specific policies associated with structural adjustment.

The second, more controversial, argument concerns social provision. Both the IMF and the World Bank acknowledge that insufficient attention was paid to this area during the first generation of adjustment programmes in the 1980s. They now claim to have introduced 'social conditionality' into structural adjustment, making provisions to protect expenditure and welfare service delivery in areas of concern to the poor. World Bank investment in health, education, and nutrition, which rose from $1bn for 1987-1989 to over $3bn for 1992-1994, and reached 15 per cent of total Bank lending, is cited as evidence of reform in this area.

The final argument concerns the relationship between growth and poverty reduction. According to the IMF and the World Bank, structural adjustment programmes, where properly implemented, have not only created the conditions for growth, but for growth which is pro-poor. They contend that state intervention in the rural sector, where the vast majority of the poor live, has lowered prices, reduced market opportunities, and thereby depressed household income. Deregulating these markets, according to the World Bank, has had the opposite effect, raising prices and creating rural employment. In the urban sector, the IMF and World Bank believe that import liberalisation will have the effect of making local industries more competitive, by allowing them to take advantage of imported technologies. Together with the removal of labour market regulations which, in the IMF-World Bank view, artificially raise labour costs, this is supposed to expand employment.

These claims are not supported by the experience of Oxfam's international programme. Few of our partners would question the case for reform, and most are aware of the 'tribute' siphoned off into foreign bank accounts by political elites operating behind a cloak of state intervention. Control over import licenses and foreign exchange quotas have generated vast revenues, some of which are to be found in foreign bank accounts. However, the fact that corruption and misappropriation occurred is not a reason for the withdrawal of the state from areas of social and economic life where the regulation of markets, and public provision, are vital to the interests of the poor. Nor can it justify the failure to protect the welfare of poor people through adequate social welfare provision.

The harsh reality is that structural adjustment policies have not created a framework for sustainable and equitable growth. Their failures are particularly pronounced in four areas:

- Social welfare expenditure has not been
adequately protected. In many countries, health and education provision has been cut back. The introduction of user-charges to finance social welfare systems has meant that essential services are beyond the means of the poorest people.

- Market deregulation has not provided a framework for poverty reduction for the rural poor, and in some cases it has further marginalised them by excluding them from markets. In the manufacturing sector, the deregulation of labour markets has resulted in increased insecurity and lower wages.

- Deflationary stabilisation policies and over-rapid, unco-ordinated trade liberalisation has undermined the investment and employment creation vital to poverty reduction.

- Sustainable and equitable patterns of growth have not been generated under structural adjustment. This is especially true in Africa, where 15 years of adjustment have failed to create a climate for recovery. But even in Latin America, where a fragile economic recovery has taken root, it has been accompanied by growing inequality.

We will now look at each of these areas in more detail.

Passing the costs to the poor

The World Bank claims that improved social welfare provision is at the heart of its structural adjustment operations, and that it has had considerable success in this area. In a statement to the World Summit for Social Development in Copenhagen, its Vice-President responsible for Human Resources Development commented:

As many donors are tightening their belts, foreign aid spending for health, education and other basic needs is no longer in vogue. The World Bank continues to buck this trend because the numbers show that investing in people is not only the key to improving people's lives, it is also good economics....The World Bank's main goal is to help developing countries reach the point where limits to investment in people, no longer hold back growth or keep people in poverty.28

The World Bank is right to stress the importance of investment in people. Poor people will not be able to benefit from an improved macro-economic framework if they are illiterate, malnourished or in poor health; nor will they be able to contribute to sustained economic growth.

Given that investment in social welfare is an area in which efficiency and equity are mutually reinforcing, current expenditure patterns give cause for deep concern in all developing regions, and especially in Africa. During the 1980s, real per capita spending on education in Africa fell by one-third; and two-thirds of the countries in the region also reduced health spending.9 Schools have been left without books and rural clinics without drugs. Staff morale has been sapped by wage cuts and lack of teaching materials. Increasingly, local communities have been called on to fill the gap left by the withdrawal of state support, by paying to maintain schools and clinics, and financing salaries. In the admittedly extreme case of Zambia, it has been estimated that parents pay 80 per cent of the costs of primary education for their children.30

Africa is now the only region in the developing world where the percentage of children not attending primary school is projected to rise to the end of the decade. But the future of Latin America has also been jeopardised. Average state spending in the region on primary education fell from $164 per capita at the beginning of the 1980s, to $118 at the end.31 In South Asia, enrolment rates are improving, but from an exceptionally low base, and with major gender disparities. But even where countries show high initial enrolment rates, poor children — especially girls — are forced to drop out as a result of economic pressure, and are unable to complete primary schooling.

What makes a dismal situation even worse is the bias in public spending towards higher education and urban hospitals, from which poor people derive fewer benefits. This misallocation of resources carries a high social price in terms of lost welfare for poor people. But it
also carries a high economic price, since it concentrates resources in sectors where the returns to society are lowest. Misallocation is particularly evident in Africa. Despite having the lowest enrolment rates in the developing world, governments there spend a higher proportion of GDP on education (4.7 per cent) than do governments in East Asia (3.4 per cent), where many countries have achieved universal primary education. This reflects the fact that Africa spends more on tertiary education than any other region.52

The World Bank argues that structural adjustment programmes are now reversing declines in health and education spending, and they are also reorienting public spending to concentrate on primary-level facilities. Unfortunately, in many countries this is not happening, even where the Bretton Woods agencies have attempted to introduce social conditionality.

Structural adjustment in Zimbabwe
Zimbabwe is widely cited by the World Bank as an example of its new, poverty-focused approach to structural adjustment. Under its 1990 structural adjustment programme, the Government of Zimbabwe committed itself to reducing the national budget deficit from 10 per cent to 5 per cent of national income by 1995. There was an agreement with the World Bank that it would do so in a way which would not only protect public expenditure in health and education, but restore cuts made since 1988, when per capita spending in both areas began to decline.39 According to the World Bank, this was a condition for the release of adjustment finance. In practice, however, budgets for health and education declined dramatically in real terms during the first three years of the structural adjustment programme. Per capita spending on health services fell by one-third, and on education by 29 per cent, to its lowest level since Independence. Per capita spending on primary education fell even faster than spending on other areas of education, suggesting that cuts were falling most heavily on the sector most crucial to poverty reduction. Expenditure on the maintenance budgets for rural water-supply points was also cut severely, reducing the availability of clean water in rural areas.39

These expenditure patterns have threatened the impressive social welfare improvements made in Zimbabwe since Independence. Their effects have been deeply felt by many of Oxfam’s project partners, who have seen their opportunities for education and health care diminish. There is a widespread and justifiable anger at the failure of the World Bank and the Zimbabwean government to consider more
equitable ways of reducing the budget deficit. Public sector reform has been spectacularly slow, with the result that subsidies to the ailing steel industry and other parastatals have not fallen. The build-up of public debt needed to maintain government spending in these areas is diverting resources on a huge scale. Annual interest payments on public debt now absorb an estimated 18 per cent of the budget, the second largest item of expenditure after education. Reluctance to cut spending on defence, the third largest item of government expenditure, accounting for 3.5 per cent of GDP, has further reduced the government’s capacity to maintain spending on social welfare.55

Social welfare provision in Pakistan
Pakistan is often and justifiably cited by the World Bank as one of the worst offenders in terms of failure to invest in social welfare. Yet the country’s structural adjustment programme appears to have coincided with a further deterioration in the country’s performance. During 1993-1994, the third year of the programme, the Pakistan Government exceeded even the targets set by the IMF for reducing its budget deficit. The deficit fell by almost one-third in a single year, from 8 per cent to 5.4 per cent of GDP. However, this reduction was achieved not through increased revenue, but through drastic cuts in public expenditure. Since the start of its structural adjustment programme, health expenditure in Pakistan has fallen from 1 per cent of GDP to 0.7 per cent, while education spending has fallen from 2.4 per cent to 2.2 per cent.56

Attempting to meet budget targets through expenditure reductions in these areas raises concerns at several levels. In contrast to Zimbabwe, they are being introduced in a context of already grossly inadequate provision. Pakistan has some of the worst social welfare indicators in the world in health and education. In 1990, only one-third of the country’s population was literate, and less than a quarter of its women; half of the population does not have access to clean water; and infant mortality and maternal mortality rates are amongst the worst in the developing world. While per capita income in Pakistan is some 80 per cent higher than the average for the 54 countries grouped in the UNDP low-human-development category, its social indicators in each of the above areas are considerably worse.57 Under these circumstances, public expenditure cuts carry an extremely high price in terms of increased suffering, wasted human potential, and reduced long-term economic growth prospects. Such a price ought to be regarded as too high under any circumstances. In a country where military expenditure absorbs more than the combined health and education budgets, reduced social welfare expenditure suggests a dereliction of responsibility on the part of government.

The responsibilities of the Bretton Woods agencies and of governments
The World Bank has made genuine efforts to persuade governments of the need to protect social expenditures. Unfortunately, these efforts have often been belated and ineffective. For instance, the Indian government in 1991 began implementing budget stabilisation measures agreed with the IMF and World Bank by cutting expenditure in a number of social priority areas. The Department of Rural Development reduced its expenditure budget in the first year of stabilisation. This was followed in 1992-1993 by a 46 per cent cut in the rural sanitation budget and a 39 per cent cut in rural water-supply spending, both priority areas for poverty reduction.58 In 1992, the World Bank strongly criticised the Indian government for proposing deep budget cuts in health spending, and it may have played a role in limiting the scale of public expenditure retrenchment. The fact remains, however, that real spending on health, agriculture, irrigation, and social services is lower today in real terms than in 1991.59

The World Bank’s inability to use its influence to secure more effective protection for social welfare provision under stabilisation, has
been in evidence elsewhere. In Zambia, one of the 'new model' adjustment operations, the Bank has made strenuous efforts to achieve government commitments on priority social-sector expenditure. However, these commitments were not translated into budget allocations and expenditure. In the 1991 budget, the government pledged itself to raise expenditure on education from 9 per cent to 12 per cent. During the complex political bargaining processes over inter-departmental allocations which followed, the government reduced the education sector share of the budget to 7.7 per cent, its lowest-ever level. Commitments to restore the cuts had still not been implemented by 1993, when the education budget still accounted for only 9 per cent of total expenditure. Moreover, the amount going to primary education within the overall budget has fallen. The failure to protect social expenditures under structural adjustment raises a number of important questions about existing approaches to stabilisation and budget allocations. To its credit, the World Bank has attempted to establish agreements with governments, both to protect social expenditure, and to improve its distribution. In practice, these agreements have proved difficult to enforce, and non-compliance has been tolerated in a manner which would be inconceivable were it repeated in relation to, say, money supply or credit control. Yet removing barriers to primary education and health care is no less important to the long-term outcome of structural adjustment than restoring macro-economic imbalances.

**Figure 3.2** Health and Education sector spending, Zambia 1981-93

Source: World Bank
Structural adjustment

This suggests the need for more transparent and wide-ranging dialogue over how fiscal deficits are to be reduced. Given the influence of political and economic elites, it is hardly surprising that most governments have an in-built tendency to pursue targets for reducing fiscal deficits by cutting expenditure on areas of concern to the poor. It is far easier to cut budgets for rural health clinics than for imported weapons, or for parastatals which are important sites of patronage. And it is far easier to tax the poor, by charging for primary education, for example, than the rich. These are the political realities in which the Bretton Woods agencies operate. Yet it is surely unacceptable for them to fix broad budget targets, in the certain knowledge that they will be a catalyst for reduced welfare provision. In this context, the IMF and the World Bank should accept responsibility for agreeing with governments deficit-reduction measures which protect the poor. Far more emphasis could be placed upon establishing fiscal stability by reducing military expenditure and parastatal subsidies, debt relief, and raising revenue through progressive forms of taxation.

More rigorous social conditionality must also be considered. The respective balance of rights and obligations between the Bretton Woods agencies and governments is a complex issue. The IMF-World Bank view is that governments must take responsibility for setting priorities within agreed overall budget parameters. Both agencies claim that the principles of national sovereignty demand that governments retain responsibility for public spending. This sensitivity towards national sovereignty is less apparent in other policy areas, such as money supply. In Oxfam's view, governments and the international financial institutions share an ethical obligation to protect the interests of the poor during adjustment. In some cases, social costs may be an unavoidable consequence of economic crisis. But the underlying principle for adjustment should be that of 'last call' on the resources of the poor, with poverty-related elements of the budget protected to the maximum possible extent.

The effects of user-fees on health and education

The problems associated with declining public expenditure provision have been made worse by other aspects of structural adjustment, including increased recourse to user-fees to finance services. Faced with budgetary constraints, many governments have imposed charges for health and education services. In an effort to refinance its educational system, the Government of Zimbabwe introduced fees for all urban primary schools and all secondary schools in 1992. Parallel moves in the health sector saw the introduction of more rigorous fee collection in 1991, and a sharp increase in prices at rural clinics and hospitals in 1994. These actions were encouraged by the IMF and the World Bank. Under the structural adjustment programme introduced at the beginning of 1991, targets were set for raising the revenue collected from education fees from Z$40m to Z$120m by 1993. Health fees were to rise from Z$15m to Z$45m over the same period. Both measures were intended to reduce the fiscal deficit by raising the equivalent of 0.7 per cent of GDP.

The cost-recovery programme had adverse effects on the welfare of poor people. In 1992, one survey showed that almost one-third of all patients were unable to afford the full cost of their treatment. Another found that out of a sample of children suffering from diarrhoea who had been treated at home, over half had not been taken to clinics because of the cost. Women's attendance at antenatal clinics was particularly sensitive to increased fees. This was reflected in an increase to 8.8 per cent from 1.6 per cent in the number of babies born in Harare Central Hospital to mothers who had not registered for antenatal care. The perinatal mortality rate for these mothers is five times higher than for mothers who had registered, underlining the extreme dangers for women of exclusion from health facilities.

To its credit, the Government of Zimbabwe withdrew user-fees from rural clinics in 1995 when the evidence of their adverse effects on
public health became clear. Even before then, the World Bank had acknowledged the high social costs of user-fees and urged their withdrawal, showing a genuine concern to act on its commitment to protect the health of the poor. Unfortunately, however, that concern is not always reflected in World Bank advice. Since the mid-1980s, the Bank has been encouraging countries to increase user-charges, with the twin aim of raising revenue for the health sector and introducing market principles into resource allocation. Although exemption systems have been designed to shield the poorest from payments, in the absence of institutional capacity these have almost universally proved inadequate. The consequences are cogently summarised by a Medical Superintendent at Masaka Hospital in Uganda:

*The rural poor do not attend Masaka hospital except in extreme cases. They do not attend because they cannot afford the costs involved including transport, drugs and the minimum fee.*

The most significant costs of the reduction in provision and imposition of user-charges have been borne by women, for whom inadequate health care poses acute risks, especially during pregnancy. Women also suffer in terms of increased demands on their time. When health services collapse, it is women who look after sick children and elderly relatives, extending their unpaid labour to cover the real costs of structural adjustment.

There are serious grounds for questioning the use of cost-recovery in health services, even on narrowly-defined efficiency terms. User-fees are not a particularly efficient mechanism for health sector financing, seldom generating more than 5 per cent of recurrent health spending even where they are well established. In many countries, the costs of administering user-fees are probably more or less equivalent to the revenue they generate. Where there is widespread poverty, as in most of Africa and Latin America, the costs of administering an exemption system which actually worked would
Structural adjustment

almost certainly outstrip the revenue from user-fees. Under such conditions user-fee systems are particularly inefficient, since the revenue they generate decreases with the extent of poverty, while the costs of administration increase as the number of people eligible for exemption rises. Claims that user-fees can generate financial resources for investment in health services are technically correct, but largely irrelevant. In almost all cases, the income generated by user-fees is transferred to finance ministries, rather than re-invested in health care. In reality, fees have been imposed with the aim of rationing resources and reducing fiscal deficits by taxing the poor; and their effect has been to reduce demand by pricing services beyond the means of poor people.50

Oxfam’s anxiety is that the World Bank’s advocacy of user-fees and private health care has subordinated a concern for equity and the provision of basic health for all, to the introduction of market mechanisms into health financing. This reflects the underlying philosophy of the Bank, which sees the market as the most efficient way of allocating scarce resources and forcing individuals to exercise responsibility.51

The scarcity of financial resources poses very difficult dilemmas in health-care planning. However, there are more equitable and efficient ways of addressing that scarcity, both nationally, through raising additional funding from progressive taxation or reduced military and parastatal spending, and internationally, through development assistance and debt relief. The introduction of what amount to highly regressive forms of taxation such as user-fees should be a last resort, unless they can be effectively targeted at income groups who can afford to pay them.

Social welfare safety-nets

Since the latter part of the 1980s, most structural adjustment programmes have incorporated social welfare safety-nets, aimed at offsetting what the World Bank characterises as ‘transitional’ effects of adjustment, such as increased unemployment and falling incomes. Various‘social emergency funds’, ‘social dimensions of adjustment programmes’, and ‘social investment funds’, they have been used to protect vulnerable groups, typically through joint interventions by donors, governments, and the NGO community. All the programmes were introduced to ease the costs of adjustment in the short term, while assuming (erroneously in many cases) that economic recovery would diminish the need for assistance in the medium term. Among the motives for these programmes, the objective of maintaining political support for structural adjustment has figured prominently.

In some cases, social dimensions programmes have been reasonably effective. In other cases, they have proved deeply flawed, even as limited social welfare initiatives. But whatever the country-specific experiences, social welfare safety-nets have inevitably proved inadequate in the face of the failure of structural adjustment programmes to create a viable macro-economic framework for poverty reduction.

Politically, one of the most successful programmes has been National Solidarity Programme (PRONASOL) in Mexico. Between 1989 and 1993, the budget for this programme quadrupled to $2.5bn, providing food assistance, social services, investment in water and sanitation, and direct subsidies and credit to small producers. The World Bank has held PRONASOL up as a model to be followed. However, while the programme has provided benefits for many communities, it has also been the subject of extensive political manipulation, with resources being concentrated in accordance with the political priorities of the governing Institutional Revolutionary Party.

Much has been made by the World Bank of the ‘demand-driven’ character of its social dimensions interventions, most of which place the emphasis on responding to community initiatives. This is a laudable alternative to ‘top-down’ interventions, which ignore community concerns. But responding to project applica-
tions is not, in itself, an effective targeting strategy for poverty reduction. In Bolivia, the Emergency Social Fund (ESF) sought to offset the effects of the unemployment caused by adjustment, providing the equivalent of one-third of public spending by 1991. However, over half of the beneficiaries from this programme, which focused on construction work, already had a job; and the poorest regions of the country received least funding. Another way in which the programme failed to reach the poorest was that only 1 per cent of the jobs created went to women. These failures reflect a wider failure to make ESF funding available to the poor. But perhaps the biggest failings were that the programme was able to reach only a small proportion of the unemployed, and that it came to an end before any sign of recovery had occurred.

One of Oxfam’s criticisms of the ‘demand-led’ approach associated with social dimensions programmes is that, in practice, they often result in resources being distributed to those best placed to make viable applications. In Honduras and Costa Rica, for example, it appears that wealthier municipalities are receiving the largest share of resources. Elsewhere, the prospect of World Bank funding has led to a proliferation of NGOs, some of whom have only tenuous links with local communities.

The dilemma, to which there is no easy answer, is that genuine community initiatives and genuine participation take time, whereas there is an onus on social dimensions programmes to make large grants and to spend funds swiftly. More fundamentally, there is a problem of working with communities to develop alternative strategies for survival in conditions where the poor are becoming increasingly marginalised, and where broader macroeconomic policies undermine sustainable livelihoods.

Many social dimensions programmes, especially in sub-Saharan Africa, appear to have been contrived as a hastily designed afterthought to structural adjustment. In Zimbabwe, the Social Development Fund (SDF) did not come into operation until some 18 months after the adjustment programme was finalised in 1991. No co-ordinator was appointed until 1993, and no additional staff were allocated to existing social welfare offices, despite the massive increase in public demand caused by a combination of drought and structural adjustment policies. There was widespread duplication in procedures for applying for assistance, with separate procedures for food subsidies, health fee exemptions, and assistance with education fees. Forms to register eligibility were several pages long, requiring information unlikely to be available to many people. Not surprisingly, the scheme achieved limited success. Food subsidies have reached an estimated 4 per cent and school fees exemptions around 20 per cent of the eligible population. By mid-1994, three years into the adjustment programme, 45 per cent of the population had not even heard of the SDF.

Social welfare programmes occupy a central role in the World Bank’s poverty reduction strategy. But while social safety-nets are important, they cannot resolve long-term poverty problems. This is especially true in countries where economic recession is fostering widespread social dislocation, and where free-market reforms are excluding large sections of the population from any prospect of sustainable livelihoods. What is needed is an integrated approach to social welfare provision, in which the emphasis is placed both on improving the capabilities of the poor, through the provision of health care, education, and productive assets, and on creating an enabling environment in which those capabilities can be realised.

Agricultural markets and liberalisation

The view that structural adjustment automatically brings benefits for the rural poor rests upon a number of assumptions about how rural markets operate. According to the Bank, devaluation (which raises the local currency earnings
Structural adjustment

from export crops) and the elimination of state marketing agencies, which previously taxed producers at sometimes ruinous levels, have restructured markets in a 'pro-poor' fashion. As one Bank document puts it:

Because the majority of Africans — and the majority of Africa's poor — live in rural areas and are self-employed smallholders, adjustment programmes that move the terms of trade in favour of the rural sector and focus on broad-based growth in agriculture offer the most immediate opportunity for alleviating poverty.7

In other words, higher prices for the crops produced by the poor will raise their household incomes and reduce their poverty.

Almost nobody today defends the past excesses of marketing boards in Africa, or denies the damaging effect of currency overvaluation on smallholder producers. However, the conviction that market deregulation is sufficient to reduce poverty owes more to ideology than to evidence derived from the experience of poor communities. For many of these communities, market reforms have conspicuously failed to create a framework for enhanced opportunity, increased self-reliance, and poverty reduction.

Structural adjustment in agriculture has had complex and sometimes contradictory consequences, which affect particular groups in different ways. The main effects are mediated through the price system and marketing arrangements. Devaluation and lower levels of taxation on exports have raised the prices generated by the sale of export crops (although the prices of imported inputs have also risen). Meanwhile, parastatal marketing agencies have significantly scaled down their presence in markets, and in some cases been withdrawn altogether. From the standpoint of producers this has meant a change in the intermediary through which they market their produce, with private traders assuming a greater role. The effects of adjustment policies depend upon what people produce, their strength in the market, the distribution of rewards within the household, and the degree to which the withdrawal of the state is followed by the emergence of a competitive private-sector trading system.

Adjustment and commercialisation

One of the central aims of structural adjustment is to improve the balance of payments by encouraging agricultural exports. Commercialisation in this area has been promoted both by macro-economic reforms (such as devaluation and reduced taxation), and by direct investment. Unfortunately, the benefits of commercialisation are often skewed towards large-scale commercial producers, who produce the bulk of marketed production.

In Zimbabwe, the large-scale commercial farm sector accounts for around 90 per cent of the marketed output of crops and livestock. While small-scale communal farmers have dramatically increased their marketed share of some crops, such as cotton and maize, this has been restricted to 20 per cent of the better-off communal farmers.68 Meanwhile, the vast majority of rural households, which are located in overcrowded, ecologically fragile, low-rainfall areas, have few opportunities to expand production for the market. Most of these households are net purchasers of food, rather than surplus producers. One of the prerequisites for any poverty-reduction strategy in this context is a comprehensive redistribution of assets, including land redistribution, coupled with public investment in the social and economic infrastructure of the poorest areas. Without such measures, the benefits from commercial incentives will inevitably be skewed to the advantage of the wealthier. Yet the World Bank's structural adjustment policy for Zimbabwe has focused upon expanding the production of horticultural crops, flowers, tobacco, and cotton, where the benefits will be concentrated on the commercial farm sector. It is true that, if successful, this strategy will generate some rural employment. But it will do little to enhance the autonomy or reduce the vulnerability of the poorest sections of society.69
The boom in non-traditional exports which has accompanied adjustment in many countries illustrates the inequitable distribution of benefits which can flow from market reforms. The promotion of non-traditional exports in Chile resulted in fruit exports growing at over 25 per cent a year in the two decades after 1974. The country is now the largest supplier of seasonal fruit to the northern hemisphere. But while there have been major foreign exchange gains, the bulk of these have gone to the five large fruit companies, four of them foreign-owned, which account for over half of all exports. Fruit exports have created employment, but often on highly exploitative terms. In the Central Valley of Aconcagua, for example, Oxfam supports an organisation for temporary agricultural labourers, who work up to 16 hours a day at harvest-time, and often suffer serious health problems resulting from applications of toxic pesticides. Many of them come from families which were displaced from their holdings in the valley in the late 1970s, when the government lifted the ban on land ownership by foreign corporations and eliminated land-ceiling legislation. For these labourers, the majority of whom are women, the non-traditional export boom has been a mixed blessing, providing a source of income, but on highly insecure terms. These are the words of Luisa Pina, a labourer in the Central Valley:

We are paid to work ten hours, but during the harvest we work for at least 14 hours with no extra pay. Last year I became sick. It was after we were spraying Temik [a severely toxic pesticide] on the peas. I was told I would not be paid if I could not work, so I continued working. Many other women suffered from stomach complaints. But we all continued working...we cannot live if we do not have work.

