

A woman with dark hair, wearing a pink shirt and a patterned sari, is operating a traditional spinning wheel. She is positioned in the center of the frame, surrounded by rows of similar spinning wheels. The wheels are mounted on a wooden frame and have large red bobbins. The background is filled with more spinning wheels, creating a sense of a busy textile factory.

The Trade Trap

Poverty and the Global Commodity Markets

Belinda Coote
with Caroline LeQuesne
New Edition

An Oxfam Publication



THE TRADE TRAP

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Belinda Coote

with additional material by
Caroline LeQuesne

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November 1991

PREFACE TO THE SECOND EDITION

This book was first published in 1992, while negotiations were still proceeding in the Uruguay Round of the General Agreement on Tariffs and Trade (GATT). The negotiations were finally concluded in 1994, and a new World Trade Organisation (WTO) was established in 1995.

The second edition is supplemented with a final chapter, entitled 'From GATT to WTO: the results of the Uruguay Round', written by Caroline LeQuesne, Oxfam's Policy Adviser on Trade and Environment. It examines the results of the Uruguay Round in detail, and assesses the outcome for the winners and losers. It also explores two major issues which have assumed increasing prominence on the world trade agenda since 1992: the relationship between trade and environmental sustainability, and the links between international trade and labour standards. It concludes that the new World Trade Organisation fails to create a viable framework for the social and environmental regulation of international trade, and that urgent reform is necessary to create a system which both protects workers' basic rights and promotes sustainable development.

GLOSSARY

- ACP** African, Caribbean, and Pacific countries: 69 former colonies of European powers with which the European Community has special trade relations through the Lome Convention.
- ATO** Alternative Trade Organisation, one committed to cooperation with organisations of the poor and the oppressed in Third World countries, aiming to improve living standards mainly by means of promoting trade in products from these countries.
- CAP** Common Agricultural Policy, of the European Community, a system of levies and subsidies to protect European agriculture.
- EC** European Community, originally six West European nation states, currently (1991) twelve, formed in 1957 under the Treaty of Rome.
- ECU** European Currency Unit, the name for the common currency in which the European Community's business is increasingly often reckoned. One ecu = approximately £0.70.
- EDF** European Development Fund, set up under the Treaty of Rome to provide funds from the EEC for ACP countries.
- f.o.b.** free on board, the value of goods on delivery to the port of export, i.e. without insurance and freight charges.
- FTA** Free Trade Agreement between the USA and Canada, signed in 1989; being extended to Mexico and possibly other countries on the American continent to provide for free movement of goods and services among these countries.
- GATT** General Agreement on Tariffs and Trade, a multi-lateral trade agreement designed to negotiate rules and standards for the conduct of international trade, signed in 1947.
- GDP** Gross Domestic Product, of a nation state, the value of goods and services produced in a year, i.e. including exports but excluding imports from GNP.
- GNP** Gross National Product, of a nation state, the value of all goods and services produced in a year, before allowing for depreciation (capital consumption) of assets.
- GSP** General System of Preferences: the system by which industrialised countries grant preferential treatment, through zero or reduced import duties, for certain products imported from developing countries; first negotiated at UNCTAD in 1986.
- G77** Group of 77 of Third World countries (later to become 96) which initiated the establishment of UNCTAD.
- IBRD** International Bank for Reconstruction and Development