The costs to women like Luisa of Chile's economic miracle do not figure in national economic accounts or trade statistics. But they are an example of how market reforms can be a double-edged sword, especially where they are accompanied by the withdrawal of effective state protection for minimum health and safety standards and labour rights.

There can be other costs incurred as a result of ineffective state regulation. In Ghana, for example, the World Bank structural adjustment programme, included measures to boost timber exports. These exports have contributed to the destruction of forest cover, which is receding by between 1.3 per cent and 2 per cent a year. Once again, there have been foreign exchange gains, although these are likely to prove temporary. Timber resources have now been depleted to such a degree that the country is likely to become a net importer in the next few years. Deforestation has undermined the livelihoods of some of the poorest communities in Ghana, who depend on forest resources for food, fuel, and medicines. In many countries in which Oxfam works, structural adjustment policies have contributed to the reckless exploitation not only of forests, but coastal waters, in a way which is degrading two of the primary natural assets of poor people: land and water.

Smallholder producers: who benefits?
Among small-holder producers, price and marketing reforms have differential effects; in most countries there is an inverse correlation between the probability of a household being in poverty and the size of its marketed surplus. Higher producer prices will not have a significant impact on the poverty of farmers who market very little of their output, and who produce mainly for their own consumption. In this sense, the price mechanism is a limited instrument for poverty reduction, since it distributes benefits in a manner which reflects market power. In Bangladesh, 75 per cent of marketed surplus is produced by 15 per cent of farms; with the result that an increase in producer prices will offer only marginal benefits to poor farmers. For households which are net purchasers of food (the vast majority of the rural poor), higher food prices might have negative effects, if they translate into higher prices for consumers. Rough estimates show that on
average the rural poor in Bangladesh and India derive 50 per cent of their calorie intake from market purchases.64 Rural labourers are likely to suffer particularly adverse effects from an increase in food prices.

For smallholder producers of export crops, structural adjustment policies can bring economic benefits, as higher prices and reduced taxation increase the returns on production of coffee, tea, cotton, and other commercial exports. Whether these benefits are realised depends partly on the terms on which producers participate in markets. Evidence from Mozambique and Tanzania, for example, suggests that the gains from higher prices fall disproportionately to traders, who are able to exploit the market weakness of producers, and purchase their produce on highly favourable terms.65 From a poverty-reduction perspective, the more significant point is that rural poverty is often highest in regions where farmers are unable to grow cash crops for export, whether because of distance from markets, lack of inputs, or ecological constraints.

The experience of Uganda illustrates these diverse effects of market reforms.66 Under structural adjustment, taxation on coffee exports, the country's main source of foreign exchange, was reduced from over 70 per cent to less than 10 per cent in the early 1990s. At the same time, devaluation increased the local currency value of exports. The combined effect was that the real prices received by coffee producers rose by about 7 per cent between 1987 and 1991, even though international prices fell by half over the same period. Farm-gate prices for cotton, another major export crop, more than doubled. Smallholder producers, such as the coffee producers around Lake Victoria, who account for the bulk of production in both crops, reaped significant benefits. These have been reflected in the rapid growth of production and exports.

By reversing years of disastrous state-marketing practices, structural adjustment measures have, in this case, contributed to the rehabilitation of the agricultural sector and an impressive export-led recovery. They may also have contributed to an increase in wages for agricultural labourers. However, the general rise in prices for tradable goods has not been matched in non-tradable crops, such as cassava, maize, millet, and sorghum, which account for about 70 per cent of total agricultural production. Research by the World Bank suggests that farm-gate prices for these crops fell by 25 per cent between 1987 and 1992. Since the poorest regions, such as the northern part of the country, and the poorest households, depend predominantly on the production of staple food crops, they have not immediately benefited from structural adjustment.67 The same pattern has been repeated in Ghana, where prices received by cocoa producers in the southern part of the country have increased dramatically under adjustment. However, producers of staple foods in the drought-prone northern savannah region suffered a fall in real income during the second half of the 1980s.68

Structural adjustment and women farmers

Whether or not women farmers benefit from structural adjustment depends less upon market prices than upon complex patterns of gender relations. Women and men face different opportunities and constraints in responding to economic policy changes and shifts in prices and incentives. These differences arise from structural inequalities in their respective rights and obligations, which translate into differences in use and control of productive resources.

Policy makers frequently overlook the fact that, in many countries, women farm their own plots in addition to working on the plots of their husbands. The resulting division of labour has important implications for the distribution of benefits from structural adjustment. For example, in Uganda the production and marketing of coffee and cotton is controlled by men, whereas 80 per cent of staple food is produced by women.69 It follows that the distribution of benefits within the household is likely to be skewed in favour of men. In West Africa,
women are more extensively involved in the production and marketing of commercial crops. For instance, women farmers in southern Ghana commonly grow cocoa; in Niger groundnuts provide the main income from women's fields; and in The Gambia women grow and market cotton. However, it would be wrong to assume that men and women operate on the basis of equality. As one reviewer puts it:

*In most cases of women growing industrial or export crops on their own account, the scale is of the order of a sideline. Nor do women and men enter production of these crops in the same circumstances.*

Their different circumstances include, in many cases, exclusion from credit markets, extension services, and marketing infrastructure. In the Katete district of Zambia, where Oxfam works with smallholder farmers, most women produce food crops, while crops such as cotton and tobacco are male-dominated; women tend to produce cotton only on a very small scale. An Oxfam credit survey carried out in 1992 showed that women were virtually excluded from institutional credit, even where they were producing cash crops.

The assumption that benefits from adjustment are equitably shared within the household is flawed in several respects. Where restricted land rights make it virtually impossible for women to obtain credit, as they do in much of South Asia and sub-Saharan Africa, their ability to benefit from market opportunities is diminished. Moreover, improved incentives for crops controlled by men can diminish the autonomy of women in the household, and increase demand for female family labour. For example, the introduction of swamp rice in The Gambia in the early 1980s decreased the workload of men, but increased that of women. Where female labour is transferred in this way, it can have adverse consequences for food production on women's plots and for household food security. In many cases, however, efforts to encourage commercialisation have failed because women prefer to work on their own plots. One irrigated rice project in Cameroon — SEMRY 1 — illustrates the problem. In this case women refused to abandon cultivation of their own fields to produce rice for commercial markets, even though returns were higher. The reason was that the marketing of commercial rice was controlled by men.

**Agricultural markets and poverty reduction**

Like the World Bank, Oxfam believes that measures to enhance the productivity and security of the rural poor are vital for poverty reduction. However, increasing agricultural prices is not a sufficient condition for raising the incomes of the rural poor. Improving the returns on assets held by the poor will not make inroads into their poverty if their productive assets are limited, or if supporting infrastructure is lacking. The social consequences of price reforms and their implications for poverty are determined by the realities of power in the market-place, including the distribution of assets, land-tenure arrangements, and differences in power between men and women. Separated from wider measures to address these realities, increased prices are as likely to exacerbate as to reduce inequality and to compound poverty.

None of which amounts to a case for abandoning price reforms, or for returning to the past excesses of state marketing boards. Proper price incentives for agriculture are vital for national food security, rural employment, and wider economic development. But price reforms need to be accompanied by measures that increase the availability of productive assets for the poor, to enable them to benefit from such reforms, and to reduce their insecurity.

Agrarian reform, including land redistribution and land-tenure reform, is a prerequisite in many countries for poverty reduction. In Latin America, where land ownership is highly concentrated, the benefits of rising agricultural prices are unlikely to benefit the poor. Indeed, increased returns to large-scale commercial producers may result in the dis-
Structural adjustment

placement of labour as a result of increased investment in mechanisation. For Asia, rural landlessness is a major factor in explaining poverty levels. Even in Africa, where land availability is a less pressing problem, landlessness or skewed patterns of land-ownership is a major cause of poverty in countries such as Zimbabwe, South Africa, and Kenya. Allied to landlessness, insecure land tenure and inequitable share-cropping arrangements in much of South Asia contribute to a situation in which higher prices are likely to lead to increased poverty and inequality. Unless such structural inequalities are addressed, market reforms will generate only limited benefits for poverty reduction.

Improving infrastructure is another necessary condition for creating an enabling environment. One of the defining features of poverty in many countries is geographical isolation. Poor people often live in areas badly placed for transport networks, agricultural services, and marketing facilities. Where farmers face difficulties in obtaining inputs or reaching markets, infrastructural investment is necessary to improve productivity. In many cases, however, stabilisation policies result in cuts in public expenditure in these areas, reducing the capacity of farmers to increase output and yields. By contrast, the combination of the rise in prices and increased infrastructural investment which took place in Indonesia during the 1980s resulted in agricultural growth rates which were high even by South-East Asian standards.74

Unravelling the complex implications of price reforms for women is vital to any poverty reduction strategy. This requires information about the different roles of men and women in crop production and marketing, and about intra-household relations. Yet such issues are seldom considered in the design and implementation of adjustment policies, with potentially adverse consequences for the section of the population most vulnerable to the increased insecurity which can result from macro-economic reform. Similarly, market reforms which leave in place the social and economic barriers to the equal participation of women in the market-place, are likely to diminish rather than enhance their opportunities for greater autonomy.

It is argued by some that the advantages in terms of efficiency of concentrating resources on commercial farmers, outweighs the equity gains which would result from redistributing assets: the 'efficiency versus equity' trade-off to which we referred earlier. In fact, this trade-off is more illusory than real. In South Korea, for example, land reform played an important role in increasing agricultural productivity and expanding rural demand, both of which were crucial to the country's economic success. Redistributive measures can do much to reduce the vulnerability of small farmers, who account for the bulk of the poor in Africa and Asia. But they can also bring wider benefits. There is a substantial body of evidence to show that smallholder farmers have higher levels of productivity per acre than large farms.76 They also generate that productivity by using their own labour, rather than by investing in capital-intensive systems of production. In addition, increased rural incomes have important linkage effects with the rest of the economy, generating demands for goods and services. One of the most important economic benefits derives from the savings in foreign exchange which can result from increased food production and a lowering in demand for imported
cereals. Apart from these economic benefits, traditional, labour-intensive production systems are best equipped to maintain soil fertility and minimise soil degradation.

**Deregulating agricultural markets**

Price reform is one of the foundation stones of structural adjustment. Another is the liberalisation of agricultural marketing structures. Here, as in other sectors, there has been a concerted effort by the World Bank to remove the influence of the state from the market in favour of private-sector traders, in the belief that this will enhance productivity and reduce poverty. In one recent publication, the World Bank identified the withdrawal of state agencies from the marketing of export and staple food crops as one of the criteria for successful policy reform. Is such an approach consistent with a commitment to poverty reduction? The experience of liberalisation of the maize market in Zambia would seem to suggest that it is not.

**The Zambian maize market**

Under its structural adjustment programme, the Government agreed to liberalise and privatise the maize marketing system. In 1993, it provided some Kwacha 15bn to a small number of authorised private-sector traders, who were expected to purchase maize at prices above a floor price of Kwacha 5,000 per bag. In the event, however, much of this credit was invested by the traders in government bonds, which yielded far higher profit levels than were attainable from maize marketing. The resulting withdrawal of resources left the maize marketing system chronically under-financed: a classic example of the dangers of unregulated markets. This was in a year when there was a bumper harvest, which could have replenished national food reserves depleted by the drought. Instead, a large proportion of the harvest went to waste, as the marketing system collapsed. Government-authorised traders were unable to pay their agents, who in turn were unable to pay farmers from whom they had purchased maize.

The Government was forced to step into the breach with costly 'promissory notes' to cover the debts owed to farmers. However, many farmers, including Oxfam's project partners in Mumbwa, did not receive payment until five months after harvest, with devastating consequences for the poorest households.

Equally devastating was the entirely predictable concentration of private-sector traders on the more commercially viable agricultural areas located near to transport facilities and markets. The absence of a state marketing system, and failure of private sector traders to fill the vacuum, left women farmers in Oxfam-supported co-operatives in the Petauke, Chipata, and Nyimba districts of Eastern Province unable to market their maize. The Kazimule area of Chipata district, where Oxfam works with two women's groups, is about 45km from the nearest maize marketing centre. Since there is no bus service, the only means of transport is by foot, and the cost of the journey in terms of lost labour time is considerable. Faced with this prospect, many farmers were forced to trade their maize on highly unfavourable terms in a market dominated by a single buyer. Some eventually sold their maize at prices 25 per cent lower than the official floor price. Others were forced into inequitable barter deals. In August 1994, the Zambia Catholic Commission for Justice and Peace reported that poor farmers were bartering cereals for groceries at 'ridiculously low prices', citing the exchange of a 15kg bag of maize for two tablets of soap, worth only a quarter of the value of the maize at the previous year's prices.

One women farmer from a village in Eastern Province summarises her experience under market deregulation in the following terms:

> We were told that the ending of government purchase would be a good thing for us...that we would get a good price from the private traders. I have not seen any traders. This year I got the lowest price I can remember — it was not a fair price. How can I afford to pay for school fees and medicine when prices are so low?
The World Bank, which helped to shape the design of the liberalisation programme, has acknowledged the severe problems which emerged in implementation. The conclusion it has drawn is that these problems did not arise from a headlong rush into deregulation, but from the government's concern to establish a floor price. Affirming its faith in the power of market deregulation to benefit the poor, the Bank commented:

*The principles behind the maize pricing and market reforms are sound and in the long run will help reduce poverty ... Their (i.e. poor producers) position can only be improved under liberalisation, where they will be in a position to choose freely between competing suppliers and purchasers.*

(Keynes' observation that 'in the long-run we are all dead' might have rather more resonance with many Zambian producers.)

It is certainly true that Zambia's maize marketing system was in need of reform. That system set up an unnecessary cycle, in which poor farmers were prevented from milling their own maize locally, which was sold to state monopolies, transported hundreds of kilometres to millers, and transported back in the form of maize meal. Yet the market deregulation measures through which these distortions were addressed proved to be economically inefficient, and highly damaging to the interests of many poor producers.

In Zimbabwe, a similar marketing system to that in Zambia was estimated to reduce the household incomes of the poorest families in communal areas, by raising the cost of their food staple. The Zimbabwe Government's structural adjustment programme has addressed the inefficiencies in the maize marketing system in a constructive way. The state has remained a buyer of last resort, setting a floor under market prices in the more marginal areas. The marketing system has been opened up, so that small-scale millers have been allowed to process maize, ending the monopoly of large urban millers. Small-scale millers are now producing roller meal (a slightly less processed form of maize preferred by most consumers) at prices lower than the previously subsidised price. Recent studies have shown that small hammer mills can supply more than half the demand for maize meal in the main urban centres, providing benefits for the urban population, while reducing demands on public expenditure. This is an example of a market reform process which has worked, without adverse effects on the welfare of poor people.

Stabilisation and small producers

Stabilisation measures have in many countries reinforced the pressures operating on smallholder producers. For instance, in Costa Rica, high interest rates (in excess of 30 per cent) and the reorientation of agricultural production, has diverted credit away from the food-staple sector, in which the vast majority of poor producers operate, into commercial export crops and commercially produced food crops. There is a similar story unfolding in Nicaragua. Between 1990 and 1993 credit provided to the smallholder sector in that country fell by half in the face of a sharp rise in interest rates. Although credit for livestock farming increased, this was oriented towards large-scale producers. Smallholder production of export crops such as cotton, coffee, and oilseeds has fallen, as has production of basic foodstuffs. The result is an increased dependence on food imports and a diminishing ability to pay for them. For a country with one of the world's most crushing debt burdens, this is unsustainable. It is also a prescription for the loss of rural livelihoods, increased poverty, and social dislocation.

The IMF view is that market interest rates are the building blocks for successful adjustment. Both the Fund and the World Bank point to the failures of subsidised credit schemes, arguing with some justification that most have acted as a conduit for transferring public resources into the hands of rural elites. But where small farmers are unable to obtain credit, it is very unlikely that they will be able to benefit from higher...
prices. Indeed, inadequate credit structures are one of the main reasons why the price reforms introduced under adjustment have failed significantly to increase agricultural production.82 Of course, simply pumping out subsidised credit in the general direction of small farmers is unlikely to be either economically sustainable or socially beneficial. What is required are institutions specifically designed to enable small farmers lacking collateral to obtain and repay credit. Such initiatives would combine public and private finance in supporting communities, and their success would be dependent on other support services for farmers being in place, including technical and marketing advice and transport infrastructure.

Stabilisation, trade liberalisation, and growth

Almost all structural adjustment programmes regard budget stabilisation and trade liberalisation as of prime importance, although the specific policies implemented vary from country to country. The aim has been to restore macro-economic stability and growth. Policy recommendations in both areas have tended to favour the simultaneous adoption of radical budget reforms, the deregulation of financial markets to encourage foreign investment, and the withdrawal of trade protection, in what is often termed the 'big-bang' approach.

Budget stabilisation

Measured in terms of reducing public sector deficits, structural adjustment policies have made some important advances. According to the World Bank, the 15 countries in sub-Saharan Africa which adhered most closely to the policy targets set by the Bretton Woods agencies reduced their budget deficits by around one-third between 1983-1985 and 1986-1990.83 However, these cuts were achieved mainly through cuts in spending, rather than increased revenue. The resulting retrenchment fell mainly on public investment, with adverse consequences for economic recovery.84 Oxfam has witnessed some of the resulting contradictions. In the Shinyanga area of Tanzania, for example, Oxfam works with smallholder producers of cotton. These producers increased their planting and production of cotton in response to price incentives, only to see much of their crop go to waste as the state marketing system collapsed. They lost desperately needed household income, and the country lost the foreign exchange earnings which the structural adjustment programme was intended to increase.

Stabilisation policies rely overwhelmingly on interest rates to achieve their objectives. The aim is to restrict money supply by squeezing credit out of the economy and deterring government spending. In recent years, the IMF has encouraged the use of government bonds to 'mop up' what is deemed to be excess liquidity in the economy, and reduce purchasing power. Once again there have been some spectacular success stories, if success is measured against the yardstick of reducing inflation. In Zambia, the squeeze on the domestic money supply lowered inflation from an annual rate of over 200 per cent in 1993, to 30 per cent in 1994.85 The sale of foreign exchange reserves, another measure to siphon money out of the economy, contributed to the dramatic decline in inflation and an unplanned increase in the value of the Kwacha. The IMF duly declared Zambia a model for the rest of sub-Saharan Africa.

What it failed to point out was that real interest rates (i.e. the difference between the inflation rate and the nominal interest rate) in excess of 60 per cent had crippled investment in manufacturing industry, and squeezed virtually all credit out of non-commercial agricultural sectors. These punitively high interest rates made it far more attractive for investors to acquire government bonds than to invest in economic activities. With real interest rates on these bills in excess of 100 per cent in some periods, domestic and foreign investors were able to achieve in absolute security the aim of speculators worldwide: to take a sum of money
and double it, without risk. Meanwhile, the textile industry, one of the labour-intensive sectors which adjustment was supposed to help, was starved of the investment it needed to adjust to increased competition from imports. Over one-third of the workforce in the industry was laid off in 1993, reducing textile towns such as Livingstone to centres of mass unemployment.

Zambia’s experience is a cautionary tale of the dangers associated with the IMF’s obsessive preoccupation with lowering inflation, to the exclusion of all other considerations. Paradoxically, however, the IMF’s supposedly stringent disciplines have given rise to some notably irresponsible forms of budget management. Prior to IMF surveillance, most governments covered budget deficits by the simple expedient of printing money and allowing inflation to act as a regressive tax. Today, they resort to the equally simple expedient of printing government bonds.

In Kenya, for instance, the government has failed to make a dent in its budget deficit, not least because most of it is directed towards maintaining parastatals, which are centres of patronage for the ruling party. What it has done since the IMF’s insistence on the abolition of foreign exchange controls is to generate funds by offering government bonds to foreign investors, who have been attracted by some of the highest rates of return available on world markets. Speculators have made windfall gains, investment has fallen from already low levels (partly because of the rise in interest rates needed to attract foreign speculators), and the country has been left with burgeoning obligations to foreign creditors, to add to those it was already unable to meet. Meanwhile, exporters condemned the government for policies which, by artificially driving up the value of the currency, were rendering them uncompetitive in foreign markets. The ultimate irony is that this exercise in financial irresponsibility is effectively funded by the IMF and foreign donors, since it is they who provide the financial assistance with which the Kenyan government repays its creditors.

**Structural adjustment**

**Trade liberalisation**

Trade liberalisation under structural adjustment is intended to promote export-led recovery by reducing the costs of imports. The stated aim is to promote efficiency through increased competition, while enabling potential exporters to acquire the imports they need to raise productivity. Import liberalisation has been implemented more vigorously than almost any other aspect of adjustment apart from devaluation. Latin America now has lower tariff protection than any other developing region. The average tariff rates in six of the largest countries in Latin America are half those in East and South-East Asia. Much of sub-Saharan Africa has undergone a transformation in trade policy of only marginally less impressive dimensions. In the past, most governments maintained ‘positive lists’ stipulating what imports were allowed in without regulation; most lists were very small. Under structural adjustment programmes most governments now have ‘negative lists’, which allow all goods to be imported on open-general license (OGL) schemes, unless expressly prohibited. In Zambia, the OGL scheme covered 95 per cent of imports in 1992, compared to 10 per cent in 1988.

There was a clear case for carefully phased trade liberalisation in both regions. In many countries, protection of local industry had been raised to excessive levels. Tariff structures had fostered dependence on imported capital goods, instead of promoting more self-reliant industrial structures through effective protection of nascent industries. However, rapid import liberalisation has not created the conditions for a recovery in production and employment. Under the deflationary conditions associated with adjustment, a sudden withdrawal of trade protection can destroy potentially competitive industries by exposing them to levels of competition to which they are unable to respond. Foreign exchange shortages and high interest rates mean that industries are often unable to get the imports they need to improve efficiency. Low levels of
domestic demand and capacity utilisation often compound the uncompetitive position of local industries.

The end result of trade liberalisation under these conditions is often the opposite of that intended by structural adjustment. Employment in local industry is destroyed in the face of intense competition. Local production suffers, leading to an increased dependence on imports, reduced exports, and persistent balance of payments problems. These are often dealt with by yet more deflationary measures, leaving local industry and employment trapped in a vicious downward spiral.90

Compelling evidence for this spiral has recently been provided by Mexico. In the mid-1980s the World Bank provided two major structural adjustment loans to support import liberalisation. These have since been complemented by the North American Free Trade Agreement (NAFTA), which has transformed Mexico into one of the most open economies in Latin America, especially for trade with the US and Canada. The abrupt liberalisation of trade has had dramatic effects, notably in the form of a trade deficit with the US which expanded from $5bn in 1989 to $30bn in 1994. In the latter year, the overall current-account deficit stood at around 8 per cent of national income, higher even than it had been on the eve of the country's debt crisis in the early 1980s.91 Under normal market conditions, this deficit would have resulted in currency devaluation, which would have driven up inflation and prevented the government from meeting its targets for financial stabilisation. The Mexican government sought to resolve this conundrum by attracting speculative foreign capital through government bonds carrying exceptionally high interest rates. As the current account deficit grew, the interest rates needed to sustain these capital inflows increased, before the bubble finally burst in December, 1994 and the Mexican peso lost half its value in two weeks.92

The shock-waves from Mexico's financial crisis spread rapidly to other emergent markets, prompting stock-exchange collapses across the region. But the most devastating effects of the NAFTA have been experienced not by stock-market operators, but by the Mexican poor. The liberalisation of trade with the US exposed fragile domestic industries to levels of competition for which they were ill-prepared. Upward pressure on commercial interest rates reduced investment, especially in medium- and small-scale enterprises, as savings were diverted into speculative bond markets. In 1992 the country's textile industry shrank by 5 per cent, as imports expanded their market share.93 While new, low-wage jobs were being created in the maquiladora zone, employment opportunities overall contracted. In 1993 alone, over 600,000 jobs were lost in the manufacturing sector. Wages have fallen sharply, with minimum wages losing one-third of their value between 1987 and 1994.

The result has been a process of growth through exclusion, with high profits in the financial sector and increased prosperity for the middle classes, obscuring the worsening welfare of the poor. According to one study, almost half-a-million people joined the ranks of the extremely poor between 1989 and 1992. Meanwhile, the already huge gap between rich and poor widened. In 1992, the richest 20 per cent of the population received 54 per cent of national income, compared to 48 per cent in 1984. Over the same period, the poorest 20 per cent saw their share fall from 5 per cent to 4 per cent, mainly due to falling wages.94 It is likely to fall further in the wake of the country's financial crisis. With the rising costs of imports pushing up inflation, the Mexican government has initiated a new round of stabilisation, in which wages will bear the brunt of the adjustment.95 Once again, ill-conceived 'big-bang' trade liberalisation and market deregulation have benefited the wealthy, and the costs have been borne by the poor.

The rapid removal of protection from local industries is socially and economically disruptive even in countries with a diverse manufacturing base. That is why governments in the industrialised world, for all their adherence to
free-trade principles, would never countenance trade liberalisation practices on the scale of those implemented by governments in Latin America and Africa. The social and economic costs of rapid and poorly co-ordinated trade liberalisation are apparent across much of these regions. In Nicaragua, for example, the virtual elimination of tariffs under a 1990 IMF-World Bank programme, coupled with the imposition of severely deflationary policies, resulted in a 14 per cent decline in industrial production during the period 1990-1993. Employment levels fell from an average of 106,000 in the latter half of the 1980s, to 60,000 in 1993. De-industrialisation has also been evident in West Africa, where local industries have contracted in the face of intense competition.

Serious tensions can emerge between stabilisation programmes intended to restrict demand, and economic reforms intended to expand output. These tensions focus on the sequence in which reforms are introduced in the three areas of trade policy, financial and monetary policy, and public investment in social and economic infrastructure. Where import policy is liberalised without countervailing support for domestic industries, then unemployment and disinvestment can result. Similarly, failure to stabilise budgets in advance of import liberalisation can, as in Mexico, lead to rapid inflows of capital which artificially inflate currency values, to the detriment of industries producing for the local market, of exporters, and of the poor. All these problems point to the need for the careful design, coordination, and phasing of reforms in the interests of maximising employment and generating recovery. Unfortunately, the IMF-World Bank continue to favour a 'big-bang' approach, preferring to place their faith in sudden trade liberalisation and the capacity of market forces to restructure economies for the public good.

Labour market deregulation

Labour market deregulation has figured prominently as an element of structural adjustment. Both the World Bank and the IMF argue that past forms of government intervention in fixing minimum wages and enforcing security of employment were an impediment to labour mobility, and a cause of unemployment. As unemployment has increased under structural adjustment, they have argued for the withdrawal of obstacles to mobility and the introduction of 'flexible' labour practices. The sparse regulation of labour markets in South-East Asia is often cited in defence of the case for 'flexibility'.

This approach suffers from several shortcomings. First, it wrongly isolates labour market regulation and high wages as a major cause of unemployment. Wages fell dramatically in Africa and Latin America in the 1980s, even where formal labour market regulations were in place, without improving employment levels. The collapse of the economic model based upon import substitution, and debt, were far more important causes of economic decline than high wages, in both regions. Second, although the suppression of the labour movement in South-East Asia was an accompaniment to economic growth in that region, it is doubtful whether it was a necessary feature, and it was of marginal significance in comparison to wider economic policies. More recently, the improved recognition of trade union rights in countries such as South Korea has not had a negative effect on growth rates. As the ILO has written of Latin America:

"Developments with respect to labour market regulation do not provide confirmation of the view that it is necessary to have an unregulated labour market in order to be internationally competitive." 97

Quite apart from the fallacies in the arguments used to support 'flexible' labour practices, such practices have consequences which are both economically and socially undesirable. They are economically undesirable because, in many countries, low wages and insecure employment lead to low productivity, inadequate training, and high levels of absenteeism. There can be little doubt that, in many
countries, wages have fallen below efficiency levels. In Tanzania, for example, by 1988 the average monthly wage was insufficient to provide an adequate family diet. By 1991, it would barely buy enough food for 20 days. Drastic wage reductions also have the effect of reducing demand for local producers, undermining growth prospects, and deepening recession. The World Bank itself has acknowledged that this was one of the reasons for the failure of Bolivia’s adjustment programme in the 1980s.

Flexible labour markets are socially unjust because they involve highly exploitative labour practices, especially with regard to women. The trend towards ‘flexible’ labour markets has often reduced the return to female labour, and the security of employment. One woman working in a garment workshop in Recoleta, the textiles centre of the Chilean capital of Santiago, puts it in these terms:

*I have four children. If I did not work, they would not eat. But even when I work sixteen hours a day, I make hardly enough to stay alive. I have no contract and no security. How can I build a future like this?*

In Chile, ‘flexibility’, one of the watchwords of structural adjustment, has meant working harder, for longer hours and less pay, with a loss of job security. Even though unemployment has fallen and women are participating in labour markets on an unprecedented scale, adjustment policies have not eliminated long-standing problems of poverty. In 1992, almost half of all workers earned less than enough to provide for their basic needs. As a recent report by the United Nations Research Institute for Social Development confirmed, the single major cause of poverty in Chile is not unemployment, but precarious, low-wage employment.

**A prescription for growth?**

The Bretton Woods agencies both recognise the social costs of adjustment. They claim, however, that economic recovery is taking root in those countries which are adhering to structural adjustment policies. Unfortunately, the evidence upon which this claim is based is exceptionally weak. Evidence of the failure of structural adjustment programmes is particularly comprehensive in sub-Saharan Africa. In no other region have such programmes been applied more frequently. Excluding sectoral adjustment loans, there have been more than 160 World Bank and IMF loan agreements covering over 30 countries since the early 1980s: more than for the whole of the rest of the world. Some countries have had the questionable privilege of uninterrupted structural adjustment programmes for some 15 years. Moreover, these programmes have been supported by around $200bn in net development assistance since 1982. Foreign aid doubled as a proportion of regional GDP from just under 5 per cent for the first half of the 1980s to almost 10 per cent for 1998-1992. These aid flows increased Africa’s share of global aid to almost 40 per cent in 1991. On a per capita basis, sub-Saharan Africa receives around four times more aid than other low-income countries.

Despite these transfers, average incomes in Africa fell by over 1 per cent a year in the 1980s, and have continued their decline in the 1990s. Investment today is lower in real terms than in 1980, and the region has suffered loss of world market share and foreign investment. There is no shortage of candidates to blame for the crisis. Civil conflict, domestic policy mismanagement, corruption, debt, and deteriorating terms of trade, have all contributed to varying degrees. But so have structural adjustment programmes. Attempting to separate the effects of these programmes from other factors, internal and external, is a hazardous exercise, which is made more complicated by the ‘counterfactual’ case: what would have happened without structural adjustment? The question is impossible to answer. Another complication, strongly emphasised by the IMF and the World Bank, is the non-compliance of governments with the conditions of their structural
adjustment programmes. In fact, however, implementation has been more rigorous than is often claimed. According to one World Bank study published in 1990, compliance for all adjustment conditions was in the range of 75 per cent, with particularly high levels of target attainment in fiscal policy, trade liberalisation, exchange rate policy, and wages. Termination of adjustment programmes was a rare occurrence in the 1980s, with only 21 out of 241 programmes being abandoned, and has remained so in the 1990s.

Efforts to gauge the success of structural adjustment programmes have focused on comparisons of countries within various performance categories, ranked according to their compliance with adjustment policies. Studies by the IMF and the World Bank have attempted to establish a correlation between these policies and economic growth rates. This has proved difficult. In one study of adjustment lending in the 1980s, the World Bank concluded that:

Adjustment lending has not significantly affected economic growth and has contributed to a statistically significant drop in investment ratios...Also, adjustment lending programmes did not significantly affect inflation or saving to GDP ratios.105

The World Bank's third review of adjustment lending, published in 1992, confirmed the weak correlation between adjustment policies and growth. 'Core' adjusting countries identified in this study succeeded in expanding per capita income at 1 per cent a year: a growth rate at which it would take 70 years to double per capita incomes.106

Reviews of IMF programmes have reached similarly unfavourable conclusions, although these have been repackaged to provide a more positive interpretation. For example, in a review of 19 countries (all but four African) which had graduated from the IMF's Structural Adjustment Facility programmes to its Enhanced Structural Adjustment Facility Programmes, the Fund claimed to detect evidence which 'confirme(d) that these countries had improved their economic performance significantly', especially when compared to country's without IMF programmes. In fact, the statistical evidence raised more questions than it answered. While countries embarking on SAF did record an increase in growth following the inception of SAF programmes, for the ESAF period the growth rate fell from 4 per cent to 2.8 per cent. This was below the average population growth rate, and only marginally higher than for countries without IMF programmes (which had received less donor assistance, and had a worse external trade environment, and more serious budgetary problems). Moreover, despite a strong increase in the growth of export volumes, countries adhering most closely to IMF programmes did not achieve significantly better results in terms of reducing their budget deficits or reaching more viable balance-of-payments positions. An independent review of the IMF study found no significant correlation between adherence to an IMF programme and improvements in macroeconomic stability.108

These data are open to different interpretations, but what appears beyond serious doubt is that, apart from the disappointing impact of adjustment on GDP growth rates, there is a strong negative correlation between adherence to structural adjustment and investment, with serious consequences for future growth, employment, and poverty reduction. Comparing the position in 1980 with 1986-1990, countries classified by the World Bank as 'intensive adjusting' suffered a drop in investment from 25 per cent of GDP to 15 per cent. Savings also declined, with a resulting increase in dependence on foreign aid. For Africa as a whole, investment rates fell as a proportion of national income in 25 countries, with investment per head falling by half.

Recent World Bank evaluations presented as a vindication of structural adjustment have taken on a slightly desperate air. In Adjustment in Africa: Reforms, Results and the Road Ahead, the World Bank categorises countries according to how closely their economies conform to an adjusted ideal (broadly balanced budgets,
sustainable trade balances, and market-based exchange rates). Six countries — Ghana, Zimbabwe, Gambia, Nigeria, Burkina Faso, and Tanzania — are identified on the basis of having made 'large improvements' over the period 1981-1986 and 1987-1991, which are claimed to be associated with higher growth rates. Summarising its conclusions, the Bank asks: 'Is adjustment paying off in sub-Saharan Africa? The answer is a qualified yes.'

From a close inspection of the evidence, it is possible to arrive at precisely the opposite conclusion. For example, Burkina Faso is included, even though it was implementing a 'home-grown' adjustment programme which bore little resemblance to those advocated by the IMF-World Bank; Zimbabwe did not have a programme with the IMF-World Bank for most of the period, and made little progress in reducing its budget deficit; and Gambia's success was built on a tourist boom which was weakly connected to the rest of the economy. In each of these countries growth was either negative or only marginally positive. Indeed, without Nigeria, where the adjustment programme collapsed in 1988, the group of large improvers would have lower average growth rates than countries which were less diligent in following adjustment-style policies. In reality, very little can be discerned from studies such as this. What they confirm is that large initial devaluations of massively over-valued currencies have a major impact in expanding export production. However, few countries have been able to combine stabilisation with balance of payments improvements and economic growth.

One of the worrying findings to emerge from the World Bank's study, is that agricultural production (as distinct from agricultural export production), has a lower rate of growth in countries adhering most closely to conventional adjustment policies. This trend, which has potentially damaging consequences for rural employment, poverty reduction, and food self-reliance, appears to be closely correlated with reductions in the public provision of extension services under adjustment programmes. External factors, notably a marked deterioration in terms of trade, are partially responsible for the failures of structural adjustment. Even here, however, the design of adjustment policies has contributed.

In the early 1980s, the IMF and the World Bank sought to address Africa's trade imbalances by expanding the production of primary commodities, and raising producer prices through exchange-rate and trade reforms. Expansion of exports of primary commodities was similarly stimulated through project-lending and macro-economic reforms in Asia and Latin America. By encouraging a large number of producers to export a small number of commodities into already saturated markets, however, the IMF and the World Bank contributed to the deep depression in world prices. Cocoa provides a clear example. Between 1980 and 1992, West African cocoa producers increased their production from 1.6 million to 2.3 million tons. Because these countries are major suppliers to the world market, the resulting increase in exports contributed to the collapse of world prices, which fell by more than half over the same period. As a result, countries such as Ghana doubled their exports but earned less foreign exchange. While it was necessary to introduce exchange rate devaluation and lower producer taxes to restore the market shares lost since the 1970s, the failure of the IMF and World Bank either to anticipate the consequences of commodity over-supply, or to encourage moves towards international co-operation in managing commodity markets, was irresponsible.

Recent research by the OECD has confirmed that export promotion for primary commodities has been linked to a deterioration in trade performances. In an economic simulation of the effects of a 25 per cent reduction in export taxes, the OECD found that the resulting increase in supplies and decrease in prices would reduce the national income of major coffee and cocoa exporters by up to 0.5 per cent, and cause a deterioration in the terms of trade of around 12 per cent. Ironically, the IMF has
blamed adverse terms of trade for the failure of many of its programmes to restore balance-of-payments stability.

The oft-cited exception to the picture of Afro-pessimism is Ghana, which has been the IMF-World Bank's five-star performer for more than a decade. More recently, Uganda has succeeded in establishing high economic growth rates, although from a low economic base. The question is whether or not these growth processes are sustainable: the evidence is mixed. By African standards, the 2 per cent a year increase in average income achieved since 1983 is impressive. But at current rates of growth, it will be another two decades before Ghana joins the ranks of middle-income countries; and another 50 years before the average Ghanaian crosses the poverty line. This is despite international aid transfers equivalent to 8 per cent of the country's national income. Meanwhile, there has been little progress towards diversification, manufacturing exports are negligible, and investment rates, one of the keys to sustained economic recovery, are less than a quarter of those in South-East Asian economies such as Thailand. Without its international aid lifeline, there can be little doubt that, after a dozen years of adjustment, the Ghanaian economy would collapse under the weight of a foreign debt which has tripled to $1.3bn since 1986.

**Latin America**

The bleak picture which emerges from sub-Saharan Africa is of a set of policy prescriptions which have failed to establish a framework for economic recovery and poverty reduction. In contrast to Africa, however, Latin America is often presented by the IMF and World Bank as a region which, with some exceptions, has made the transition through macro-economic stabilisation and adjustment to sustained growth. Poverty reduction, so the argument runs, will be the natural outcome of this economic recovery, as growth feeds into the creation of employment and rising incomes.

Unfortunately, the evidence does not sustain the argument. Growth rates for Latin America have recovered from the 'lost decade' of the 1980s, when the region saw its combined income fall by one-tenth. Growth has averaged over 3 per cent a year since 1990, although the recovery has been unequally spread (per capita incomes have declined in Nicaragua and Honduras, for example). Translated into per capita terms, income has increased at the exceptionally modest average annual rate of 1.7 per cent. That is half the growth rate of the 1970s, suggesting that structural adjustment policies may suffer from shortcomings which are more pronounced than those associated with import substitution. At current rates of growth it will take 40 years for average regional income to double. This performance is even less impressive alongside the other benchmark criteria for structural adjustment: inflation and export growth. After falling for three years, regional inflation doubled in 1993, to 800 per cent on an annual basis. At best, the record in this area has been mixed and unstable. Export growth has been feeble in most countries (especially when measured against the extremely low starting point of the late 1980s), averaging around 4 per cent a year. This has proved insufficient to establish balance-of-payments stability, with trade deficits being covered, as they were in the 1970s, by foreign capital flows. Here, too, the central dilemmas of import-substitution remain unresolved. Viewed from a poverty reduction perspective, Latin American growth patterns are neither strong enough nor equitable enough to bring sustained improvements in human welfare.

In its preliminary overview of Latin American economies for 1994, the Economic Commission for Latin America and the Caribbean (ECLAC) concluded: 'Generally speaking, it is clear that growth rates under 4 per cent...are not high enough to allow major inroads in the battle against poverty or to prevent unemployment from remaining unacceptably high.' The deeper question is whether the existing pattern of growth will ever create the employment needed to reduce poverty. Part of the problem is that employment creation is lagging behind
economic growth. Unemployment rose in Brazil, Argentina, and Bolivia. In Peru a growth rate of 11 per cent failed to reduce unemployment, which affects one in ten of the population.

Arguably the most striking feature of Latin America's economic performance has been the huge inflow of foreign capital, amounting to around $184bn over the past three years. These inflows have masked some of the structural weaknesses in Latin America's recovery, notably the huge deficit — amounting to over $50bn — in the region's merchandise trade, but inflows are unlikely to be sustainable in the longer term. Over three-quarters of the funds flowing into Latin America are high-risk, non-investment bonds — more commonly known as 'junk bonds'. The flow is being driven by the attraction of quick profits from investment in government bonds and the sale of government utilities, rather than productive investment in the economy. The resulting growth in financial markets brings major benefits to those associated with them, but few benefits in terms of job creation and increased prosperity for lower income groups. In 1994, direct foreign investment accounted for only $15bn out of $57bn of foreign capital inflows. Quite apart from causing financial instability, the capital inflows have artificially increased currency values, with adverse effects for livelihoods in the real economy. In Mexico, for instance, the over-valued peso made imported foods cheaper, undermining markets for rural smallholders, and encouraging the displacement of local manufacturing production by cheap imports.

The underlying weaknesses in Latin America's recovery are reflected in other areas. During the 1980s, public investment in social and economic infrastructure collapsed. If it is not restored, there is little prospect of economic recovery taking root; and no prospect of its benefits being more equitably spread. During the 1980s, per capita spending on primary education, one of the most important determinants of growth prospects, fell by half, and it remains lower today than in 1980. One in five children of primary school age do not attend school; around one-third of the region's population do not have adequate sanitation or an electricity supply. Economic infrastructure is dilapidated and a deterrent to investment. Yet while there is a growing recognition of the need for restoration, the shifting of government assets and responsibilities to the private sector, and an entrenched reluctance to disturb elite consumption patterns by expanding the tax base, make it difficult to see how public investment is to be financed.

The failure of investment levels to recover raises serious questions over the durability of the economic recovery process. According to the ECLAC, investment rates need to increase from their present level of around 17 per cent of national income to 22 per cent if recovery is to be sustained. Yet there has been only a marginal increase in investment, despite the economic recovery. In 1992, Latin America's investment and savings rates were less than half those for the high-performing Asian countries. This represents an obstacle to poverty reduction which lies at the heart of Latin America's inequitable growth patterns. Despite high real interest rates, domestic savings levels have fallen. One reason is that upper-income groups prefer to use their increasing wealth to buy imported consumer goods, which have been made more easily available through trade liberalisation, rather than to invest it. Latin America's growth is being directed into holidays in Miami, and expensive imported stereos, designer clothing, and other status imports which fill shopping malls from Bogota to Buenos Aires. The disruptive effects of the resulting trade deficit are contained partly through wage restraint, and partly through foreign capital inflows. The high interest rates needed to attract the latter are undermining manufacturing investment and employment creation.
An alternative framework for structural adjustment

There are no ready-made, universal blueprints for successful adjustment to economic pressures. But it is possible to devise a new model for adjustment which combines equity and economic efficiency in a manner which offers hope for poverty eradication into the next century. As we suggest below, international action to resolve the debt problems of the world's poorest countries will be vital if any form of adjustment is to succeed. But so will institutional changes and new policy priorities on the part of the Bretton Woods agencies themselves.

The need for institutional change

The Bretton Woods agencies exercise through their structural adjustment programmes an enormous influence over economic and social policy in developing countries. Yet neither institution is accountable, in any meaningful way, to the citizens of those countries. With some justification, both the IMF and the World Bank are widely perceived in the South as institutions representing Northern interests and offering policy prescriptions designed by Northern governments. The resulting 'democratic deficit' has been summarised in colourful terms by Samuel Huntington, who has written:

In any poll of non-Western peoples, the IMF undoubtedly would win the support of finance ministers and a few others, but get an overwhelmingly unfavourable rating from just about everyone else.

Part of the problem is that the Bretton Woods agencies are governed through a system of 'one-dollar-one vote', with nations allocated voting rights according to their financial stake. Developing countries account for more than three-quarters of the IMF's membership, but they have only one-third of the voting share. Such structures give Northern governments an undue influence. The also create a democratic deficit in developing countries themselves. While urging developing country governments to become more open and accountable to their citizens, Northern governments appear content to see power over economic policy transferred to agencies which they control. The result is a perversion of the principles of 'good governance'.

If developing country governments are to become more accountable for structural adjustment policies which affect the lives of their citizens, they must be given greater power to shape these policies in the World Bank and IMF. Voting structures in both agencies should be reformed to allow for more democratic representation, in which political influence more closely reflects the composition of their membership. At the same time, the Bretton Woods agencies should be more closely integrated into the UN system. It is often forgotten that both the IMF and the World Bank are supposed to be part of the UN, even though they have developed parallel structures. These structures need reform. Both the IMF and the World Bank have a vital role to play in supporting economic reforms and in helping to create the conditions for full employment. This is what they were set up to do. However, both agencies have assumed a powerful role in shaping social policy. It is far from clear whether they are equipped to play that role; or if they are in a position to evaluate the social impact of macroeconomic reforms. These are areas in which the specialised agencies of the UN should be given an enhanced role in the design, implementation, and evaluation of structural adjustment. As we suggested in Chapter 1, these are also grounds for the various social treaty monitoring bodies of the UN to monitor the effect of IMF and World Bank policies on vulnerable social groups. The moral voice of such bodies could play an important role in shaping structural adjustment policies into a broader and more effective strategy for poverty reduction.

Increased openness is also vital to the reform of structural adjustment programmes. Community participation in the social, political, and
The Oxfam Poverty Report

economic sphere is an important element in the adjustment process, both as an end in itself and because it increases the equity and efficiency of development. At present, however, the entire structural adjustment process is opaque and surrounded in secrecy. Developing country governments bear considerable responsibility for this, not least since they have an interest in blaming 'external' forces for policies which may be socially painful and politically unpopular.

Availability of information

There are a number of ways in which this secretive approach could be changed. In general, information should be made more widely and more readily available. Policy Framework Papers, which set out the overall orientation of adjustment policies and include broad targets, are negotiated, usually without public debate, between the IMF-World Bank and governments. People in Zimbabwe had no inkling that the Bretton Woods agencies were recommending increases in user-fees for health and education, or that their government had agreed to them. If they had, community organisations with experience in both sectors could have provided information to guide policy decisions.

This is part of a wider problem which is linked to the refusal of governments and the Bretton Woods agencies to open dialogue on structural adjustment to wider scrutiny. For example, the Policy Framework Papers, which are negotiated between governments, the World Bank, and the IMF, and set out the policies and conditions attached to structural adjustment loans, are negotiated without public debate, and they are not made publically available. Similarly, the World Bank's Country Assistance Strategies, giving its analysis and policy recommendations, are treated as internal documents. Publication of these documents would contribute to an improved public debate. But the wider objective must be to involve at an early stage representative groups, such as trade unions, NGOs, and women's organisations, in designing, monitoring, and evaluating adjustment programmes. It is encouraging that senior World Bank officials are now thinking along these lines.

Greater disclosure of information is especially necessary with regard to the IMF, which operates in an extremely secretive manner. Conditions for stabilisation and monetary policy established by the Fund under its Enhanced Structural Adjustment Facility (ESAF) set the macro-economic framework within which adjustment occurs in many low-income countries. However, the two documents setting out these conditions (the Performance Criteria and Structural Benchmark papers attached to EASF agreements) are made available only to the IMF’s Board and, on a confidential basis, to a handful of other organisations (such as the EU and regional development banks). Once again, greater openness and accountability would facilitate wider participation in evaluating the likely outcomes of IMF conditions.

The IMF, far more than the World Bank, is responsible for the detailed monitoring and appraisal of economic performance. Under its Article IV consultations, the Fund carries out surveillance and reports to its Board on macro-economic performance. It also prepares six-monthly reports on countries with ESAF programmes. These exercises suffer from two major shortcomings. First, the reports focus on narrow macro-economic indicators, without evaluating the implications for poverty, livelihoods, and social welfare provision. Second, they are confidential, as are the Fund’s Recent Economic Development Reports, which provide the most comprehensive accounts of developments under adjustment in almost all developing countries. Once again, these documents should be made more widely available in developing countries, and their scope broadened to include evaluations of IMF programmes with respect to their success in reducing poverty.

Wider participation in the design and implementation of adjustment policies would also allow for more effective monitoring of their
Structural adjustment effects. Through its poverty assessments, the World Bank has made genuine efforts to involve community organisations and NGOs in evaluating the impact of structural adjustment on poverty. It has also attempted to develop participatory assessment methods, finding out from people their own experience of adjustment. These are new and encouraging departures which should be developed. There is some scope for improvement; for example, the poverty assessment procedure is cumbersome, often involving around two years' work to produce reports which are out of date by the time they are published. What is required is a more effective way of monitoring the effects of adjustment as they are felt by vulnerable groups, for example through periodic participatory surveys, and some way of ensuring that poverty assessments feed directly into policy design. Also, more effective methods are needed to monitor the impact of adjustment on women, especially with regard to their time and workloads. It is important that poverty assessments are made more relevant to the design and implementation of adjustment policies. However, there is little evidence at present that the findings from these assessments are influencing the formulation of macro-economic policy.

Reforming stabilisation

Budget stabilisation is a vital precondition for successful adjustment. However, the repeated introduction and implementation of IMF-World Bank programmes in low-income countries suggests that these countries have been unable to restore the conditions for self-sustained growth. In many cases, the programmes have been accompanied by continued economic deterioration, widening inequality, and rising poverty. One reason for these failures is that adjustment policies have tended to exacerbate, rather than eradicate, underlying structural problems in the economy. New forms of stabilisation are needed which combine realistic fiscal targets with equitable ways of achieving them.

Particularly problematic has been the pursuit of unrealistic targets for reducing inflation, with an over-reliance on deflationary monetarist policies for achieving them. These policies are inconsistent with the aims of poverty reduction and recovery. Very high interest rates have hampered economic recovery and investment activity, with damaging consequences for employment creation. Meanwhile, wages have borne the brunt of the counter-inflationary pressure, resulting in dramatic falls in household incomes. According to the IMF, the lowering of wages and the deregulation of labour markets create the conditions for future employment expansion. However, when wages fall below subsistence level, they are not merely damaging for human welfare: they also reduce productivity and demand.

Adjustment policies should set targets for budget deficit reduction and interest rates which are compatible with economic recovery and employment creation. They should also place more emphasis on revenue expansion, through progressive tax measures, as an alternative to reduced public expenditure on social welfare and economic infrastructure. Current approaches to revenue expansion focus on sales taxes and other measures which can be regressive in their effects. There are other options. For example, under a self-imposed adjustment programme in the 1980s, Burkina Faso was able to increase government revenue from 13 per cent in 1983 to 16 per cent of national income in 1986, while maintaining an expansionary economic environment. It was able to do so by improving tax collection and introducing progressive taxes, such as a wealth tax, a property tax on urban landlords, and fees for use of paved roads. Accompanying reductions in expenditure were achieved through measures such as a ban on the importation of luxury cars by government officials.

Policies aimed at reducing fiscal deficits through increased taxation need to be introduced as part of a convincing 'national project' that persuades the private sector that
The government is serious about growth and able to deliver. In this way, tax reform can be introduced in a way which will avoid its acting as a disincentive to investment and employment creation. In Latin America in particular, there are powerful reasons of equity and efficiency for an increase in taxation of the richest section of society to reverse the decline in the ratio of public expenditure to GDP. The richest 20 per cent of the region’s population receive around two-thirds of its income, but pay less than 3 per cent of its tax. Increasing income tax on this group would bring benefits in terms of increased revenue to finance the public expenditure upon which sustainable economic recovery will depend. Supported by import duties and sales taxes on luxury items, it would also curtail the consumption of imported luxury goods which is worsening the chronic trade deficits facing the region.

In the Philippines, the Freedom from Debt Coalition (FDC), has built a mass public campaign against the introduction of a regressive sales tax, which will increase prices for basic items, designed to meet IMF budget targets. While accepting the need for a reduced budget deficit, the FDC campaign is aimed at making the rich pay proportionately more through increased income tax, because an increase in rates of VAT would mean that the poor would shoulder more of the burden. They propose an increase from 35 per cent to 56 per cent in the proportion of tax revenue generated by income tax; stricter enforcement of tax collection to prevent evasion (current evasion rates reduce the tax returns from the corporate sector by one-third and from individuals by two-thirds); the withdrawal of tax privileges for foreign-owned companies; and the withdrawal of ‘tax holiday’ provisions and duty exemption.

Trade policy and the role of the state

One of the central aims of structural adjustment has been to diminish the role of the state in economic life, allowing market forces to dictate economic restructuring. The policy failures of the past have been used to justify this approach. However, there is mounting evidence to suggest that market deregulation has also been profoundly unsuccessful in bringing about sustainable and equitable growth. As the United Nations Conference on Trade and Development has put it: ‘Admittedly, there has been much misguided intervention in the past; but that is no reason to throw the baby out with the bath water.’

As with structural adjustment in the broader sense, there is no blueprint for appropriate trade policy; but there are important lessons from South-East Asia which suggest viable alternatives to the ‘invisible hand’ of the market. Trade policy in South Korea and Taiwan included the extensive but selective use of import tariffs and quotas to protect firms producing for the domestic markets. Export incentives were also provided in the form of cheap credit. These measures formed part of a wider strategy for industrial development, including support for technological innovation and strict controls over foreign investment and capital markets. Governments in both countries played a critical role in directing investment resources into potentially competitive sectors, regulating the markets, and generating new forms of comparative advantage. While there was much greater state capacity in these countries than in many others in the developing world today, this is not an argument for weak states to give up on managing markets. On the contrary, the Asian economic success story underlines the need for both public sector and wider institutional reform.

By contrast, experience under sudden trade liberalisation and the withdrawal of the state is hardly encouraging. Chile is often cited as a model adjusting country which combined relatively high growth rates with a move towards market deregulation and low uniform tariffs during the 1970s and 1980s. However, Chile’s ‘success’ was more partial than is often recognised. The country’s manufacturing export growth has been relatively weak (just over 3 per cent a year in the 1980s). Despite two
Structural adjustment

decades of liberalisation, and its large human resource base, Chile's manufacturing exports are only $96 per capita, compared to $3,5000 for Taiwan. Colombia, unlike Chile, retained significant trade barriers and state intervention during the 1980s, yet it grew faster (despite adverse trends in its terms of trade), diversified its exports more rapidly, and improved its indicators of basic human welfare.129

If there is a lesson to be learnt in this area, it is that successful exporters have usually been able to combine protection of the domestic market with export promotion. The World Bank itself has acknowledged this in a widely-cited study of economic growth in East Asia. According to the Bank, however, the forms of state intervention which underpinned that growth could not be pursued today, partly because they would be inconsistent with obligations under the World Trade Organisation.130 This suggests that there is a powerful case for reforming international trade rules as well as adjustment policies.

One area in which reform is particularly urgent is in the regulation of capital markets, which adjustment policies have sought to deregulate. Evidence from Latin America suggests that speculative capital flows are destabilising recovery prospects by causing severe balance of payments instability. One of the lessons from Mexico's experience is that sustainable recovery cannot be built on junk bonds. There are lessons here from countries such as Chile and South Korea, where governments have actively discouraged speculative capital flows through regulations on profit repatriation and taxes on short-term capital. It is no coincidence that, in contrast to other emergent markets, both countries survived the crash which followed Mexico's financial debacle relatively unscathed.

Finally, structural adjustment policies need to focus to a far greater extent on developing regional trade opportunities. At present, the IMF-World Bank approach to regional trade policy is the mirror image of their global trade policy: namely, that restrictions should be removed across the board. What is needed is a more integrated approach, in which trade policy and other forms of state intervention are oriented towards the expansion of regional trade and employment. This is especially true in Africa, where intra-regional trade still accounts for less than 5 per cent of the total; and where in some regions, notably southern Africa, there are new opportunities for regional integration.

Social equity and conditionality

Structural adjustment policies have failed to achieve their stated poverty-reduction goals of increasing incomes and social welfare provision for poor people. This is because of an undue faith in the capacity of unregulated markets to operate to the benefit of the poor; and a failure to protect social services delivery.

In Oxfam's experience, market deregulation has often reduced the opportunities for poor people. The deregulation of agricultural markets has served, in many cases, to exclude vulnerable communities and enhance the power of powerful trading interests. In manufacturing, the deregulation of labour markets has made employment more insecure, and reduced wages to below the level of subsistence. As we have argued elsewhere in this report, redistributive strategies are needed so that poor people can acquire the productive assets, such as land and credit, which they need if they are to benefit from market deregulation.

The failure of adjustment policies to protect social provision can be traced to two causes. First, the IMF-World Bank and governments have failed to ensure that social expenditure is protected during adjustment. This suggests a case for more effective social conditionality. It will be argued by some that such conditionality would represent an unwarranted intrusion into political sovereignty. Viewed from a different perspective, health care, primary education, and other forms of welfare provision, are basic human rights, which governments and financial institutions both have an obligation to respect. Moreover, if economic conditionality is being enforced, it is hard to see how there can be grounds for not enforcing social condition-
ality. But, important as such conditionality may be, it should be developed not through edicts from the Bretton Woods agencies, but through dialogue and binding contracts involving governments, the IMF, World Bank, and UN agencies. Such contracts should focus on the attainment of specific targets for welfare provision and improvement, and be subject to close monitoring and surveillance by NGOs and grassroots groups.

Second, the move towards financing health and education provision through user-fees has had adverse consequences for poor people. The effect of these fees is to place services beyond their reach, with severe consequences in terms of lost opportunities and, in the health sector, lost lives and debilitating sickness. Against this background, adjustment programmes should aim at the progressive and speedy withdrawal of user-fees for primary health and primary education. Alternative forms of resource mobilisation should be developed at the national level and at the international level to replace revenues lost from cost-recovery.

**Conclusion**

It is now 15 years since structural adjustment policies started to dominate the economic policies of developing countries. Over that period, the Bretton Woods agencies have become increasingly aware of the need for a more poverty-focused approach. This has created the scope for a more substantive dialogue with grassroots groups in the South and with NGOs about the design and implementation of adjustment programmes. But welcome as the public commitment of the IMF and the World Bank to poverty reduction may be, in Oxfam's experience a vast gulf remains between public statements in favour of policies which benefit the poor, and the realities of structural adjustment. In practice, the costs of adjustment are still being borne disproportionately by the most vulnerable sections of society. Moreover, there is little evidence to substantiate the claim that adjustment policies are creating a framework for more equitable growth and poverty reduction. In many countries they appear to be doing precisely the opposite.

With or without the IMF and the World Bank, many developing countries will continue to undergo painful adjustment processes into the next century. Their problems pre-date structural adjustment, and will not be resolved by external intervention. However, the Bretton Woods agencies, by virtue of their political and financial influence, can play an important role in developing genuinely poverty-focused adjustment strategies. If they are to do so, fundamental reforms in policy design and implementation will be vital, including an early departure from the free-market orthodoxies to which both remain wedded. Failure to embark on these reforms will mark a further betrayal of the principles upon which the Bretton Woods system was founded.

For their part, NGOs, including Oxfam, have a responsibility to engage the Bretton Woods agencies in a more constructive dialogue. Defending past forms of state intervention, which have self-evidently failed the poor, is no more a starting place for such a dialogue than a recitation of the received wisdom of free-market economics. All sides in the debate over adjustment share a common interest in developing a better understanding of the effects of macro-economic reforms on the poor; and in involving the poor themselves in the processes through which adjustment policies are designed and implemented.
4 International trade

We grow food to fill our stomachs and as insurance against hard times. But it is the income we get from coffee that clothes us, pays for school fees, and buys seed and implements. In the old days we got a very bad price for our coffee crop. The traders got most of the profit. Now we get a better price because we have formed a co-operative and we control the marketing. But we don’t control the world market, where prices are too low.

COFFEE FARMER, DOMINICAN REPUBLIC

They say free trade is good for our country. They say it will bring new opportunities and more wealth. But where is our opportunity? We cannot compete with this American maize. How can they produce it so cheap? What are we to do? This free trade will be the end of us. Our only opportunity is to leave our land and move to the city.

SMALLHOLDER MAIZE FARMER, MEXICO

In the old days, there were enough fish to support all of our villages. Today, there are fewer and fewer fish. There are giant ships from Japan which come to our shores and take too many fish. We can’t survive if it goes on like this.

FISHERMAN, THE PHILIPPINES

Introduction

International trade conjures up images of giant cartels, impenetrable and seemingly endless rounds of GATT negotiations, disputes between the major economic powers, and frenzied activity on the floors of commodity markets. Such images partially reflect reality. But international trade is also to do with people’s livelihoods and their most basic social and economic rights. For millions of the world’s poorest people trade is part of daily life, and a crucial determinant of welfare. Consider the statements at the head of this chapter; what these accounts suggest is that, from the perspective of the poor, international trade, like economic growth, is neither inherently good nor bad. Trade has the power to create opportunities and support livelihoods; and it has the power to destroy them. Production for export can generate income, employment, and the foreign exchange which poor countries need for their development. But it can also cause environmental destruction and a loss of livelihoods, or lead to unacceptable levels of exploitation. The human impact of trade depends on how goods are produced, who controls the production and marketing, how the wealth generated is distributed, and the terms upon which countries trade. The way in which the international
trading system is managed has a critical bearing on all of these areas.

For the past half century, trade has acted as a mighty engine of growth in the world economy. It has also emerged as one of the central threads in a web of interdependence, integrating national economies into an increasingly global economic system. For some developing countries, trade expansion has played a crucial role in economic development, creating employment and opportunity. Others, however, have been increasingly marginalised, with ruinously low commodity prices and protectionism excluding many of the poorest countries from the benefits of world trade. If these countries are to share more equitably in global prosperity, new approaches to trade management are needed. It is also clear that unrestrained free trade is no longer justifiable, if it ever was, as an end in itself. Trade which is built on the foundations of unacceptable levels of social exploitation, which destroys the environments of vulnerable communities, or causes global ecological damage and disregards our obligations to future generations, is not conducive to sustainable development. Yet too much trading activity conforms to these patterns.

As we approach the twenty-first century, there is a need for new trade rules which reconcile the demands of global commerce with people's social and environmental rights. The current system of unregulated international trade is no more capable of safeguarding these rights than any other form of unregulated market. Unfortunately, governments remain wedded to the principle that trade should be deregulated. Indeed, not since its heyday as the economic religion of nineteenth-century Britain, has the doctrine of free trade enjoyed such unassailable dominance. The expansion of commerce through the deregulation of markets is at the core of the mission allocated to the World Trade Organisation (WTO), the body which, with the conclusion of the Uruguay Round, succeeded the General Agreement on Tariffs and Trade (GATT) and assumed responsibility for managing the world trading system. Trade liberalisation is also increasingly central to economic policy in developing countries. By contrast, issues of sustainable resource management, the regulation of commodity markets, and poverty reduction strategies, are conspicuous by their absence from the international trade agenda.

So, too, are transnational companies (TNCs). In the popular perception, trade is an activity conducted between sovereign countries, each of which controls its own economic destiny. In reality, however, world trade flows are dominated by formidably powerful TNCs. The 'free market' in most of the primary commodities upon which the world's poorest countries depend, is actually controlled by a handful of private companies. At the same time, economic deregulation and new technologies have made TNCs more mobile. Through their trade and investment activities, these companies are shifting resources between economies and creating global production systems, over which governments have little control. The full implications of the growing mobility of capital have yet to be grasped. It is already clear, however, that as borders become more porous it is increasingly possible for TNCs to exploit differences in social and environmental standards with a view to maximising profits. This carries with it the threat of a constant downward pressure on these standards towards a lowest common denominator. Governments have facilitated the increased mobility of capital by progressively withdrawing controls on foreign investment at the national level, and by instituting, under the auspices of the WTO, international trade rules which limit the rights of governments to control the activities of TNCs. Yet there is no countervailing force, either at the national or the international level, to defend the social and economic rights of people. The result is that public welfare and sustainable development have been subordinated to the pursuit of corporate self-interest and commercial profit.

Fifty years ago, the Bretton Woods conference sought to recast a failed global trading system in a new mould. In the words of Harry Dexter-White, the chief US negotiator:
International trade

We must avoid the pre-war pattern of every country for itself, of inevitable depression, of possible widespread chaos, with the weaker countries succumbing first under the iron law of the jungle that characterised international economic practices of the pre-war decade.¹

The discriminatory trade policies of the inter-war years, which had resulted in cycles of beggar-your-neighbour protectionism, were to be consigned to history. Instead of each country for itself, the system envisaged was to be built upon international co-operation and respect for shared rules and values. Non-discrimination, the regulation of commodity markets, and control over international monopolies, all figured prominently in the blueprint for a new order which emerged from Bretton Woods.² In the event, that order was never put into operation. But the vision of the Bretton Woods conference remains a powerful inspiration. That vision was based, above all, on a commitment to establishing a system of management of world trade which placed the advancement of human welfare above the reckless pursuit of short-term commercial advantage.

The world has changed since 1944, and it is not possible to resolve today’s problems through yesterday's solutions. Some of these problems, such as the concentration of power in the hands of TNCs, were only dimly perceived at Bretton Woods. Others, such as the linkages between trade and environmental deregulation, were absent from the agenda. But what the Bretton Woods conference offered was a simple but radically new approach to trade reform. It was taken as axiomatic that governments should regulate the global market-place in the public interest. Today, the problems posed by international trade are at least as formidable and potentially destructive as those faced at the Bretton Woods conference. Yet governments have offered no viable framework for protecting social and environmental rights in the global market-place of the mid-1990s.

There are no simple answers. Free trade, to the extent that it has been pursued, has failed. But finding alternative ways of balancing the sometimes competing claims of economic growth, employment creation, sustainable resource management, and social equity, is not easy. Outright protectionism is no more likely to achieve these diverse aims than free trade. Protectionist arguments, like those of free-traders, are often little more than a smoke-screen for the pursuit of sectional gain against the public interest, or for the imposition of discriminatory measures on developing countries. What is clear is that to continue on the present course will impose huge costs on vulnerable communities, and threaten the interests of future generations. New institutions and policies are urgently needed to create an international trading system which will enhance human welfare into the next century.

The new world trade order

During the post-war period international trade flows have expanded by a factor of twelve, to over $4.0 trillion. These flows have played an important role in increasing global prosperity.³ Since the early 1980s, for example, international trade has grown half as much again as the growth of national products, so that imports and exports have figured increasingly prominently in the economic activity of most countries.⁴ On average, trade accounts for around one-third of national incomes for middle-income countries, and one-quarter for low-income countries. But while trade remains an engine of economic growth, international trade relations are undergoing a profound transformation. Most obviously, there is no single dominant economic power. In the 1960s and the 1970s, the US played that role, effectively policing the international trading system and maintaining a momentum behind liberalisation. In the 1990s, there is a multipolar system, with power concentrated in three blocs: North America, Europe, and, increasingly, the Pacific Rim.⁵ Within this more diffuse power structure, trade relations are being transformed by:
• increased flows of foreign investment and the globalisation of production under the auspices of TNCs
• trade liberalisation in developing countries
• regional divergences
• new institutional structures.

Foreign investment

Foreign investment is the driving force behind the emergence of an increasingly integrated international economy. Improvements in telecommunications, new information technologies, reduced transport costs, and the removal of barriers on foreign capital, have made it possible for companies to transfer technologies and organise their production and marketing activities on a global basis. The national car, like the national economy, has long been a thing of the past. Even something as apparently all American as the Pontiac Le Mans is made up of parts produced in 18 different countries. Now the Ford motor company has unveiled a massive restructuring plan which will take globalisation in the automobile industry a stage further, integrating its European, North American, Asian, and Latin American operations into a single, global, co-ordinated system of production, establishing a model which its competitors will follow. This represents an advanced stage in the internationalisation of production. But it is being repeated on a more modest scale throughout the world.

High streets in the industrialised world provide plenty of evidence of globalisation. Twenty years ago, most of the video recorders exported by the Japanese company Mitsubishi were made in Japan. Now they are all made in South-East Asian countries like Thailand, where Japanese firms account for 7 per cent of manufacturing employment. Top-of-the-range shirts and dresses for chic middle-class consumers are manufactured in Bangladesh and China, from cloth exported from Europe and North America. One of France’s largest electronics groups now employs three times as many people in Asia as in France. In Mexico, blue-chip US companies such as General Motors export gear-box components to its maquiladora plants in Mexico, for assembly and re-export back to the US. The investment driving these changes has provided employment in many countries, including industrially advanced countries. Holdings by foreigners of companies registered in the EU, the US, and Japan increased from $800bn to $1300bn between 1986 and 1991.

International specialisation in company operations is not new; nor is production in the South by foreign companies seeking to export to the North. It is the sheer scale and pace of globalisation which is unprecedented; and the manner in which foreign investment flows are transforming economic relations. During the 1980s, foreign investment by the industrialised countries increased dramatically. Initially, much of that investment was directed towards other developed countries. In recent years, however, developing countries have figured increasingly prominently in foreign investment flows. In 1993, they attracted some $80bn in such investment. That was approximately twice the amount they received two years earlier and equivalent to total world investment flows in 1986.

Most foreign investment in the developing world goes to a core group of about a dozen countries in Asia and Latin America. China is now the world’s second largest host to foreign investment, with $26bn of inflows. In Latin America, Brazil and, until the recent crisis, Mexico, have dominated. But behind these aggregate pictures, changes are taking place in capital flows within the developing world. Rising wage costs in the first generation of newly-industrialising countries (NICs) have prompted the transfer of Japanese investment to Malaysia and Thailand, where wage costs are one-tenth of those in South Korea and Taiwan. More recently, Vietnam has emerged as a new growth point, diverting foreign investment from the second generation of NICs. Since opening its economy to foreign investors in 1988, Vietnam has attracted $7bn
in foreign capital. In Latin America, export-processing zones are expanding rapidly in some countries as a point of entry to the US economy. Mexico is the most significant example, but other countries are in competition; in the Dominican Republic, the number of such zones has increased from 18 to 27 since 1988, with foreign investment rising from $0.5bn to $1.2bn over the same period.

The power of TNCs

The increasing specialisation in the international economy is intimately associated with the rise of TNCs. The 100 largest TNCs control over one-third of the stock of foreign investment. World trade itself is becoming an increasingly corporate affair, with around 40 per cent taking place within companies. The economic power of these companies is difficult to comprehend. General Electric, General Motors, and Ford, for example, have between them assets roughly double the GDP of Mexico. The largest ten TNCs control assets which represent three times the total income of the world's poorest 38 countries (excluding China and India), with a population of over one billion people.

In the past, foreign investment by TNCs was often determined by a concern to locate production in markets to which import access was denied through restrictive trade barriers. Increasingly, however, it is directed towards re-export and the global integration of production. In China, the share of foreign affiliates of TNCs in the country's exports rose from 9 per cent in 1989 to over 25 per cent in 1993. German chemical giants such as Bayer and BASF have relocated plants from Europe to China's coastal provinces, partly with a view to re-exporting to Europe and South-East Asia. Foreign firms now account for more than half of manufactured exports in Malaysia, Mexico, and the Philippines; and as much as three-quarters in Thailand. Thus developing countries are becoming increasingly important export bases for TNCs seeking a low-wage manufacturing site from which to export to high-wage consumer markets in the industrialised world.

The technological revolution

In the past, there were limits to the transferability of capital. Some of these were politically determined: developing country governments were often hostile to foreign investors, imposing tight controls on profit repatriation and ownership. Other limits were inherent in production technologies, many of which required high levels of skills and maintenance. Today, by contrast, most governments maintain an open door to foreign investors; and the micro-chip revolution has transformed production systems, making it possible for companies to transfer the most productive technologies. As Klaus Schwab, the President of the World Economic Forum, has argued, what is distinctive about the world trade order as we approach the next century is the relative ease with which capital and technology can be transferred across borders. Potentially, this has the power to revolutionise relations between the industrialised and developing world. In the old order, high wages in the North reflected the higher productivity of the technologies used. Coversely, low wages in the developing world were linked to technologies with lower productivity. Limitations on the mobility and transferability of capital kept these two high- and low-wage worlds separate. Now, the ease with which capital can be transferred has severed the link between high productivity, high wages, and the most productive technologies, and made it possible to combine low-wage labour with highly productive technologies.

There is a countervailing force, in that labour in industrialised countries generates higher levels of productivity—a consequence of differences in infrastructure, education, and other factors. However, these differences are being eroded. In the automobile industry, robotic production systems are diminishing the productivity gap between car workers in Mexico and the US. In labour-intensive industries, such as footwear, textiles and, to a more limited
extent, iron and steel, some developing countries are outstripping their Northern competitors in the productivity stakes. As these industries expand their exports to the industrialised world they generate foreign exchange earnings, which will in turn finance imports, and drive the cycle of trade expansion. New jobs will be created to produce for expanding Third World markets, locking North and South into a virtuous circle of growth and prosperity. That, at least, is the theory. But it is a theory which ignores the fact that there are winners and losers in the industrial world. The winners are to be found in the more sophisticated, high-wage, knowledge-intensive industries. The losers are located in the low-skill, low-wage sectors, where competition with Third World exporters is most intense. According to one study, competition from Third World imports reduced the demand for unskilled labour in the industrial world by 15 per cent in the 1980s alone. This fall in demand has contributed both to increasing income inequality in North America and parts of Europe, insecurity of employment, and to the growing phenomenon of poverty in employment as a result of low wages.

In the US, the growing discrepancy between the wages of high- and low-skilled workers has contributed to levels of inequality unprecedented in post-war history, with the real incomes of the richest 20 per cent having risen by one-fifth since 1990, while those of the poorest 40 per cent have remained static. In Britain, around one-third of workers now earn less than 68 per cent of the national average wage, a 25 per cent increase since 1979. Such trends are not caused solely by import competition from low-wage economies, but they are powerfully influenced by them. Thus international trade relations raise important issues of poverty and inequality for the North as well as the South.

Regionalisation

Media images of the world breaking into three mutually hostile trading blocs in Asia, Europe, and the Americas, have given rise to a perception of regionalisation as the antithesis of internationalisation. 'Fortress Europe', well-publicised clashes over agriculture and microchips, and economic sabre-rattling by the US against Japan have provided the headlines. In fact, the images are almost entirely divorced from reality; the new patterns of regionalism have been oriented towards liberalisation, economic deregulation, and integration into the global economy.

Latin America typifies this new regionalism. Since the mid-1980s, one country after another has been embarking on economic liberalisation at a rate which governments in the North would never contemplate. Average tariffs in the region were reduced by half between 1991 and 1993 to 12 per cent, less than a quarter of those prevailing in the mid-1980s. Quantitative restrictions have also been withdrawn from countries such as Bolivia and Brazil, where they previously covered a large share of imports.

The North American Free Trade Agreement (NAFTA) has linked Mexico, the US, and Canada into one of the world's largest free-trade markets (second only to the EU) and stretching from Yukon to Yucatan. As a result, the tariffs and quantitative restrictions which have characterised the Mexican economy are being phased out. Moves are now under way to integrate Chile, already Latin America's most open economy, with an average tariff rate of 11 per cent, into the NAFTA. In 1995 a new customs union was created between Brazil (Latin America's largest and, traditionally, one of its most protected, economies), Argentina, and Uruguay. This is likely to form the foundation of a continent-wide free-trade area, linking up with NAFTA and extending to the Andean Group of countries (Venezuela, Colombia, Ecuador, Peru, and Bolivia) early in the next century.

These moves towards liberalisation have substantially increased regional trade flows, as well as trade with North America. Trade among the 11 largest Latin American economies has doubled since 1989, and these intra-regional
flows now account for almost one-fifth of total trade. Brazil, the dominant regional economy, has seen exports to its Mercosur partners rise from 4 per cent to 14 per cent of the total since 1990. Restrictions on capital flows have also been reduced under regional free-trade pacts. This is accelerating the creation of a regional free-trade market linked, through capital markets and trade, to North America.

In Asia too, countries have been removing tariff and other barriers to trade at an accelerating rate. Average tariff levels have fallen dramatically in countries such as Malaysia, the Philippines, and Indonesia. Such moves reflect an impetus to regional free trade within the Association of South East Asian Nations (ASEAN). More significantly, the Asia-Pacific Economic Co-operation (APEC) forum, created in 1993, holds out the prospect of an extended free-trade area, linking the NAFTA with Japan, China, South Korea, and Pacific Rim states such as the Philippines, Malaysia, and Thailand. Under an ambitious plan drawn up by the US, APEC members are now considering a proposal to abolish all trade barriers by 2020, locking more than half the world's population and 40 per cent of its trade into a free-trade zone. With the Pacific Rim countries growing at three times the rate of the Group of Seven countries, the strategic interest of the latter in easier access to Asian markets is considerable.

Far from turning inwards, the European Union has been actively seeking to expand its trade ties with the other blocs. Since 1986, Europe has been the largest trading partner with the four Mercosur countries, with which it is now negotiating a free-trade arrangement. This move is one of a series designed to link Europe more tightly with potential growth points in the world economy, including the ASEAN countries. Meanwhile, the integration of Chile, with its Pacific coastline and strong economic ties with Asia, into Mercosur is creating an embryonic free-trade zone between Latin America and Asia. These evolving ties between Europe and Latin America on the one side, and Latin America and Asia on the other, illustrate how the mosaic of separate free-trade agreements are combining to form an increasingly liberalised global trading and financial system.

That system is being consolidated by the Uruguay Round GATT agreement. Three-quarters of the 117 countries which signed that agreement were developing countries. Under the GATT accord, trade restrictions will fall across a wide range of areas, although the merchandise exports of developing countries will continue to face discriminatory treatment in world markets. Where the agreement could prove even more significant is in boosting foreign investment. For example, the agreement on trade-related investment measures will prohibit governments from requiring as conditions for market access that TNCs meet criteria for training nationals, use a minimum content of domestically produced goods in production, or generate sufficient exports to cover the foreign exchange costs of their operations. Similarly, the General Agreement on Trade in Services will require governments to remove restrictions on the repatriation of profits and capital in the financial services sector. Both provisions will reinforce the trend towards the globalisation of production and investment, especially with the anticipated admission into the WTO of China, Russia and Vietnam.

Trading prosperity and decline

Almost all countries are becoming more dependent on trade to maintain growth and employment. But trade has acted as a more powerful engine of growth for some countries than for others. International trade played an important part in fostering the original South-East Asian 'miracle' and in maintaining the dynamism of economies in the region. At the other extreme, sub-Saharan Africa has suffered continued economic decline, in part because of the unfavourable trade environment in which the region operates.

During the 1980s, South-East Asia's export growth rate averaged 10 per cent a year: more
than double the world average. That trend has continued into the 1990s, boosted by the performance of China and Vietnam. It is projected to continue into the next century. By contrast, sub-Saharan Africa's export growth was barely positive in the 1980s and has registered only marginal improvements in the 1990s. With merchandise exports accounting for one-fifth of regional income, this goes some way towards explaining the catastrophic decline in living standards experienced by the region. These contrasting fortunes reflect an interplay of domestic policy with external factors.

Some of Africa's problems can be traced to grossly incompetent economic management. The predatory activities of state marketing boards which over-taxed producers, and persistent currency over-valuation which undermined export competitiveness and reduced local earnings for exporters, led to dramatic losses of market shares in primary commodities. At the same time, debt and generalised economic crisis led to a collapse in economic infrastructure and a process of 'import strangulation', as foreign exchange shortages prevented producers from importing essential requirements. Overall, imports fell by 5 per cent a year in the 1980s. But it is sub-Saharan Africa's continued dependence on primary commodities which has made the region so vulnerable.

As a group, developing countries have dramatically increased their share of world manufacturing exports, accounting for almost 25 per cent, compared to 5 per cent in the early 1970s. South-East Asia generates over 75 per cent of these exports, and there is a direct correlation between the region's reduced dependence on primary commodities and its growth performance. Developing countries in which manufactured goods compose 50 per cent or more of total exports have achieved consistently higher growth rates over the past two decades than primary commodity exporters. Between 1980 and 1992, manufacturing exporters grew at an average rate of 7 per cent a year, or four times faster than commodity exporters. As international trade becomes increasingly knowledge-intensive, this divergence is likely to continue.

For sub-Saharan Africa, where primary commodities account for 80 per cent of exports, the consequences could prove disastrous. Only six countries in the region derive 20 per cent or more of their export earnings from manufactured goods. The fundamental weakness of Africa's economies is further underlined by the fact that, with around 10 per cent of the world's population, they account for 0.4 per cent of world manufacturing exports and less than 1 per cent of world trade. Foreign investment flows appear to offer little prospect of transforming this picture. While it is true that foreign investment and flight capital is returning to countries such as Ghana and Uganda, and that South Africa will continue to attract private capital, Africa as a region is becoming increasingly marginalised. Collectively, the region receives less foreign investment than Malaysia, its share of world investment flows having fallen by half to 0.5 per cent since the early 1980s.
International trade

Figure 4.2 Percentage growth rate of economy of developing countries according to type of exports

<table>
<thead>
<tr>
<th></th>
<th>1970-80</th>
<th>1981-92</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-oil commodities</td>
<td>3.0</td>
<td>1.4</td>
</tr>
<tr>
<td>Fuel</td>
<td>5.1</td>
<td>0.5</td>
</tr>
<tr>
<td>Manufactured goods</td>
<td>6.5</td>
<td>6.8</td>
</tr>
<tr>
<td>Diversified</td>
<td>5.7</td>
<td>3.6</td>
</tr>
</tbody>
</table>

*Source: World Bank*

Institutional structure

Another distinctive feature of the current global trading system is the new institutional structure through which it is now being managed. The General Agreement on Tariffs and Trade (GATT) emerged by a circuitous route from the Bretton Woods conference. It was intended to oversee a trade regime built upon the principles of transparency, non-discrimination, and a shared commitment to multilateralism. In practice, the GATT’s rules were largely ignored by the industrialised countries, especially after competition from developing country exports intensified from the 1960s. Moreover, the GATT’s remit did not extend to areas such as investment, intellectual property management, and the regulation of trade in services.43

All this will change with the creation of the World Trade Organisation (WTO). In contrast to the GATT, its successor has wide-ranging powers to enforce compliance with the principles of trade liberalisation. It will also have the power to enforce the liberalisation of foreign investment and the protection of intellectual property rights. As we argue below, the Uruguay Round agreement, which the WTO will oversee, does not address many of the interlocking problems facing developing country exporters, such as commodity price stabilisation; and its rules on investment and intellectual property may compound many of these problems. Meanwhile, the GATT agreement on agriculture, which the WTO will implement, does little to address long-standing problems of subsidised over-production in the industrialised countries.

There is also a growing concern that the WTO does not create a viable framework for the social and environmental regulation of international trade. While the treaty includes a commitment to promoting sustainable development, its rules are focused almost entirely upon the narrower objective of trade expansion.46 Developing countries have reacted strongly against suggestions that the WTO should be used to establish minimum social and environmental standards, fearing that this could encourage protectionist action. They point out, with considerable justification, that poverty is the real cause of low standards; and they claim that access to Northern markets is vital to raising these standards. Equally, however, the world cannot afford a global trading system which subordinates all other considerations to trade expansion under the auspices of footloose TNCs. What is needed is an international regulatory system which protects the basic rights of people, without jeopardising legitimate trade interests.

International trade and sustainable livelihoods

It is not only deepening economic interdependence which is a striking feature of the global economy. Social and ecological interdependence is no less obvious. The terms of that interrelationship have a crucial bearing on human welfare; and on whether trade acts as a positive force for human development, or as a negative force for increased marginalisation.47

All international trade involves some element of specialisation, in which countries, commun-
ities, local manufacturers, and traders or foreign investors seek to exploit a competitive advantage. That advantage, which is shaped by economic policies and international circumstances, can derive from public investment in social and economic infrastructure, from natural factors such as climate and the availability of natural resources, or from the skills of the work force and the price of labour. It can also derive from unacceptable levels of exploitation, both of people and of the environment. Inevitably, there are complex trade-offs and dilemmas in determining what constitutes an 'unacceptable' level of exploitation. For example, production for export may cause ecological problems while at the same time creating employment opportunities for highly vulnerable populations. Exploitation and poor labour standards are often associated with export production: but the old aphorism that it is better to be exploited than to be unemployed carries special weight in developing countries. Such dilemmas pervade debates on international trade. But it is increasingly clear that the present terms of world trade are highly disadvantageous to poor countries, while the pursuit of trade expansion without regard to ecological constraints is likely to prove disastrous to present and future generations alike.

Natural resources

Around 25 per cent of world trade involves the import and export of primary products, such as timber, fish, minerals, tea, and coffee. Many of the world's poorest countries are heavily dependent upon such exports for their foreign exchange earnings. However, the export of natural resources often involves environmental and, sometimes, social, costs which do not figure in national accounting systems.

Consider, for example, the massive increase in shellfish exports from developing countries. During the 1980s, consumption of shrimps doubled in the US and Japan, generating a sustained increase in exports from South-East Asia. The foreign exchange gains have been substantial. By 1990, shellfish was the largest non-oil commodity export from developing countries, having surpassed coffee by a comfortable margin. For some low-income countries, such as Bangladesh and Vietnam, shellfish is now one of the largest sources of foreign exchange. However, shrimp and shellfish farming along the coasts of tropical countries is destroying the world's mangrove forests, with disastrous social and economic consequences.

In the Philippines, mangrove swamps have been cleared at an average rate of 3,000 hectares a year to make way for large commercial prawn farms, most of them owned by Japanese companies producing for export to Japan. These swamps now cover less than one-tenth of their original area. The destruction of the mangrove breeding grounds means a progressive lowering of fish catches each year for local fisherfolk. On current trends, the Philippines' remaining mangrove swamps will be destroyed within a decade. In Bangladesh the expansion of shrimp farming has been associated with the forcible displacement of smallholder producers, often involving considerable violence. In addition, the demands of the shrimp industry for fresh water has severely depressed the water table in many areas, creating water shortages and adding to problems of salinity.

Offshore, there has been a parallel depletion of natural resources vital to community livelihoods. Mismanagement and over-exploitation of fish stocks in the industrial world has increased dependence on fish stocks in the South. In the decade up to 1987, the volume of fish exported by developing countries increased four-fold, to almost 70 per cent of world trade in fish stocks. European factory ships now supply their home markets by draining fishing grounds off West Africa of their stocks. In Senegal, the livelihoods of over 35,000 small-scale fisherfolk has been threatened by the encroachment of EU fleets into their traditional fishing grounds. Having failed to manage fish stocks in its own territorial waters sustainably, the EU is now extending its unsustainable practices into the developing world. Governments...
receive foreign exchange for fishing quotas, the
stocks and the profits flow back to the EU, and
local communities suffer a destruction of their
livelihoods. This is the unacceptable face of
trade in operation. In Chile, where coastal fish-
ing stocks have been depleted by factory ships
producing animal feed compound for the EU
market, the Federation of Regional Fish
Workers has drafted a fishing law which would
ban exports of fish from areas reserved to meet
the needs of local communities.

Livestock farming illustrates in stark form the
potential conflict between trade expansion and
sustainable resource use. In Costa Rica, the
expansion of beef exports to the North
American market was a driving force in the
country’s trade expansion during the 1960s
and 1970s. The price of satisfying the booming
US demand for hamburgers was the destruc-
tion of the country’s rainforest, only 17 per cent
of which remained intact by the mid-1980s.
Cattle ranches forced smallholder producers
off their land on to fragile hillside slopes and
into forests, accelerating deforestation and soil
erosion. By 1984, over half of Costa Rica’s agri-
cultural land was under pasture, even though
most of it was unsuitable. From 1979 to 1989,
the country lost an estimated 2.2bn metric
tonnes of soil to erosion.52 To make matters
worse, these huge social and environmental
costs were sustained for an enterprise which
was, by any normal market criteria, commerci-
ally unviable. Cattle ranching was controlled by
a small group of 2000 politically powerful
families, who received huge government subsi-
dies, export grants, tax concessions, and
subsidised imports.53 Subsidised credit, most of
which was never repaid, enabled commercial
ranchers to reap huge profits. Although impres-
sive quantities of foreign exchange were
earned, the environmental costs in terms of
resource depletion were equally impressive,
draining the country of an estimated 5 per cent
of its national income each year.54

A similar story is continuing to unfold in
Botswana, where privileged access to the EU
market under the Lomé Convention has en-
couraged the expansion of cattle ranching on
the country’s fragile semi-arid soils. Chronic
soil erosion has resulted. Meanwhile, the en-
closure, with World Bank assistance, of vast
areas has decimated the nation’s herds of
migrating wildebeest, threatening the security
of the vulnerability rural communities which
depend on them. Once again, the main benefici-
aries are a small group of wealthy ranchers who
control the bulk of the exports.55

The timber trade and deforestation
The international timber trade’s role in rain-
forest destruction is well-documented. Indus-
trialised countries account for over 90 per cent
of timber imports, which are used for a variety
of purposes. In Japan, construction companies
make disposable moulds out of tropical hard-
wood. Mahogany from Ghana has proved pop-
ular for toilet seats in Europe. Chile exports to
the North American furniture industry 100-
year-old trees in the form of woodchips. These
exports generate foreign exchange, but often at
a huge environmental cost. Commercial timber
logging has denuded the Malaysian states of
Sarawak and Sabah, which supply over 90 per
cent of Japan’s timber imports, and increased
the rate of clearance for natural forests four-
fold in the two decades up to 1990.56 In
Sarawak, the local Penan people are engaged in
a last-ditch effort to protect the remaining
forests, upon which their survival depends.
During the 1980s, Ghana’s export drive includ-
ed an expansion of tropical timber exports
which reduced its forest area to a quarter of its
original size. Like Côte d’Ivoire, the country
will soon be making the transition from a net
exporter to a net importer of timber.57 Com-
mercial logging represents a profound threat to
food security of local communities which
depend on forests for food, fuel, and medicine.
It also reinforces wider pressures on forests.
Logging is often the beginning of a new cycle of
deforestation, as it enables small farmers to
convert degraded forest to farmland.

As in other forms of trade in natural res-
sources, the benefits of timber exports are often
illusory. In the Philippines, commercial logging removed 10 million cubic metres of timber annually in the 1970s.58 Foreign companies were given short-term leases to extract timber, which created an incentive to log their concessions as rapidly as possible and leave. By the end of the 1980s, the country had started to import wood. Meanwhile, the economic benefits were considerably overstated by the undervaluing of the forest ecosystem. The Philippines government received an estimated 11 per cent of the value of timber exports in the form of forest charges and export taxes, with the rest going to timber operators.59 Set against these gains are the inestimable costs of lost forest resources, such as fruits, nuts, fuelwood, and biodiversity; increased exposure to soil erosion, as fragile slopes are exposed to sun and rain; and lost livelihoods of forest dwellers. Moreover, provinces in the Philippines affected by massive deforestation have become major disaster areas when hit by tropical cyclones.

In Thailand, where logging reduced forest cover from 55 per cent to 28 per cent of the country's land area between the early 1960s and 1988, deforestation contributed to mud slides, floods, and consequent loss of life, none of which registered in the 'loss' margin of the country's national accounts.60 Studies have repeatedly shown that preserving forests and managing their resources in a sustainable manner not only prevents these losses; but also that it generates returns in terms of employment and income comparable to those generated by commercial operators.61 But because the goods and services provided by forests to local communities do not have an easily measurable monetary, or market value, they also do not appear in national accounts.62

Unsustainable practices

Reducing the environmental toll associated with commodity trade will require action in several areas. Increasing the value of exports could help in many cases, by reducing the volume of natural resources needed to generate an equivalent amount of foreign exchange. Unfortunately, there are several obstacles to this. One is tariff escalation (which we discuss in more detail below), that is, the practice of imposing import duties which rise with the degree of processing undergone. This discourages local processing, which is the most effective way to add value to exports. For instance, Japan and the EU impose a higher tariff on plywood than logs. The aim, in both cases, is to protect powerful domestic timber industries.63 The effect is to intensify environmental pressures, since logs have a lower unit value than plywood and more have to be exported to generate the same amount of foreign exchange.

Transfer pricing by foreign companies represents another potentially destructive influence on the environment. This is facilitated by intra-firm trade, which enables companies to evade taxes and raise profits by understating the true value of exports of raw materials. Because it is illegal, transfer pricing is not well documented, and it is extremely hard for poorly-resourced regulatory authorities in developing countries to take action to stop it. However, cases have been reported of exports from Indonesia being under-valued by as much as 40 per cent.64 The effect of transferring a large proportion of the final value of a primary commodity is to increase the tendency towards over-production, as countries compensate for revenue loss by expanding export volumes.

Many of Oxfam's partners are supporting community efforts to resist commercial encroachments on common resources, such as forests and coastal waters. Some are pressing governments to establish limits on export volumes, by reducing quotas for foreign fishing fleets or limiting timber exports. But unless they are backed by international action, local initiatives often have unintended 'displacement' effects. For example, in 1989 pressure from local communities and environmental groups in Thailand resulted in the government imposing a ban on logging. Timber companies promptly shifted their operations to Laos and Cambodia, which have become sites of appall-
International trade

ing environmental destruction. According to the UNDP, nearly two million hectares of Cambodian forest have been destroyed since the Thai ban came into effect, with exports running at four times the sustainable harvest level.\(^6\) Thus, positive action in one country has had a negative outcome in another.

International commodity arrangements and fishing agreements could establish parameters for sustainable resource use. The International Tropical Timber Organisation (ITTO) has taken a step in this direction, setting the end of the decade as a target date for all trade in tropical timber to come from sustainably managed forests. In practice, however, progress towards this goal has been derisory, largely because of the absence of political commitment by both exporters and importers.\(^6\) Far more stringent measures are needed, including a ban on imports from countries in which particularly unsustainable forms of timber extraction are practised. Several of the timber companies responsible for the deforestation of Sarawak have now been granted extensive concessions in Guyana. One consortium, which has acquired a 4.1 million hectare concession, plans to export 1.2 million tons of timber from the country by the year 2000. That represents four times the country's entire current timber exports, and is likely to cause massive environmental destruction.\(^7\) Importing countries should take action to prohibit imports in such cases, in defence of communities in the exporting country. They should also act to eliminate the 'throw-away' use of tropical hardwoods, such as Japan's 25 billion pairs of disposable chopsticks and $2bn worth of single-use hardwood moulds.\(^8\) Concerted consumer action could play an important role in fostering more sustainable trade; labelling schemes to identify timber grown and harvested sustainably can persuade companies of the market advantages of sustainable resource management. There is plenty of evidence to suggest that consumers in importing countries are willing to pay more for sustainably logged timber.

\(\text{Taxing unsustainability}\)

One of the most vexed problems in sustainable trade management is the role of the market. Current prices for many natural products, such as timber, rarely reflect the social and environmental costs of production. This undervaluation leads directly to overuse and depletion.\(^9\) The prices charged by Japanese companies to consumers for shrimps do not reflect the enormous costs to local communities of lost fish stocks, the reduced soil fertility caused by salinization, or the associated loss of livelihoods. Similarly, the prices paid by European consumers for furniture made from West African hardwoods bear no relation to the costs borne by local communities. In theory, governments could intervene in markets to ensure that prices more accurately reflect hidden costs, imposing consumption taxes or import levies on unsustainably produced materials; or, in extreme cases, prohibiting imports.

There are two problems with this approach. The first is the obvious one of determining what constitutes sustainable production. Where there is an international agreement, as there is, for example, on timber production or fisheries, this may be possible. But how can governments compare the environmental costs of cocoa produced in, say, Ghana against that produced in Brazil? The answer is 'not without extreme difficulty'.\(^10\) The second problem is that the international trade rules enshrined in the WTO act as a potential restraint on local and international action to protect natural resources. These rules do not allow for the imposition of consumption or import taxes on the grounds of unsustainable production.\(^11\) Nor is it clear whether they permit export controls in the interest of sustainable resource management. While existing rules allow governments to restrict exports for environmental reasons, such restrictions are treated as exemptions to free trade which are only granted under stringent conditions.\(^12\) Recourse to GATT has been used to overturn existing conservation measures, forcing a reversal of Canada's fish stocks man-
management policies in the early 1980s, for example. In recent years, both Europe and Japan have threatened recourse to GATT to overturn bans imposed by the Philippines on the export of unprocessed timber. Meanwhile, efforts by the Dutch government to promote an EU ban on unsustainably logged timber were withdrawn in the face of warnings that it would be inconsistent with GATT obligations.

It is clear that there are major conflicts between the rules of international trade and the demands of sustainable resource management. This is an area in which the WTO itself is in urgent need of reform. Export prohibition can play a vital role in sustainable resource management. So could export taxes and import levies, despite the problems outlined above. Revenues from surcharges imposed for environmental reasons could be pooled and used to finance a fund for sustainable resource management, and to protect the interests of communities which have been adversely affected, provided the necessary institutional reforms were put in place in developing countries. Such a scheme has been proposed by Dutch and UK timber operators, only to be rejected by exporting countries. One objection to such schemes is that they could in effect give an unfair advantage to producers with lower environmental standards. However, that loophole could be closed by importers requiring imposition of an export tax as a precondition for exporters gaining market entry. Countries not imposing the tax could either be charged an equivalent import duty (with the proceeds used for the same purpose), or excluded from the market. Applied in an open and non-discriminatory manner, such export taxes could enhance the prospects for more sustainable trade across a wide range of products.

Pollution havens: environmental and social dumping

Foreign investment is integrating national economies and labour markets into an increasingly globalised system. This has profound implications because of the divergence in living standards and environmental standards between countries. There are at least three sources of concern. First, there is a danger that TNCs will relocate to countries where wages, working conditions, and basic labour rights, do not conform to reasonable minimum standards, even allowing for the fact that countries are at very different stages of economic development. Second, there is a parallel concern that non-existent or weakly applied environmental laws will act as a magnet for foreign companies eager to lower production costs by relocating to 'pollution havens'. Thirdly, there is a fear that these twin pressures towards 'social dumping' and the creation of 'pollution havens' will exercise downward pressure on social and environmental standards worldwide, as the fear of losing foreign investment forces governments to lower standards.

The public in developed countries are increasingly concerned that their living standards and employment prospects will be eroded by competition from countries at lower stages of economic development. Such fears are well-founded. For their part, developing country governments and many NGOs regard any discussion of minimum social and environmental standards as the thin end of a protectionist wedge, designed to insulate Northern markets from Southern exports. In fact, the issues go far beyond North-South differences over trade rules, and raise fundamental questions about the balance between the claims of free trade and basic human rights.

These questions have figured prominently in the debate over the future of Europe. Moves towards the creation of a regional free market were belatedly supplemented by social programmes and the Social Chapter. The aim has been to prevent the unacceptable exploitation by investors of national differences in living standards. However inadequate the mechanisms involved, they reflect a recognition that citizens have a legitimate claim on governments to defend certain basic rights, which might be
International trade

threatened by the deregulation of markets. They also reflect an awareness that unless minimum standards are established, socially destructive forces might threaten political stability. There is no such awareness reflected in the rules governing international trade.

Social and environmental dumping, NAFTA style
Advocates of trade deregulation argue that there is little evidence to support the claim that social and environmental dumping is taking place on any scale. That argument is not supported by the experience of Oxfam's project partners working in the maquiladora zone in Mexico, described by one commentator as 'a facsimile of hell on earth'.

The Mexican border region is the site of more than 2000 manufacturing plants, which operate by importing components free of duty, for assembly and re-export to the US. Blue-chip companies such as General Electric, General Motors, and Du Pont, have all transferred plants to the maquiladora zone (prompting Ross Perot to hear 'the giant sucking sound' of US jobs being transferred south of the border). The attraction of the maquiladora zone is partly the low wages, which are less than a tenth of those in US plants, and proximity to US markets. Lax enforcement of environmental laws has been another attraction. More than a quarter of the US firms with plants in Mexicali cited environmental costs and more stringent US environmental provisions as reasons for the relocation. In the late 1980s, the introduction of more stringent air pollution controls in California prompted a large-scale exodus of furniture manufacturers to the maquiladora zone.

The environmental costs of the maquiladora zone have been unacceptably high. According to Mexico's Secretariat of Urban Planning and Ecology, more than half of the maquiladora plants produce hazardous waste. This waste is supposed to be transferred to the United States, but compliance is the exception rather than the rule. An official Mexican investigation in 1991 estimated that only one-third of plants complied with Mexican toxic waste laws. The public health consequences, compounded by chronic over-crowding, have been alarming. In one investigation, the US National Toxics Campaign found heavy metals and other toxic discharges associated with birth defects and brain damage being emptied into open ditches. Towns such as Matamoros have an incidence of anencephalic (brainless) baby births running at 30 times the Mexican average. The American Medical Association has branded the maquiladora region 'a virtual cesspool and breeding ground for infectious diseases', with hepatitis and tuberculosis rife on both sides of the border. This is a classic example of how environmental problems do not respect national frontiers.

While it may be unrealistic to expect Mexico's environmental laws fully to comply with US standards, either in design or implementation, the practices of maquiladora plants are clearly beyond the pale. The same is true with regard to labour. Low wages in Mexico reflect the lethal interaction of rural poverty and government policies designed to transfer the costs of adjustment on to wage-earners. But it is not merely low wages which are attracting foreign companies. Consider the following testimony from a maquiladora worker, given before a US Congressional committee in 1993:

My name is Alma Molina, and I live in Juarez...In June 1992 I went to work for Clarostat, a US company with a plant in Juarez. I was among some 300 workers who made electrical switches and sensors. I earned the Mexican minimum wage of $4.50 for a nine-hour day.

A group of us wanted to improve our working conditions, safety and wages at Clarostat. We worked with dangerous chemicals, including phenol and epoxy resin, but no masks were provided. The chemicals irritated our skin. Six of us began to organise a union. We had meetings every two weeks. After a few months I was fired. Four other workers were fired one week later. The personnel manager told me I was being fired because I was trying to organise a union...
Shortly after being fired, I was hired by Electro-componentes, which is a General Electric Company. The GE logo is on the factory. At that plant, 1800 workers make wiring for refrigerators sold in the US...I had been at GE for only seven days when I was called to the personnel office and shown a list with my name on it...The personnel man said that he did not know why my name was on the list, but that he would have to fire me anyway.83

Alma Molina’s testimony provides an insight into the realities of deregulated trade. Eight out of every ten maquiladora workers are women, most of whom are denied even the most basic labour rights. Driven by rural poverty to towns such as Juarez, where some 400,000 people live in shanty towns with no sewerage, clean water, or electricity, women find that the maquiladora zone offers a livelihood which enables them to survive, but little else. Efforts to improve working conditions are hampered by company practices such as those described in the testimony above; and by the Mexican government’s suppression of the country’s independent trade union movement.

Concern over the social and environmental implications of the NAFTA led to the negotiation of two side-accords to address the problem of establishing minimum standards. Both leave much to be desired. For example, the labour side-accord recognises the right to freedom of association and the right to collective bargaining. However, violations of these rights are to be the subject not of punitive trade sanctions, but fact-finding exercises and ‘consultations’.84 The environmental side-accord has provided resources to improve standards in Mexico, recognising the need to establish acceptable minimum standards. However, the Commission established to oversee the accord has no powers of investigation and must rely on evidence supplied by governments.85 Responsibility for enforcement is also placed squarely on governments, despite the fact that non-enforcement of environmental laws by the Mexican government is a major part of the problem.

A problem beyond Mexico

The experience of Mexico has placed the twin problems of social dumping and pollution havens on to the international trade agenda. The problems, however, extend far beyond Mexico. Pollution-intensive European chemical industries, to take but one example, are relocating on a substantial scale to Asia in general, and to China in particular. When the German chemical giant Bayer announced plans to transfer bulk capacity to Shanghai, the corporation’s chief executive explained the move in terms of the disincentives to staying in Europe: “The main disadvantage we have to face are higher labour costs and expensive social security systems, coupled with widespread regulation of environmental affairs by the state.”86

The clear inference for governments in Europe, and even in other parts of South-East Asia, is that the price for retaining investment and employment is a progressive lowering of standards towards Chinese levels. Such threats constitute a potential deterrent to efforts to improve environmental standards. Environmental costs impose a substantial and increasing financial burden, which would rise progressively if public pressure forces governments to introduce higher standards. According to the US Environmental Protection Agency, the costs of pollution control will increase from the equivalent of 2 per cent of national income in 1990 to 2.8 per cent by the end of the decade.87 The danger is that, as the costs rise, TNCs will simply relocate their investment and jobs elsewhere, providing a major disincentive to government action.

It is sometimes argued that what may appear to be exploitative working conditions when seen through European or North American eyes, is reasonable employment from the viewpoint of developing countries. In some instances, this may be true, in others, not. Women account for the bulk of the employment generated by direct foreign investment, both in manufacturing industries, where female labour is used in assembly plants, and in the produc-
International trade

Employment in these areas can be a source of income and increased autonomy for women. However, employment practices are often unsafe, insecure, and highly exploitative, with women suffering serious wage discrimination.

In the Dominican Republic, for example, around 140,000 people are employed in free-trade zones, the majority of whom are women, who are denied even the most basic security of employment, work for less than the minimum wage, and are obliged to work long hours of overtime without compensation. To gain employment, women are often required to prove that they are not pregnant and to agree not to join a trade union. This is the testament of Andrea, a 25-year-old woman:

I have five children and work in the free-trade zone making children's clothes. In lots of factories when the women try to form a union they throw every one out. When you go to fill out the forms many factories ask you if you have been a member of a union, and if you say yes they don't give you work. The rhythm of work is very fast. There is no canteen — most people eat on the patio. The free-trade zone helps the country in some respects — because there are few other alternatives for the people. But the way it operates is almost a crime against the workers.

Andrea's words cogently summarise the dilemma facing women workers in the Dominican Republic. They are acutely aware that the alternative to working in the free-trade zone is unemployment and deeper poverty. But they also feel that the standard practices of TNC employers are unacceptably exploitative — and they are right.

In some cases, foreign investors have sought commercial advantage in a manner which exposes workers to acute health risks, as well as extreme exploitation. This is especially true in countries which have specialised in non-traditional agricultural exports such as flowers and horticultural products. Pesticide inputs are especially high on crops such as strawberries, flowers, and mangoes destined for markets in Europe and North America, where consumers demand uniform and unblemished products. In Ecuador, one of the fastest-growing flower exporters to the US, over two-thirds of workers interviewed in one medical survey in a flower-producing area had suffered health disorders from exposure to toxic chemicals, many of which are banned in Europe and the US. Inadequate provision of protective clothing increases the risk from pesticides. Women are particularly vulnerable to acute poisoning and long-term damage because of the impact of toxic substances on the human reproductive system. Another survey of female plantation workers in Ecuador showed that less than half had received the health and social security benefits they were entitled to under the country's labour laws; 80 per cent had no labour contract; none had been given the statutory maternity leave to which they were entitled; and most were required to work overtime, normally without pay.

Such practices ought to be regarded as unacceptable for all people, regardless of the state of development of their countries. Unfortunately, however, they could be multiplied many times over. In Thailand and China unsafe conditions in factories producing for export to Europe and North America have resulted in horrifying loss of life as a result of fires. In Indonesia, independent trade unions are subject to ruthless repression, helping to keep wages low for TNCs producing training shoes for Western consumers. Whether attracted by inadequate labour provisions, lax enforcement of human rights and labour law, or weak environmental rules, it is clear that unregulated foreign investment and trade flows have the potential to lock all countries into a downward spiral of deteriorating social and environmental standards.

Towards an international framework

Drawing the line between the acceptable pursuit of comparative advantage and unacceptable exploitation is inevitably difficult. It would be wrong, for example, to establish minimum
The Oxfam Poverty Report

standards which were beyond the reach of poor countries. But it would be equally wrong to turn a blind eye to the dangers inherent in continuing on the current course.

One answer to this dilemma is already emerging in the form of local action. Trade unions in the US and Mexico are building alliances and attempting to strengthen the provisions of the NAFTA labour side-accord, in part by filing test cases. The first of these contested the sacking of 100 workers in two US plants in the maquiladora zone, one of them owned by General Electric. Environmental groups from Canada, the US and Mexico have also linked up in a effort to amend the NAFTA by removing the restrictions it places upon governments seeking to conserve resources and promote environmentally clean technologies. Across the developing world, many of Oxfam’s partners are involved in struggles to establish basic trade union rights in free trade zones, to restrict commercial encroachments into areas of common resources, and to conserve forests and fish stocks.

Ending social dumping

Much more could be done to support these initiatives by creating an enabling international framework which establishes reasonable minimum standards. In 1947, the UN Conference on Trade and Employment attempted to extend the principles of the Bretton Woods framework to international trade. A charter was drawn up giving a clear statement of the links between trade and labour standards:

The members recognise that measures relating to employment must take into account the rights of workers under inter-governmental declarations, conventions and agreements. They recognise that all countries have a common interest in the achievement and maintenance of fair labour standards related to productivity, and thus in the improvement of wages and working conditions as productivity may permit. The members recognise that unfair labour conditions, especially for export, create difficulties in international trade, and accordingly, each member shall take whatever actions may be appropriate and feasible to eliminate such conditions.

The International Trade Organisation for which this Charter was drafted never saw the light of day, and the problem of protecting social rights within a multilateral trade framework was allowed to drift off the international agenda. Recently, however, the issue has emerged as a focal point in the dialogue over the future of the World Trade Organisation. While international trade treaties such as the WTO cannot and should not be used to eliminate differences in wages, not all differences in wages reflect what might be termed reasonable market conditions. The persistent and widespread violation of internationally recognised labour standards is a distortion of fair competition, as is discrimination on the basis of gender. Failure to enforce provisions for social security, and health and safety regulations is also unacceptable.

If international trade is to be conducted under the auspices of an equitable, open, and rule-based system, governments must accept a reciprocal obligation to enforce minimum standards. Workers must be free to organise and bargain over their conditions of employment. Existing trade rules already outlaw the use of prison labour to produce exports on the grounds that this is unduly exploitative. They also outlaw dumping where this involves the use of subsidies to gain an unfair advantage in exporting, say, a video recorder. Logically, there is no reason why they should not outlaw dumping associated with the denial of the most basic human rights in employment. These rights include those enshrined in International Labour Organisation (ILO) conventions, such as:

- the right to freedom of association
- the right to collective bargaining
- the abolition of forced labour
- freedom from discrimination and entitlement to equal remuneration
- the right to adequate health and safety regulations in the workplace.

Contrary to the fears of some Third World governments, the incorporation of social provisions in international trade rules will not insulate Northern economies from competi-
International trade

tion. All countries have to adjust to competition, and it is up to Northern governments to provide the investment needed to facilitate new employment opportunities for vulnerable populations. What a social clause would do is bring greater equity to the international trading system. It would do so by spreading the benefits of growth more widely in exporting countries, and by preventing the most extreme forms of exploitation. A social clause would also safeguard the achievements of citizens' groups in all countries, who now see labour and environmental standards under attack from forces currently beyond public control.

Arguments against minimum social standards betray a number of misconceptions. One such misconception is that these standards represent the imposition of a Northern agenda. In fact, the vast majority of WTO members, including its developing country members, are already signatories to the main ILO Conventions. There is, therefore, no question of imposing new standards. This has been recognised by trade union federations in Asia and Latin America, who have endorsed calls for a social clause in the WTO. Nor would a social clause have to be administered in an institutional context, such as that provided by the WTO, susceptible to manipulation by Northern governments. The WTO should recognise the obligation of all governments to meet minimum standards, and it should allow trade restrictions to be imposed on countries which do not meet those standards within a specified time-frame. But compliance should be monitored by the specialised committees of the ILO, which already review complaints and evaluate governmental performance. Citizens' groups, including non-unionised female workers, should be given the right of individual and collective petition to the ILO. This would considerably strengthen the hand of local communities striving for their basic rights.

The complexities and political problems in attempting to establish minimum social standards are considerable. However, failure to create a social clause in the WTO will inevitably swell the gathering tide of political xenophobia and overt protectionism in the industrialised world, where competition with workers subject to gross exploitation is deeply resented as a cause of unemployment. Moreover, without a credible multilateral framework for social standards, unilateral actions will gather pace. Under existing US trade law, aid and trade preferences are conditional upon compliance with standards set by the US. These standards are applied with great inconsistency, in a manner which reflects US commercial interests (hence the refusal to link trade with China to improvements in its human rights record). It would be far better from the standpoint of developing countries to participate in genuinely multilateral and open arrangements.

Closing pollution havens

The problems associated with 'pollution havens' parallel those caused by the disregard of labour standards. Unacceptably low environmental standards are not a source of legitimate comparative advantage, but a form of exploitation which creates unfair competition.

As in the labour sphere, complete harmonisation of environmental policies is neither practical nor desirable. However, moving towards a minimum parity level for some of the most environmentally-damaging production processes would be a step towards placing international trade on more sustainable foundations. Where the industrialised countries are concerned, there is a strong case for using trade measures in defence of sustainable environmental policy objectives. The energy tax proposed by the EU's Environment Commission was withdrawn partly because of fears of a loss of industrial competitiveness. In this case, it would have been legitimate to use import restrictions to offset that loss, counteracting any advantages accruing to competitors.

Unlike the industrialised countries, many developing countries would be unable to afford the clean technologies needed to meet higher environmental standards. The Brundtland Commission estimated that in the early 1980s
developing countries exporting to the OECD countries would have incurred costs in excess of $5bn had they been required to meet US standards. The sum today would be considerably larger. Not large enough, however, to justify inaction. Financial resource transfers, including debt relief, could be linked to the adoption of technologies which would enable developing countries to introduce higher standards. Similarly, if tariffs were deployed to protect industries meeting higher environmental standards, the revenue generated could be repatriated to developing countries in the form of an environment fund, administered by a multilateral body, for investment in clean technologies.

One of the most formidable barriers to the use of trade policies for promoting more sustainable practices is to be found in the rules of the WTO itself. Existing international trade rules do not allow for governments to implement trade restricting policies in pursuit of environmental objectives. This was underlined by a GATT dispute between Mexico and the US over American restrictions on tuna imports caught by methods which killed large numbers of dolphins. In practice, it is probable that the US trade restrictions in this case, applied under the Marine Mammal Protection Act, did discriminate against Mexico. But the GATT panel which ruled on the case in Mexico's favour did so on two precedent-setting grounds. The first of these was that no GATT member had a right to use trade sanctions because of objections over the manner in which an import was produced. The second was that environmental resources located outside of national borders could not be subject to trade restrictions.

Both principles have far-reaching implications. They call into question the use of trade measures to counter global warming and ozone depletion (the ozone layer being located beyond national borders); and they appear to rule out the use of trade sanctions against unsustainably harvested timber and depletion of fish stocks.

In Oxfam's view, there is an unassailable case for using trade measures as part of a wider strategy for achieving environmental objectives. The framework should be developed not by trade ministers in the WTO, but by a wider forum held under the auspices of the Commission for Sustainable Development, which is more democratic, transparent, and broader in its focus. The forum should examine trade, environment, and sustainable development policies at the national, regional, and global levels, and recommend measures for resolving potential conflicts between free trade and sustainable development. These measures should:

- Establish the primacy of global environmental treaties. The WTO should explicitly recognise that obligations under internationally negotiated environmental treaties take precedence over the commitment to free trade.
- Recognise the right of governments to use trade measures in pursuit of sustainable environmental policies. The WTO treaty should be amended to allow governments to implement trade restrictions where production and processing methods are having adverse environmental consequences, or where these are necessary to maintain higher domestic environmental standards. Obligations on developing countries to comply with industrial country environmental standards should be linked to the provision of financial support, and subject to longer transitional periods than for industrial countries.
- Establish a body under CSD auspices to negotiate, monitor, and adjudicate over environmental standards in international trade, and to explore options for introducing 'green tariffs' to promote sustainable trade.
- Establish minimum environmental standards. These would set minimum international norms of emission control on factories producing for export, which would be codified in international agreements. Such agreements would prevent the industrial countries from imposing unrealistically high standards. Importing countries with higher environmental standards would be permitted
to block or impose tariffs on imports which did not meet these standards.

- Allow the imposition of 'green tariffs' on trade between industrial countries. Where punitive tariffs are applied on environmental grounds the revenues should be invested in jointly agreed funds to finance the transfer of clean technology to the industry concerned.
- Facilitate technology transfer. Any international agreement on standards which did not provide for the transference of technology to developing countries would be rightly regarded as unfair, and probably be unworkable. The initiatives undertaken under the Montreal Protocol and the Biodiversity Convention to facilitate technology transfer should be built upon to promote sustainable development.

Trading old problems and new: the Uruguay Round

The Uruguay Round represented the most ambitious and far-reaching set of trade negotiations of the post-war era. It took place against a protracted crisis in the external trade environment of the world's poorest countries, with low commodity prices, debt, and protectionism undermining their export prospects. The 1980s also witnessed a marked deterioration in the multilateral trade environment, with developing countries increasingly subjected to the threat of unilateral trade sanctions by the major industrialised countries.

Had the Uruguay Round failed to culminate in agreement, there would have been a real prospect of a descent into 1930s-style trade policies, with the major industrial powers engaging in cycles of retaliation and counter-retaliation. Developing countries, with their limited retaliatory powers, would inevitably have suffered. However, the agreement which emerged from the Uruguay Round is highly unbalanced and weighted in favour of the industrialised nations. This is reflected in the distribution of economic benefits, a projected two-thirds of which will go to the industrialised countries. Sub-Saharan Africa, the world's poorest region, stands to lose from the agreement.\(^9\)

The distribution of gains reflects the focus of the Uruguay Round on issues primarily of concern to the industrial countries. Long-standing problems facing primary commodity exporters have not been dealt with. Other problems, such as discriminatory protectionism and agricultural over-production, have been, at best, only partially addressed. TNCs were able to use their influence with Northern governments to secure agreements in areas such as intellectual property and investment, which could undermine the prospects for more self-reliant development into the next century.

Figure 4.3 GATT winners and losers (projections to year 2002)

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In the following section we examine the failures of the Uruguay Round to address the problems facing developing countries in four critical areas:
• primary commodities
• protectionism in manufactured goods
• agricultural and food security
• the regulation of TNCs and intellectual property rights.

Primary commodities

Trade in primary commodities has grown much more slowly than trade in manufactured goods. But although primary commodities are of diminishing significance in international trade flows, they are of great importance to some of the world’s poorest countries and people. Some 30 countries in Africa and 18 in Latin America depend on primary commodity exports for more than half of their export earnings. Such dependence leaves them highly vulnerable to fluctuations in international commodity markets. Some nations are even more vulnerable by being reliant on just one or two commodities. Coffee, for example, accounts for over three-quarters of export earnings for Uganda and Ethiopia.

Instability and exploitation

Revenue from primary commodity exports is vital to the livelihoods of millions of smallholders and workers throughout the world, from the Ethiopian Highlands, to the Punjab and the Andean countries. These cash crops provide households with the income they need to buy seeds, clothes, and fuel, and to pay school fees. They also generate the foreign exchange which countries need to maintain essential imports, and the revenue which governments need to invest in health and education services. Yet for well over a decade, primary commodity exporters have faced a sustained depression in world markets, deeper and more protracted than at any time since the 1920s. Between 1980 and 1993, prices for non-oil primary commodities fell by more than half relative to prices for manufactured goods. The estimated annual loss to developing countries over this period was around $100bn: more than twice the total flow of aid in 1990.

Superimposed on the overall downward trend in commodity prices is an erratic zig-zag line of fluctuating prices, reflecting the volatility of the markets upon which vulnerable commodity producers depend. Prices for commodities such as sugar, coffee, and cocoa are notoriously unstable, making any attempt at planning a hazardous exercise. Prices for cocoa, for example, averaged $2000 per ton between 1980 and 1987, before falling to $649 per ton in 1992, and rising again in 1994. Coffee prices plummeted to an all-time low in the early 1990s, before reaching a six-year high in 1994. Despite these brief price surges, World Bank projections suggest that the index for beverage prices will not reach even its depressed 1989 level before the turn of the century.

Falling world commodity prices are not just trends on commodity flow charts; they can destroy the livelihoods of entire communities. For example, the collapse of world prices for sugar in the mid-1980s, led to famine conditions on the Philippines island of Negros. A farmer in Colombia explained what a fall in coffee prices had meant for his family as follows:

_We had no choice but to sell. But we cannot live on what we have earned. This year our entire coffee crop would hardly be enough to feed and clothe the children, let alone to pay their school fees. It is the same for the rest of the families in the village. We have no choice but to leave and find work in the towns. Maybe we could borrow some money and hope that prices will rise next year. If they don’t we may as well tear up our bushes._

In fact, many thousands of smallholders have been driven to tear up their coffee bushes to grow coca, illustrating the deadly connection between deepening poverty in the South and social problems in the North. Politicians in the industrialised world often welcome reductions in the commodity price index, citing the benefits of lower prices for consumers and inflation. In fact, the benefits of lower commodity prices are reflected more in increased profit margins in the highly-monopolised food-marketing sector, than in lower consumer costs. The
benefits to consumers in terms of lower inflation are marginal, especially when offset against the human costs to producers.

In its international programme, Oxfam is working with smallholder producers who are attempting to develop more sustainable livelihoods through commodity trade. One of the main problems which these producers face is that, in most cases, they receive a small share of the final value of their production. For raw cotton, the growers' price represents less than 8 per cent of the final product price. For coffee, exporting countries typically retain between 12 per cent and 25 per cent, although growers receive substantially less after the profits of traders and state taxes are taken into account. The bulk of the final value is transferred through production, processing and marketing chains controlled by Northern TNCs, to the industrialised world.

In the Dominican Republic, Oxfam works with some of the country's 70,000 coffee farmers, most of whom farm on ecologically fragile hillsides growing coffee alongside food staples. These producers are developing production and marketing systems designed to
The Oxfam Poverty Report

retain a higher share of the final value of their
produce in the local economy. At the other end
of the marketing chain, Oxfam is working with
other groups attempting to develop fairer trade
relations, by persuading consumers of the case
for buying products which return a higher
share of their sale value to producers. However,
without more fundamental reforms to address
the underlying causes of the crisis in
international commodity markets, there is a
limit to what such initiatives can achieve.

Decline in the prices of primary
commodities

There are several factors behind the long-term
decline in prices for primary commodities,
which some analysts trace back to the beginning
of the twentieth century. The low rate of
growth in demand relative to production is part
of the problem. Demand for commodities such
as tropical beverages tends to grow more slowly
than income in the industrialised world, so that
markets expand less rapidly than for manufact-
ured goods. Market outlets have also been
restricted by the development of synthetic
substitutes; for example, Zambian copper has
been displaced by fibre optics in communica-
tions networks. Changing economic structures
and production patterns in the industrialised
world have also reduced the demand for
primary commodities. Financial services and
'knowledge-intensive' production processes,
the growth points of most economies, use mini-
mal amounts of raw materials. Meanwhile,
efficiency savings have increased, so that the
average American car weighs 15 per cent less
than two decades ago, again resulting in
reduced demand for raw materials.

These trends are probably irreversible. How-
ever, some of the causes of over-supply are
rooted in more immediate policy interventions.
Agricultural over-production and the dumping
of subsidised exports by the industrialised
countries has been a major factor in depressing
world markets. For example, exports of sugar
and edible oils by the EU have contributed to
the prolonged price depression in both com-
modities. Structural adjustment programmes
have also expanded supplies on to already
saturated markets. These programmes were
designed in part to expand commodity exports
by liberalising trade and foreign exchange
markets, so that the incentive to domestic
producers increased. As anticipated, export
volumes rose. Unfortunately, they were rising
everywhere, as a large number of countries
producing a small range of exports sought
simultaneously to expand their market shares
in obedience to the dictates of structural
adjustment programmes. The entirely predict-
able result was another twist in the downward
spiral of world prices.

As with many of the international economic
problems facing the world's poorest countries,
underlying causes are easier to identify than
solutions. Over half-a-century ago, John
Maynard Keynes, the chief architect of the
Bretton Woods system, warned of the dangers
and inherent social injustice in allowing
commodity prices to fall to levels incompatible
with decent living standards. Defending the
case for a system of price support, he suggested
that the proper 'economic price' should be fixed
not at the lowest possible level, but at a level
sufficient to provide producers 'with proper
nutritional and other standards in the condi-
tions in which they live'. He added: 'It is in the
interest of all producers alike that the price of a
commodity should not be depressed below this
level, and consumers are not entitled to expect
that it should.'

Regulating commodity markets

Higher and more stable prices for commodities
would bring substantial benefits for producers.
This is especially true for producers of tree
crops (like coffee) that produce their maximum
yield several years after planting. Increased
planting during times of shortage when prices
rise, as they have over the past year, typically
leads to future glut, price collapse, reduced
plantings, and the resumption of the same
unstable cycle. Latin American coffee producers in the Andean highlands who were tearing up coffee plants three years ago are now replanting them. But the beans produced by their investments are likely to come on stream during the next price trough. Such instability cannot provide a foundation for sustainable and secure livelihoods.

During the 1970s, efforts to regulate commodity markets focused on international agreements between producers and consumers to maintain prices. These agreements sought to defend prices by buying in stocks when prices were low and selling them on the rare occasions that prices rose above a pre-determined ceiling. However, viable international commodity agreements have proved an elusive alternative to the destructive tendencies of free markets. Of five international commodity agreements developed under the auspices of the United Nations Conference on Trade and Development in the 1970s — coffee, cocoa, sugar, tin, and rubber — to defend floor prices through managing ‘buffer’ stocks, only that for rubber is still in operation. The international cocoa agreement was stripped of its market intervention provisions in 1988, contributing to the steepest price fall since the Great Depression. The international coffee agreement followed suit the following year, with similarly dramatic price effects. Between 1989 and 1990, prices dropped from 114 cents a pound to 44 cents. Today, both agreements continue in name, but without any effective mechanisms for stabilising prices at reasonable levels.

The reluctance of developed countries to provide the financial resources needed to maintain effective buffer stocks has been part of the problem. Chronic over-supply has been another. Consensus on what constitutes a realistic support price has also proved hard to achieve, not least because of a concern on the part of developed countries to exploit the weak position of exporters by driving down prices. Developing countries themselves, however, must bear some of the responsibility for instability in international commodity markets. For example, the coffee agreement broke down partly because Brazil refused to give up some of its market share to Central American and African exporters. Similarly, the cocoa agreement was undermined partly because new suppliers in Asia were determined to expand production and market shares outside of the agreement.

The case for commodity co-operation between consumers and producers, and between producers themselves, is as compelling today as it was for Keynes. Market forces can deal with structural imbalances between supply and demand only through long and painful boom-bust cycles in output. For this reason, the essential objectives of UNCTAD’s Integrated Programme for Commodities remain valid: improving terms of trade for commodity exporters, stabilising prices, and encouraging local processing. Appropriate forms of supply-management are also urgently required to restore more balanced markets. Existing funds for compensating producers for shortfalls in exports earnings, such as the IMF’s Compensatory Financing Facility and the EU’s Stabex Fund, could be diverted for this purpose, instead of focusing on the fruitless task of counteracting the losses from adverse price trends. It must be stressed that consumers and producers share a joint interest in managing commodity markets more successfully, not least to avert the potentially destabilising social dislocation caused by persistent excess supply and depressed prices.

Diversification

The longer-term solution for the problems facing commodity-dependent Third World exporters is diversification. However, this is easier to advocate than to achieve, since it requires investment, including funds for education and infrastructure. The UN Secretary-General has attempted to address this challenge by proposing, in the UN’s New Agenda for the Development of Africa, a
commodity diversification fund for sub-Saharan Africa. That was in 1991. Unfortunately, donors have failed to provide the $50-70m envisaged for the fund, preferring to place their faith in private sector initiatives.119

Inadequate investment and lack of international support for diversification is compounded by problems of protectionism. One of the most effective ways in which developing countries can generate employment, increase export earnings, and escape dependence on volatile primary commodity markets is to add value to their exports through local processing. However, this is actively discouraged by import tariffs in developed countries, which increase with the level of processing. For example, Malaysia can export unrefined palm oil to the EU at a tariff rate of less than 2 per cent. But if it processes the palm oil into higher value-added margarine the tariff rate rises to 25 per cent. Similarly, the average industrial country tariff on chocolate is more than twice that on cocoa beans.114 This system is designed to discourage developing countries from diversifying — and it partly explains why such a small proportion of the final value of primary commodities remains in exporting countries.

The EU has supported in a modest way efforts at diversification under the Lomé Convention. These efforts, however, have been undermined by the trade restrictions enshrined in the same treaty: an example of the contradictory effects of EU trade and aid policies. Under the Lomé Convention, countries in the African, Caribbean, and Pacific group can export locally processed goods duty-free to Europe, provided that all of their products originate in the ACP countries themselves. This rule has prevented Zimbabwe from exporting cloth mixed with South African wool, hampering the development of its textile industry.115 It has also restricted potential sources of supply in a manner which is totally unrealistic if the aim of the Convention is to promote the competitive position of the ACP countries. Restrictions imposed under the Common Agricultural Policy, present another formidable barrier to the local processing of fruit and vegetables.

The Uruguay Round agreement will do little to reduce the problem of tariff escalation for beverages, oilseeds, and fish, which are of great concern to developing countries. Tariffs will continue to escalate by between 8 per cent and 26 per cent in these areas, reducing the benefits of the agreement for the world’s poorest countries.116 Meanwhile, the trade barriers imposed under the Common Agricultural Policy will remain largely intact. For the world’s poorest commodity producers in sub-Saharan Africa, there are justifiable fears that the Uruguay Round agreement will jeopardise trade prospects in European markets. This is because the agreement will lower tariffs for all countries, thereby diminishing the preferences currently granted to Africa under the Lomé Convention. Projections by the OECD in 1994 suggested that the resulting loss in foreign exchange earnings could amount to as much as $2bn annually for sub-Saharan Africa (including South Africa) up to 2002.117

Action is needed to improve the trading prospects of the world’s poorest countries, including:

• urgent international efforts to re-establish price stabilising international commodity agreements, especially for coffee and cocoa

• increased co-operation between developing countries to initiate supply management measures compatible with more remunerative prices

• a review of structural adjustment programmes and development assistance directed at expanding commodity exports to consider their impact on global commodity markets

• increased investment in complementary measures to compensate least developed countries for shortfalls in foreign exchange earnings, such as those provided under the Stabex scheme in the EU’s Lomé Convention agreement with the African, Caribbean and Pacific countries

• support for the UN’s proposed commodity diversification fund and increased investment in other diversification initiatives
• the withdrawal of escalating tariffs on primary commodities exported from developing countries.

**Banana wars and free trade**

For some of the world's poorest and most vulnerable producers, the failure of the Uruguay Round to address problems in international commodity markets will be compounded by its impact on existing trade arrangements. These are the words of Winston Graham, a banana farmer in the Windward Islands.

*We are told that the world has changed, that because of GATT there must be a free market in bananas. But the market should not be so free that it can destroy people's lives.*

Winston Graham's small farm on a steep hillside in the Windward Island of St Lucia seems a million miles from the lush GATT negotiating rooms in Geneva. But along with thousands of fellow banana producers in the Caribbean, his livelihood is at the heart of an international trade dispute between the EU on the one side, and Latin America and the US on the other. It is a dispute which raises fundamental questions about the values, principles and priorities which underpin world trade.

The immediate issue at stake is trade with the EU, whose citizens consume some 3.5 million tons of bananas annually. Until 1992, the EU banana market reflected the old colonial ties of its member states. Britain, for example, imported two-thirds of its bananas from its former colonies in the Caribbean, including the Windward Islands. But this arrangement could only be maintained by protecting the British market from Latin American exporters, such as Colombia and Costa Rica, where bananas are produced at around half of the cost of the Caribbean on giant, highly mechanised plantations. Thus the Latin American producers (largely TNCs) dominated markets in Germany, but were subject to quotas and tariffs in the British market.118

With the arrival of the Single European Market in 1992, such protection became inconsistent with EU law. However, after a protracted debate, in July 1993, Europe introduced a new import policy which set an increased quota for Latin America bananas. Imports above that quota — set at 2 million tons — are subject to higher duties.119

The EU's aim was to protect the Caribbean from the social and economic effects of free trade by maintaining a regulated market. Such a policy was justified by the degree of dependence of Caribbean exporters on the EU market. In The Windward Islands (Dominica, St Lucia, St Vincent, and Grenada) bananas are the mainstay of economic life, accounting for 15 per cent of national income and over half of export earnings. Around 57,000 people, a third of the labour force, are directly or indirectly involved in the banana industry. Maintaining a viable banana industry was vital in a region where unemployment is in excess of 20 per cent and where there are few alternatives.

However, the new EU regime was promptly challenged at the GATT by five Latin American exporters. Having already condemned the EU's system of preferences, there was little doubt that the dispute panel set up to adjudicate would rule against the new system. The panel ruled that discrimination against the Latin American countries was a violation of the obligation on the EU to uphold the GATT principle of free trade.120

The US has now entered the fray. Following a complaint from the giant banana corporation, Chiquita Brands International, the American Trade Representative has threatened to impose trade sanctions on EU exports unless the European banana market is liberalised. Along with three other companies (Standard Fruit, Dole, and De Monte), Chiquita controls around three-quarters of bananas exported from Latin America.121

If the EU were to comply with the GATT ruling and the demands of the US, it would sound the death knell for the banana industry in much of the Caribbean.122 In Oxfam's view,
this would place the dictates of free-trade dogma and corporate self-interest over the interests of people and their livelihoods. There are likely to be more stringent rules for settling disputes under the new WTO regime, which will force the EU to give way and allow Latin American exporters access to EU markets on the same terms as the Caribbean producers. Oxfam is supporting the efforts of farmers of the Windward Islands Farmers' Association to improve the competitiveness of the local industry, and to develop ideas about diversification. But without the maintenance of a preferential system in Europe, such efforts will count for little.

Manufacturing protectionism

If developing countries are to reduce their dependence on primary commodities and expand their exports of manufactured goods, they need access to the markets of the industrialised countries. These countries account for over two-thirds of global imports of manufactured goods and three-quarters of developing country exports of manufactures. As a result, trade policies in industrial countries have an important influence on the economic prospects of developing countries.

Governments in the industrial countries frequently stress their adherence to the principles of free trade. These principles have been adopted in many developing countries across Latin America, Asia, and Africa, as witnessed by the steep decline in trade restricting measures. Countries such as Ghana, Kenya, Tanzania, and Zambia have been phasing out restrictions and tariffs. In contrast, there has been little progress towards dismantling trade barriers in industrialised countries. These barriers have become increasingly arbitrary and discriminatory in their treatment of developing countries. As a result, there has been a widening divergence between the principles espoused by the industrial countries and their trade practices.

The GATT was established on the foundations of three key principles: non-discrimination, transparency (which meant that countries should use open tariffs rather than less quantifiable forms of protection), and reciprocity (which meant that where importers reduced tariffs, exporters should reciprocate). But these principles are little more than empty words, especially where developing countries are concerned. Behind the rhetoric of multilateralism in international trade rules there is discrimination, unilateralism, and recourse to arbitrary forms of protection. No other area of North-South relations is marked by such a profound divergence between the stated commitment of Northern governments to market principles, and the protectionist nature of their trade policies.

Non-tariff barriers (NTBs)

One of the achievements of the GATT during the post-war period was to reduce the incidence of tariffs in industrial countries. With the conclusion of the Uruguay Round, average tariffs have fallen to less than 5 per cent, compared to over 40 per cent fifty years ago. Since the mid-1970s, however, the international trading system has witnessed the rise of new forms of protection, mainly in the form of non-tariff barriers (NTB), which violate the spirit and, in some cases, the letter, of GATT rules. Among the most common NTBs are quotas, voluntary export restraints (VERs), and a wide range of measures to counter allegedly unfair trade practices. Viewed from the perspective of the importer, the main advantages of NTBs are that they are 'legal' in GATT terms, and that they can be used, in contravention of the GATT principle of non-discrimination, to target individual suppliers.

Developing countries have been the main target of NTBs. One-fifth of all non-fuel exports from developing countries are now covered by NTBs, compared to one-tenth for trade between the developed countries. Contrary to a commitment made at the beginning of the Uruguay Round to 'roll-back' such trade restrictions, they actually increased during the 1980s. VER arrangements, under which
International trade

countries 'voluntarily' agree to limit exports, or face trade sanctions, are especially pernicious, since they allow developed countries to exploit the weakness of developing country exporters. The US, which led the 'free trade' drive during the Uruguay Round, uses VERs to protect its steel industry from Brazilian imports, its cement industry from Mexican competitors, and its footwear industry from Asian exporters. In Europe, VERs and quotas are applied to everything from teddy bears made in Thailand to videos produced in other parts of South-East Asia.

The Multi-Fibre Arrangement
The most significant NTB facing the world's poorest countries is the Multi-Fibre Arrangement. Negotiated two decades ago as a temporary departure from GATT principles, the MFA has allowed the industrial countries to impose quotas on individual suppliers. It was progressively strengthened during the 1980s. For example, in the early 1980s, the EU introduced a device called the 'basket extractor'. This allowed it to extend MFA restrictions even to products not covered in existing bilateral agreements. Clearly impressed, the US followed suit. All major importers also introduced a range of safeguard devices to curtail increases in imports they might not have considered. The fourth MFA was negotiated during the Uruguay Round, despite the pledge to 'roll back' existing forms of protectionism. In the event, the MFA was rolled forward to cover a lengthy list of new products, including some (such as jute and ramie) of primary concern to the world's poorest countries, such as Bangladesh.

The overall cost of the MFA to developing countries has been estimated at around $50bn a year: roughly equal to the total flow of development assistance provided by Northern governments. The real costs in terms of lost livelihoods in the developing countries are considerably higher. For many of these countries, the textile industry is the first step on the ladder of industrial development. Because it is labour intensive, its growth generates employment opportunities and income, especially for women; and because the technology involved in the early stages of production is relatively simple, investment in the textiles sector is an obvious way for countries to generate the exports they need to pay for imports. The MFA was designed to undermine the comparative advantage of developing countries, with detrimental effects for employment and trade.

Anti-dumping measures
Some trade barriers are more difficult to quantify than others. For example, companies in Europe and North America have frequent recourse to anti-dumping actions. These are supposed to counter the use of subsidies to gain market shares by imposing countervailing duties on exporters. In principle, anti-dumping measures are a perfectly legitimate response to unfair trade practices. In practice, anti-dumping rules are designed to discover dumping where none exists and to exaggerate its severity. They are widely abused by powerful business interests to exclude rivals from markets. For example, European electronics groups have gained anti-dumping protection from South-East Asian rivals, while continuing to import the same items from their own plants in the region. One recent review of anti-dumping cases investigated by the EU and published in 1994 found that 95 per cent had resulted in the exporter being found guilty — a conviction rate unmatched in any other judicial context.

Trade barriers after the Uruguay Round
The Uruguay Round agreement concluded in April 1994, only partially addresses the bewildering array of trade barriers facing developing country manufacturers. While the share of such exports entering industrial country markets duty free will double, the proportion attracting tariffs of 10 per cent or more will remain relatively high — and far higher than for goods traded between the industrial countries themselves. Moreover, some of the product groups of greatest interest to developing
countries, including textiles and clothing, footwear and leather goods, will continue to face severe discrimination. Around one-fifth of textile exports will continue to face tariffs in excess of 15 per cent.136

Other discriminatory measures will also remain intact for some time, especially if the industrial countries continue their imaginative efforts to undermine both the letter and the spirit of the GATT agreement. The MFA is supposed to be phased out in three stages by 2005. During the first phase, which lasts three years, restrictions are to be reduced by 16 per cent. Unfortunately, instead of grasping the opportunity to remove one of the longest-standing inequities in world trade, the EU appears bent upon discovering ingenious ways of undermining the textile agreement. By tabling an offer to remove restrictions on items which were either not covered by the MFA, or which were covered but not subject to quotas, the EU has signalled its intention to meet its GATT targets in a way which will leave all current restrictions in place until 1998 at the earliest.137 This contrasts with moves towards liberalisation in developing countries themselves. For example, under bilateral arrangements with the EU and the US, India is reducing its textile tariff by 65 per cent up to 1998 and phasing out quotas thereafter.138

Under the new GATT regime, anti-dumping rules have been tightened. But the new rules reflect the demands of US and EU negotiators for a framework that will enable them to respond positively to protectionist demands from industrial lobbies. The GATT agreement will also allow for the continuation of VERs, and permit the selective application of 'safeguard' measures, which can be used to impose duties and quotas on countries which succeed in rapidly expanding their market shares.139

Arguably the deepest inequity in the GATT system is the abuse by developed countries of the principle of reciprocity. In theory, GATT rules require all countries to respond to liberalisation by their trade partners with equivalent measures, the aim being to create a dynamic process of trade liberalisation. In practice, this does not happen, for two main reasons. First, because developing countries have been liberalising their economies either unilaterally or in the context of structural adjustment programmes, rather than under GATT auspices, industrialised countries are technically not required to reciprocate. Second, developing countries do not have the economic and political muscle to press their claims against the industrialised countries.

There is considerable scope for improving the Uruguay Round agreement by:
• setting clearer rules for phasing out the Multi-Fibre Arrangement and accelerating the withdrawal of restrictions
• abolishing 'voluntary export restraints' and withdrawing all NTBs which discriminate against developing countries
• establishing clear and uniform rules for anti-dumping legislation.
• establishing a wider principle of reciprocity whereby industrial countries are required to match the liberalisation efforts of developing countries.

Agriculture and food security

The agricultural policies of the industrial countries exercise an important influence on the trade prospects of developing countries, and on the livelihoods of their inhabitants. The industrial countries are the world's largest importers of agricultural produce, and they dominate a number of export markets. These exports compete with those of developing countries on international markets, where they drive down prices. They also enter the food systems of the developing countries, bringing smallholder farmers there into direct competition with farmers in Europe and North America, often with disastrous consequences.140

Until the Uruguay Round, agriculture was treated as an exception to the GATT principle that markets should be liberalised. There was no prohibition on the use of export subsidies to
International trade

dispose of surpluses; and no effective prohibition against the use of import controls to protect farm incomes. This special dispensation existed because the GATT’s rules on agriculture were tailored to accommodate the US farm-income support programmes designed during the New Deal, which depended on import controls and export subsidies. The Common Agricultural Policy (CAP) of the EU, which also involved import controls and subsidies to protect farmers, was subsequently accommodated within the GATT, resulting in increasing tension with the US.

Governments in the industrialised countries have used a wide range of mechanisms to protect the incomes of their farmers. Domestic price-support policies, in which farmers receive guaranteed prices for their output, have been backed by a bewildering array of trade restrictions designed to stop imports coming in at lower prices. The overall cost to the OECD countries of these policies amounted to around $350bn in the early 1990s; around six times what they provided in official development assistance. In Europe alone, taxpayers typically spend in excess of $20bn on the CAP, which continues to absorb the bulk of the EU’s budget.

The CAP system has resulted in massive overproduction. Until recently, farmers in the EU were paid a guaranteed price for virtually unlimited output. This encouraged productivity gains, as farmers invested in increasingly intensive systems of production. Each acre of cereals farmland in northern Europe produces three times as much today as it did in the 1960s. Thus, while small farmers have been squeezed out, the larger farms which have replaced them have maintained a relentless increase in output, changing Europe from a net importer to a major exporter.

Over one-third of European cereals production is now exported. As a result, the EU’s share of world markets increased from less than 7 per cent in the early 1970s to almost a quarter in the 1990s. The EU is now the world’s largest exporter of sugar and beef, the second largest exporter of cereals, and a major exporter of edible oils. The costs associated with storing surpluses and disposing of them on world markets now absorb over one-third of the CAP budget.

The effects of subsidised exports

In the 1980s, competition between the EU and the US intensified, as world markets contracted. With surpluses mounting, both ‘agricultural superpowers’ sought to outsubsidise each other to expand their market share, with disastrous consequences. World prices fell to their lowest levels in real terms since the Great Depression, driving up the costs of farm budgets and export subsidies. By the mid-1980s, agricultural trade conflicts seemed likely to escalate into a wider trade war, bringing the problem of agricultural policy reform to the top of the Uruguay Round agenda.

Agricultural trade problems are widely perceived as a matter of interest solely to the EU and the US. But the most damaging effects of trans-Atlantic trade hostilities have been felt in developing countries, where the most visible victims have been non-subsidised exporters, caught in the crossfire of the EU-US subsidy barrage. For example, falling prices for cereals and oilseeds reduced Argentina’s export earnings by 40 per cent between 1980 and 1987.

Subsidised exports have also undermined livelihoods by flooding local markets with cheap imported food. The impact of EU beef dumping in West Africa is one example. Pastoral farmers in countries such as Mali, Niger and Burkina Faso sell animals in local markets to generate cash income for household needs. During the latter half of the 1980s, these markets were disrupted by heavily subsidised EU beef, which was being sold at one-third of
the normal price.¹⁴⁷ Currency over-valuation further reduced the price of imported beef, although a 50 per cent devaluation in 1994 radically changed this picture. For nomadic peoples such as the Fulani, maintaining their herds on ecologically fragile grazing lands in areas of uncertain rainfall, the effects of low prices are disastrous. As one farmer puts it:

_Everything here depends on the income from selling animals. With this climate nobody can count on crop production. If the animals don’t sell, or are sold at a derisory price, people lose their savings. They cannot buy enough food, and they cannot afford education or medicine for their children._

In the Andean region, Oxfam has witnessed how heavily subsidised wheat and maize imports from the US have destroyed the livelihoods of local producers of food staples. In West Africa, cheap wheat imports have been displacing traditional food staples in local diets. Wheat imports into the coastal region have been increasing by over 8 per cent a year for the past decade, while per capita production of sorghum and millet has been falling.¹⁴⁸ Wheat-based bread has become a staple food in many countries. By driving down local prices, wheat imports have damaged rural livelihoods and employment. They have also contributed to the creation of an unhealthy and unsustainable dependence in many countries upon food imports. These now use up more than a quarter of export earnings in sub-Saharan Africa, where political elites have long regarded these as a way of supporting industrial development.¹⁴⁹

The UN’s Economic Commission for Africa has called for a renewed emphasis upon achieving greater food self-reliance. ‘Africa’s viability,’ it wrote in 1991, ‘resides, above all other considerations, in its being able to feed its own people from its internal resources.’¹⁵⁰ The case for improved self-reliance is rooted not only in the inherent dangers for weak trading countries of dependence upon volatile world food markets, but also in the importance of food staples production for rural employment and poverty reduction. These dimensions of food security are often ignored by advocates of agricultural trade liberalisation for the developing world. So, too, are implications of trade liberalisation in markets which are massively distorted by agricultural subsidies. The familiar GATT refrain stressing the need for a ‘level playing field’ in agriculture remains popular with Northern policy makers. But the playing field in agricultural trade runs all the way downhill from the heavily subsidised farms of Europe and North America to the staple-food systems of Asia, Africa, and Latin America.

**Mexican maize and NAFTA**

Consider, for example, the implications of agricultural trade liberalisation under the NAFTA. In Mexico, maize accounts for almost two-thirds of agricultural production in some areas of the country, where millions of households farm on steep, ecologically fragile hillsides using traditional methods of cultivation. In areas such as Morelos, Guerrero, and the Tarascan Plateau, deepening rural poverty has already caused a wave of male migration to urban areas, leaving women and children to carry out the bulk of production. Households survive partly by selling small amounts of maize after the harvest and partly through off-farm activity, such as employment on larger holdings.¹⁵¹ Under the NAFTA agreement, restrictions on US maize imports are being progressively withdrawn, along with price support to Mexican farmers. By imposing a ‘free trade’ on such unequal contestants in the market, NAFTA is signing the death knell for millions of Mexican smallholdings. Average yields in Mexico are less than a quarter of those in the US,¹⁵² where farmers benefit not only from production subsidies (which account for a third of the value of maize output) but also from a wide range of marketing and irrigation subsidies.¹⁵³ It has been estimated that fewer than one in ten Mexican maize producers could compete in an unprotected market. Translated into human terms, this means that the free importation of US maize will displace an
estimated 2.4 million peasant producers and their families from the land. The overall effect will be to destroy the social, ecological, and economic foundations of agriculture in some of the poorest areas, resulting in forced migration to cities or to the US.

Agricultural trade reform

The Uruguay Round agreement and the reform of the EU’s CAP have been widely celebrated as the start of a new era in world agricultural trade. In practice, however, the changes introduced will be of marginal relevance to world agricultural markets. Briefly summarised, the GATT agreement comprises three elements: a reduction in domestic income support by 20 per cent; a reduction in the volume of subsidised exports by 21 per cent and in the value of such exports by 36 per cent; and the conversion of all import barriers into tariffs.

The implementation of the agreement will produce results which are considerably less impressive than the figures imply. Both the US and the EU claim to have already made the necessary cuts in domestic subsidies, so there will be no additional reductions. The EU has changed the way in which it provides subsidies so that, in the arcane world of GATT semantics, they are no longer treated as subsidies (and therefore not subject to reduction). Under the new CAP regime, farmers are paid income support tied to the volume of land they farm, rather than price support for output. Since income support is treated, under the Uruguay Round agreement, as distinct from an export subsidy, it will be possible to maintain current levels of over-production and export dumping. As in the US, the biggest farms in the EU will have to take a proportion of their land out of cultivation to qualify for price support. Already, however, set-aside, as this system is known, has shown itself to be highly ineffective as a means of cutting production, as witnessed by the increase in the EU’s 1994 cereals harvest.

Agriculture is one area of international trade in which there are win-win scenarios for the majority of people in the developed and the developing world. The main beneficiaries of existing price support policies in Europe and North America are large-scale farmers (the largest 20 per cent of whom receive three-quarters of CAP subsidies), agro-chemical suppliers (for whom intensive agriculture provides a huge market), and grain traders (who are given public funds to penetrate world markets). Meanwhile, small farmers continue to go bankrupt in record numbers, and intensive agriculture is destroying natural habitats, and creating health hazards for consumers. There is a growing awareness in the industrial world that food systems are running out of control, although considerably less awareness of the costs of this to developing countries.

A new sustainable agricultural framework is urgently needed in the developed countries. Currently, price-support systems reward farmers in relation to the size of their output and land area. These systems should be restructured to encourage less intensive production and lower levels of output, and more ecologically sustainable forms of production. Taxation on inputs of nitrogen would be one of the most effective ways of reducing productivity. Upper limits should be placed on the volume of production eligible for price support. Using taxpayers’ money to finance over-production under a system which increases environmental damage, and benefits mainly a small elite, is bad enough; expecting the same taxpayers to finance the disposal of surpluses on world markets in a manner which destroys the livelihoods of Third World producers is totally unacceptable. The international framework for food security should include:

- a provision in the WTO prohibiting the use of agricultural subsidies
- a provision allowing developing countries to protect their agricultural systems through trade measures designed to enhance rural employment, achieve sustainable environmental objectives and improve food self-sufficiency.
TNCs, foreign investment, and intellectual property rights

Increased recourse to protectionist measures against developing countries has been one of the defining features of industrial country trade policy since the early 1980s. Another has been an increased propensity to use the threat of unilateral trade sanctions to prise open Third World investment markets, and to enforce the intellectual property claims of Western TNCs. The influence of these companies on the outcome of the Uruguay Round is reflected in the agreements on investment, services, and intellectual property, where the sovereignty of Third World governments in relation to foreign investors has been severely eroded.161

The United States has been at the forefront in using unilateral trade threats to secure its strategic objectives. Under trade legislation adopted in 1988 — the so-called 'Super' 301 provision of the country's Trade Act — the Administration declared itself judge, jury, and executioner in deciding whether the US's trading partners were adopting 'unfair' trade policies, and what the penalty should be. Super 301, or the 'crowbar legislation' as it came to be known, was used most conspicuously in an attempt to prise open the Japanese market.162 But while the resulting trade tensions between Tokyo and Washington grabbed the international headlines, it was developing countries which bore the brunt of the US's threatened recourse to trade sanctions. By 1990, more than half of the countries being investigated for 'unfair' trade practices were developing countries.163

'Unfair', in this context, referred to a wide range of practices. For example, India was charged with denying American financial corporations access to local banking and insurance markets, which were being protected in the interests of national economic development. The most frequently cited unfair practice was the alleged failure of Third World governments to protect the patents of American companies.

Super 301 was used to force countries such as Brazil, Thailand, Chile and, with more limited success, China, to amend their own intellectual property codes by bringing them into line with those of the US.164 Charges were filed under the US trade legislation by powerful companies such as American Express, IBM, and Du Pont, and invariably upheld by the investigating authorities.

Governments and TNCs

The GATT agreement enshrines in multilateral trade law many of the policy changes which the US government and TNCs have sought through unilateral trade actions. The Agreement on Trade-Related Investment Measures (TRIMs), for example, will prohibit developing countries from requiring as a condition of market access that TNCs meet minimum requirements for using local materials in the production process. Regulations requiring TNCs to meet minimum export requirements, promote local ownership, or meet minimum capital requirements will similarly be phased out.

Discriminatory taxation against foreign investors will also be forbidden under the new GATT agreement. Restrictions on profit repatriation will be dismantled under the General Agreement on Trade in Services (GATS). Such arrangements will accelerate moves towards the liberalisation of foreign investment codes. In its 1994-1995 budget, for example, India lowered its tax rates on foreign companies as a step towards creating a uniform structure.165 In many countries, moves towards the liberalisation of foreign investment have been even faster than towards trade liberalisation, and will now be accelerated by obligations under the WTO, enforceable through punitive trade sanctions.

TNCs and investment

There is no political justification or economic rationale for a multilateral investment regime so clearly designed to promote the interests of foreign investors and TNCs. The new rules
International trade

were largely written by TNCs such as American Express and Citibank, which exercised a powerful influence over the US trade negotiating position.\textsuperscript{166} This raises serious concerns about the distribution of power in international trade negotiations; and about the subordination of the principles of multilateralism to corporate self-interest. There are sound economic reasons for developing countries to regulate foreign investment and to subject it to conditions and export requirements which reflect national priorities and efforts to achieve greater self-reliance. Investment flows determined solely by corporate profit objectives are unlikely to achieve the most efficient outcomes for human development, and are likely to prove financially destabilising in some sectors. Moreover, to cite free-market arguments in defence of the investment rights of TNCs ignores the realities of market power, monopoly, and the absence of transparency in the behaviour of most TNCs. As the South Commission has put it:

\begin{quote}
In a world of monopolies, transfer pricing, and internationalisation of economic processes, measures to regulate foreign investment are not necessarily trade-distorting.\textsuperscript{167}
\end{quote}

It is true that foreign investment can play an important role in the development process, notably through employment creation, training, and the transfer of technology. Transferred technologies in the form of hardware and machinery can facilitate the production of new, higher-value-added goods, and generate exports. In Singapore, for example, the emergence of a semi-conductor industry was an outgrowth of foreign investment. However, isolated success stories do not justify the enforced liberalisation envisaged in the GATT agreement. The limitations of foreign investment were demonstrated in Malaysia, where Japanese investment boosted exports of electronic equipment; but the local content of these exports has been negligible, there have been few linkages with local firms, and no independent design and marketing capacity has been developed. Malaysia’s technological base remains small and underdeveloped. With the rate of foreign investment beginning to decline in the face of rising wages in Malaysia, and new opportunities for low-wage assembly operations emerging in China and Vietnam, it is questionable whether foreign investment has improved prospects for self-reliant development. Where investment is concentrated on low-skill industries in free-trade zones — as in the Dominican Republic — the economic linkages generated, like the financial benefits involved, are negligible. Almost half of the employment generated by TNCs is in such zones.

Although TNC production and exports generate revenue, this is often counterbalanced by profit remittances and transfer-pricing systems designed to minimise tax liability. The argument for regulating foreign investment is reinforced by the experience of some of the more dynamic developing countries. In both South Korea and Taiwan, for example, foreign investment played a marginal role in supporting economic growth.\textsuperscript{168} Such investment as was allowed, was tightly controlled to maximise the benefits of technology transfer and local training. In both countries, governments focused on the need to develop domestic capacity through adaptation, training, and investment in technical education. What these experiences suggest is that a far greater degree of autonomy is required than envisaged under the GATT agreement, so that governments are able to adapt foreign investment to local development needs. Any equitable multilateral agreement must also address other aspects of TNC behaviour, such as transfer pricing, restrictive business practices, restrictions of the free flow of technology, and excessive profit repatriation, that impede prospects for more self-reliant development.\textsuperscript{169}

**TNCs and intellectual property rights**

The strengthening of the international intellectual property rights under the GATT agreement is a similarly one-sided approach,
biased towards the interests of the Northern TNCs which control over 90 per cent of the world's patents. Under the Trade-Related Intellectual Property Rights (TRIPs) agreement, developing countries will be required to enforce a patent system modelled on those of the US and the EU. The period of patent protection will extend to 15 years, which is substantially in excess of existing provisions in many developing countries. Viewed from the South, the danger is that, by rewarding monopoly through enhanced royalty collection, the GATT agreement will further marginalise developing countries by raising the costs of technology transfer. None of today's industrial countries were subjected to such restrictive practices during earlier stages of their own development; and it is unlikely that they would have developed their manufacturing bases if they had been.

But the intellectual property agreement does not merely concern the interests of TNCs and governments. It is also of profound concern to local communities in developing countries. During 1992 half-a-million farmers marched in the Indian state of Karnataka to challenge the efforts of TNCs to extend, under the auspices of a GATT agreement, patents to genetic materials. Such a move, they claimed, would rob farmers of the freedom to use, reproduce, and modify their seeds and plant materials. Since farmers control over 85 per cent of seed production in developing countries, the issues at stake are part of wider concerns about food security and sustainable development.

Unravelling the implications of the GATT agreement is made difficult by the arcane language in which it is couched, and by the widely divergent interpretations of what it means. However, Oxfam shares the view that the agreement could be used to deny farmers the right to use certain seed varieties. Under the new rules, WTO members will be required to provide for the protection of plant varieties either through patents, or through an effective national system of royalty collection. In either case, companies will be able to pursue claims on patented seeds with the full weight of international trade law, and the implicit threat of sanctions against governments, behind them. As a result, farmers could be penalised for saving seeds for planting in future seasons, or for exchange with other farmers.

Such a régime presents a considerable threat to the conservation of biodiversity. One hundred years ago, Indian farmers grew 30,000 varieties of rice. In 15 years' time they will be growing no more than 15, exposing the country to an increasing risk of crop failure. The GATT agreement will accelerate this loss of varieties in all countries by placing a premium on uniformity, with potentially irreversible adverse effects on local food systems. This is inconsistent with the aims of the Biodiversity Convention, which was signed by 50 states at the Earth Summit. Driven by a growing sense of concern over the loss of the world's most vital resources, governments at the Summit pledged to explore fair and equitable ways of sharing the benefits from genetic resources, and of conserving biodiversity.

The Biodiversity Convention has now been overtaken by the GATT agreement, which offers a one-sided approach to intellectual property protection. Genetic resources from the South are being widely used in the North to improve seeds and plants, generating vast revenues in the process. However, the seeds patented after modification in Northern laboratories by TNCs have, in many cases, been developed and modified over centuries by communities in developing countries. Yet the local knowledge, innovation, and ingenuity involved in this process is not regarded, under the GATT agreement, as intellectual property.

The Uruguay Round agreement has considerably expanded the rights of TNCs. These rights now extend beyond the bounds of legitimate corporate concern, into areas where they threaten public interest, as starkly illustrated by the TRIPs agreement. Once again, the GATT agreement in this area was effectively written by powerful corporations, such as Du Pont and IBM, which formed an Intellectual Property
International trade

Coalition to influence the outcome of the Uruguay Round. The resulting system prioritises Northern interests, enlarging and strengthening, in the name of ‘free trade’, the monopolistic rights of sellers of technology. This expansion of rules governing intellectual property rights will have significant adverse effects for developing countries. In particular, it will reduce their capacity to afford, absorb, and adapt new technologies, widening the distance between themselves and the knowledge-intensive production systems of the industrialised world.

As an urgent first measure of reform, it is vital that the GATT agreement is made to complement, rather than supersede, the Biodiversity Convention. The WTO’s Committee on Trade and Environment should establish a review procedure for examining the implications of the TRIPs agreement in consultation with the relevant UN bodies, NGOs, and local communities, as well as industry. At the same time, new mechanisms of development assistance are needed to facilitate the transfer of technologies to developing countries, allied to measures which curb the restrictive practices of TNCs in relation to technology transfer. More generally, the globalisation of investment and business requires new structures of public accountability, scrutiny, and control to ensure that the legitimate concerns of consumers, producers, and governments are not overridden by remote multilateral bodies, such as the WTO, which predominantly represent the commercial interests of TNCs.

The UN Restrictive Practices Code is a step in the right direction, but is too weak. Under the original Bretton Woods proposal for an International Trade Organisation, there was to be an anti-trust body with surveillance powers. Such a body now needs to be established as an independent part of the WTO, with the authority to investigate transfer pricing and other malpractice. Co-operation is also urgently required on the issue of taxing multinationals. Faced with the problem of foreign corporations under-reporting profits, the state of California in the US has developed a ‘unitary tax’ structure. This establishes its right to tax TNCs by calculating the value of local operations as a proportion of their global activities. As a powerful economic entity in its own right, this is a viable option for California; but it would hardly be feasible for, say, Honduras, to follow such an option. This suggests the need for enhanced regional co-operation and international mechanisms for assessing tax liability.

Public interest would also be strengthened through multilateral agreements and codes of conduct. Efforts to develop a binding code of conduct for TNCs began in the early 1970s, but were effectively abandoned in 1994 in the face of opposition from Northern governments. Such codes can play an important role in supporting the efforts of TNCs attempting to develop socially responsible forms of investment. On the other hand, voluntary arrangements are inadequate where public health and safety is concerned. Several European and US TNCs openly violate codes of conduct agreed with UNICEF and the World Health Organisation for restricting the promotion of infant formula. Their activities are a contributory cause of the deaths of over one million babies annually, who would have lived had they been breast-fed. Such practices ought to be subject to judicial proceedings in the home countries of the TNCs involved. In the case of production processes involving hazardous toxic substances, TNCs should be subject to laws as least as stringent as those applying in their home countries, and be subject to prosecution at home when they violate such laws elsewhere in the world.

An agenda for reform of world trade

Under the Uruguay Round, the power of policing and implementing the international trading system will pass to the World Trade Organisation. This will enjoy a far wider remit than the GATT, with its authority extending into areas such as financial services, investment,
intellectual property, and agriculture, previously either beyond trade rules, or weakly covered by them.

Oxfam is in favour of a strong, supranational body to oversee world trade. But it shares with its partners a serious concern both about the rules underpinning the WTO, its accountability, and its relationship to other international bodies and treaties.

Under the post-Uruguay Round regime, the WTO will become a formal part of the Bretton Woods structure, interacting with the World Bank and the IMF, in a triumvirate of institutions which will effectively govern world trade and finance. However, the WTO has a narrowly-defined free-market remit designed to expand trade without reference to wider social, economic, and environmental implications.

One way of redressing this would be to make the WTO answerable to the United Nations, through regular reports to the Secretary-General, the General Assembly, and the Economic and Social Council. While this would not, in itself, imply a fundamental shift in power and authority, it would at least ensure that international trade issues were debated in a context where the views of small states carried more weight. Moreover, the moral authority of the UN and its influence on international opinion would inevitably have a bearing on the policy orientation of the WTO.

Closer integration into the UN system is important for the WTO, not least to address the widespread concern among people and governments in the South that the WTO will become, like the GATT, an instrument through which the industrial countries impose their own strategic trade agendas. While formally democratic, the WTO will reflect the imbalances in trading power between the North and the South, with the world's poorest countries excluded to the margins of decision-making. This is not the way to bring about co-operative management of global economic interdependence.

It is equally important that the WTO's remit does not lead to the marginalisation of social and environmental concerns. The WTO should be required to co-operate closely with UN agencies, including the Commission for Sustainable Development (CSD), the International Labour Organisation, the UN Development Programme, and the UN Conference on Trade and Development. Observer status should also be granted to NGOs and citizens' organisations, whose important role was acknowledged in Agenda 21.

It is to the credit of trade ministers that they are now attempting to examine trade principles which go beyond celebrating the virtues of market deregulation, notably with regard to the environment and labour rights. New frameworks for trade policy are urgently needed in both areas. However, these too must be developed in a broader institutional context. Responsibility for developing and implementing a social rights agenda should reside with the ILO and its specialised committees, which have an established track record in monitoring compliance with standards. Meanwhile, the existing WTO Working Party on Trade and the Environment should be administered under the CSD, and expanded to include environment ministers and environmental experts.

One of the keys to greater accountability in international trade is improved access to information. It is wrong that WTO trade disputes panels should continue in the GATT tradition of meeting in secret and arriving at judgements made available to the public only after a long delay, or not at all. In some cases, these unselected and unaccountable panels will have the power to demand changes in policies and standards set by democratically elected legislatures, without reference to public opinion. All meetings of the WTO, including those of its trade disputes panels, should be in public and governments should be required to report regularly to national parliaments on their positions.

Improved structures of accountability are critical to the credibility and the future of multilateralism. But accountability alone will not ensure that trade becomes fairer and more
International trade

sustainable. As we have argued in this chapter, wider action is needed to address the interlocking problems of low commodity prices, Northern protectionism, and the dumping of agricultural exports. The fact that such issues were not dealt with in the Uruguay Round demonstrated the extent of the domination of the GATT by the industrialised countries. So did their success in forcing on to the GATT agenda, against the almost universal opposition of developing countries, the new issues of trade in investment, financial services, and intellectual property. The agreements in all of these areas could severely hinder the efforts of developing countries to foster more self-reliant and sustainable development.

Finally, mechanisms must be found to regulate the growing power of TNCs. The Uruguay Round agreement will give an important impetus to the foreign investment rights of TNCs. What is needed is an international commitment to restoring the rights of workers to minimum standards of welfare. These rights, based upon existing UN Conventions, should be enshrined in the WTO and implemented alongside wider measures to enforce greater transparency and accountability on the part of TNCs.

Change at an international level is vital; and public pressure, exercised through consumer choice, can also act as a force for change. Consumers can make a difference by buying fairly-traded goods and demonstrating concern to major retailers over the sourcing of products, including the conditions under which they are produced and the prices paid to producers. In this way, consumers in the North can help to bring about tangible improvements to the livelihoods and rights of poor producers. Below, we describe the work of Oxfam and others to bring the issue of fair trade before a Northern audience.

Oxfam's work for fair trade

Oxfam is working for change in international trade at a number of levels. Through its 'Bridge' programme, Oxfam provides a market for Third World producers, paying fair prices and purchasing through organisations which ensure that the bulk of the price reaches the producers. The name 'Bridge' aptly summarises the aim of linking producers in the developing world to their customers in the North on more equitable terms. Oxfam supports the efforts of local producers in various countries to gain more control over their production, for example by improving their access to credit and information.

Today, Bridge goods are sold in over 600 Oxfam shops in Britain and Ireland, and purchased by almost one million people annually. Over 80 per cent of these goods are handicrafts, produced mostly by women. In 1993/1994, over £3m was paid out to 293 producer groups, representing a significant transfer of resources to the poor and an investment in their livelihoods.

By providing a market, Bridge helps to ensure that money gets into the hands of women, whose labour is often unpaid. Apart from the direct economic benefits, this helps to improve the status and self-esteem of the women involved, and provides a means of ensuring that children are fed and clothed. Bridge expects producer groups to adhere to certain criteria: including sensitivity to gender issues, avoidance of bonded labour, support for people with disability, and a responsible approach to child labour. In return, producers receive a fair price and support with marketing, design, and product development.

Aj Quen

Aj Quen, or 'weaving together', is Bridge's main partner in Guatemala. It was established in 1989 by a group of weavers, tailors, carpenters, basketmakers, potters, and other handicraft producers in an effort to break out of poverty and establish a sustainable foundation for livelihoods. Eighty per cent of the producers with which Aj Quen works are women, many of them widows whose husbands have been killed in conflict and violent repression.
In 1993/1994, Bridge purchased £30,000 worth of orders from Aj Quen. This has brought social and economic benefits, even though the average income per producer remains low because the tailoring skills of many of the groups need to be developed.

The purchase of good quality raw materials will help to change this. But the project cannot be measured solely by its economic returns. Each year hundreds of women make long and difficult journeys by foot and bus to take part in annual meetings, giving them a sense of control over the co-operative and their own lives. At the same time, Aj Quen has invested in providing literacy centres, expanding the opportunities for employment outside the home.

**Trade in commodities**

Around 15 per cent of Bridge’s sales come from food products such as coffee, tea, honey, and spices. These are all competitive markets, where Bridge is up against the big-name brands available on supermarket shelves, as well as low-priced private labels. In order to compete, Bridge promotes the fair-trade value of its products to consumers. There is increasing acceptance in the market that producers have a right to a reasonable standard of living, that realistic prices ensure sustainability of production, and that fair trade can be more effective than aid in supporting the development of communities.

As in other countries, the coffee market in Nicaragua is dominated by giant transnational companies. Working through local buyers, known as amarradores, these companies attempt to buy their coffee as soon as possible after the November-December harvest, when prices are at their lowest. Smallholder producers have little choice but to sell at that time because they lack storage capacity and have immediate cash needs, for school fees, clothes, and to purchase next year’s seeds. Many producers sign advance contracts with the amarradores before the harvest.

PRODECOOP has intervened to challenge the powerful bargaining position of the amarradores, using a revolving credit fund to provide cash advances which reduce the need for forced sales in the immediate post-harvest period. In 1993, PRODECOOP was paying prices some three times higher than those offered by the amarradores. It was able to do so partly because it provides a higher proportion of the final price to the producers, and partly because it has the storage capacity to keep the coffee until prices increase later in the marketing year.

Such market interventions, which figure increasingly prominently in Oxfam’s work, bring immediate and obvious benefits to producers. In El Salvador, Oxfam supports the Agrarian Reform Growers’ Association, an umbrella organisation comprising 17 smallholder co-operatives. Like PRODECOOP in Nicaragua, the association provides credit and information to smallholder farmers. But it also provides processing facilities, which adds value to the coffee beans before export. This increases the share of trade revenue going to local households and the local economy, and reduces the transfer to large companies in the North.

**Cafédirect**

Bridge has joined forces with three other alternative trade organisations to market a new brand of coffee, Cafédirect. As its name suggests, the coffee is purchased direct from small farmers, who receive a price linked to the minimum floor price previously defended by the International Coffee Organisation. When Cafédirect was launched during the trough in world coffee prices, producers were paid $1.20 per lb. Had they been selling in the international market, they would have been paid around 65 cents per lb.

Cafédirect costs more than some of its competitors, but it has proved popular with consumers; so popular that it is now stocked in all the main supermarket chains in the UK. Its success underlines the willingness of many consumers to pay slightly more when the benefits go to producers. It also underlines the extent to which consumer power can act as a
positive force for change in international trade.

**Honey bees**
The forests of Zambia's remote North-western Province provide a source of livelihood for an estimated 10,000 beekeepers, whose ancestors have been producing and trading honey since the twelfth century. But in recent decades, they have suffered from a combination of neglect and misplaced policies by companies more concerned with making short-term profits than supporting sustainable livelihoods.

In the early 1990s, Oxfam responded to an initiative by the region's Beekeeping Association to set up a small company, the Uchi Trust, to purchase shares and represent their interests in a company called North-western Bee Products (NWBP), which controls the production and marketing of honey. This has had tangible effects on the prices they receive. It has also enabled them to explore wider marketing opportunities at home and abroad.

For example, NWBP is now promoting sustainable forest management schemes, and has been given an organic certificate for the honey it purchases. This has enabled the company to penetrate Northern markets more effectively by meeting consumer demands for products produced without artificial chemicals.

More recently, Oxfam has supported NWBP efforts to encourage diversification into crops such as groundnuts, sesame, and castor. Because honey harvests can vary enormously from year to year, depending on the rains, production of these crops will increase security.

The aim is to maximise the value retained in the forest economy by processing the seeds into oil, which will be marketed through local traders. NWBP is also exploring the possibility of the local community producing timber goods for sale to Oxfam's Trading Division, which has been buying substantial quantities of honey.

**Organic production**
Honey is one of several organic products marketed by Oxfam. 1994 saw the launch of Maya Gold, an organic brand of chocolate made from cocoa grown in Belize, which is already penetrating consumer markets with some success. Oxfam also sells organic coffee from Peru.

Oxfam Trading is concerned to promote organic brands for several reasons. First, consumer preference is creating a growing market for crops produced without the application of chemicals and pesticides. Second, the marketing of organic produce can provide support to traditional farming systems, where producers are often unable to afford the chemical inputs needed to exploit high-yielding hybrid seeds. Finally, the promotion of organic methods of production offers one route to the attainment of more sustainable and self-reliant agricultural systems.

This is not to suggest that organic production is an easy option. For example, the withdrawal of chemical applications means that weeding and pest control makes increased demands on labour time; and labour is a commodity in short supply during key periods of the agricultural season in most developing countries. However, producers in many of the co-operatives with which Oxfam works are expressing a growing interest in this option and are receiving support for their efforts to meet organic standards.

**Removing obstacles to fair trade**
It is now widely accepted that fair trade requires intervention to assist producers, to reform local and international marketing systems, and to expand consumer markets. Along with other fair-trade organisations and development agencies, Oxfam is improving its project interventions in support of producers, and investing in more effective marketing. The overall aim is to shorten the chain between producers and consumers, and to maximise the returns to the former.\(^{176}\)

However, the trade policies discussed in this chapter constitute an obstacle to the creation of a fairer trading system. For example, because the organic coffee imported by Oxfam is processed in Mexico, it is subject to a far higher tariff than coffee beans. Such a tariff discour-
ages local processing and protects the markets of powerful domestic food conglomerates.

People in the North can act as a powerful force for change both by campaigning for fairer trade policies and by exercising their power as consumers. After nearly 30 years of direct involvement in alternative or producer-friendly trading, Oxfam saw the need to help to promote fair trade beyond its own shops and catalogue, in the mainstream consumer market-place. The device specially developed for the purpose in the UK is the Fairtrade Mark. Together with other development agencies, Oxfam is a founder member of the Fairtrade Foundation which administers the Mark. The Foundation licenses the Mark to endorse commercial products which need to satisfy strict criteria on terms of trade and conditions of employment in developing countries. In 1994, its first year, the Mark was licensed to brands of tea, coffee, and chocolate, which are all on sale in major supermarkets.

The fairtrade Mark and its counterparts (Max Havelaar and Transfair in other European countries, and a similar scheme being prepared in Canada) open a new avenue of action and bring a new power to bear in favour of greater justice in trade. They provide a guarantee that the product in question gives 'a better deal' to the workers or small producers, and therefore an opportunity for consumers to exercise positive choice. In this way, shoppers at the check-out point in Northern supermarkets can make common cause with peasant farmers' organisations and producer groups in the South in bringing about fairer trade.