- ICA** International Commodity Agreement
- ICCA** International Cocoa Agreement
- ICFA** International Coffee Agreement
- IFAT** International Federation of Alternative Trade, founded in Amsterdam in 1989 to coordinate ATOs' activities world-wide.
- IMF** International Monetary Fund, one of the institutions established by the United Nations at Bretton Woods in 1944, to provide finance for governments facing short-term deficits on their foreign balance of payments.
- INRA** International Natural Rubber Agreement
- IPC** Integrated Programme for Commodities, covering 18 commodities produced mainly for export by LDCs.
- ISA** International Sugar Agreement
- ITA** International Tin Agreement
- ITO** International Trade Organisation, proposed by Keynes in 1944 at Bretton Woods but transmuted into GATT.
- NIEO** New International Economic Order, the long-term objective of the Group of 77; the first stages were proposed at UNCTAD in 1971.
- LDC** Less Developed Country; or more usually one of the 43 *Least Developed Countries*, so designated by the United Nations because of their low per capita incomes and little, if any, industrialisation.
- MFA** Multi-fibre Agreement, whereby industrialised countries place quotas on imports of textiles and clothing from LDCs; one of the exceptions permitted under the GATT liberalisation process.
- MFN** Most Favoured Nation, the system adopted among nation states in their foreign trade of granting to all trading partners the same treatment as accorded to a most favoured nation.
- NICs** Newly Industrialising Countries
- NTB** Non-tariff Barrier: any obstacle to international trade other than actual taxes (tariffs) on imports.
- OECD** Organisation for European Cooperation and Development, whose membership includes the industrialised countries of West Europe, North America, Japan and Australasia.
- OPEC** Organisation of Petroleum Exporting Countries, set up in 1973 after the Yom Kippur war between Egypt and Israel, in order to control oil production and raise oil prices; includes mainly Middle East oil producers, but also Venezuela, Mexico and Nigeria. OPEC members were responsible for about half the world's oil output in 1990.

- S & D** Special and Differential treatment of imports from Developing Countries, allowed after 1964 under rules of GATT, thus eliminating the requirement of reciprocity.
- SDR** Special Drawing Rights, increasingly used as a unit of account by official organisations and in financial markets. They are issued by the IMF to member countries in proportion to their quotas, and represent claims or rights which are honoured by other members and by the IMF itself. Their supply, their value, and the interest payable on them are all determined by the IMF. The value of the SDR is calculated daily as a weighted average of the exchange values of five major currencies (the US dollar, the Deutschmark, the French franc, the Japanese yen, and the pound sterling). The value obtained is then expressed in dollars.
- TNC** Trans-national Company, a large company operating in several countries and sometimes with owners drawn from several countries.
- TRIMS** Trade Related Investment Measures, employed by governments to manage the links between their trade and the investments in their countries by foreign nationals, subject to negotiation under GATT.
- TRIPS** Trade Related Intellectual Property Rights: the rights of ownership, patents etc. which go with the export of capital goods and services, subject to GATT negotiations.
- UN** United Nations, international organisation established after World War Two, to maintain peace and assist economic and political development through regional Commissions in Europe, Africa, Asia and the Far East, and Latin America, and also through specialist agencies, including the World Bank, IMF, and UNCTAD.
- UNCTAD** The United Nations Conference on Trade and Development
- Uruguay Round** The latest round of GATT negotiations, begun in September 1986.
- VER** Voluntary Export Restraint: agreement by the government of one nation state (or an industry) to limit its exports of certain products in certain markets, e.g. Japanese cars in Europe.

INTRODUCTION

In one year Kabula, a young woman farmer in Western Tanzania, earns only a little more from her cotton harvest than it takes to buy herself one kanga, the garment traditionally worn by women and men in Tanzania. Yet in any one harvest she grows enough cotton to make 720 kangas. 'Cotton is the only cash crop we grow around here, and we have to grow something for cash in order to pay local taxes, to buy books for my brothers and sister who are still at school, and to buy essentials like salt, shoes and clothes.'

Kabula is caught in the trade trap. She relies on cotton for a cash income, yet the price that she receives for it is so low that she is consigned to a life of rural poverty.

Cotton is an important export crop for Tanzania, contributing around 15 per cent of the country's export earnings, yet in recent years its price on international markets has been low. Tanzania has had to produce more cotton to keep up, but in doing so has contributed to the plunge in world market prices. Other cotton-producing countries, desperate for foreign-exchange earnings to fuel their development efforts and pay off their international debts, are doing the same, causing global supply to outstrip global demand, and international prices thus to fall still further.

Cotton is not the only product to have suffered from low prices in recent years. They have become a feature of the markets for nearly all internationally traded primary commodities, such as sugar, coffee, tin, tea, and copper. Yet these commodities are critical to the economies of most of the countries in which Oxfam works. All over the Third World there are people like Kabula struggling to survive the vicious cycle of overproduction and low prices which so fundamentally undermines their own and their countries' development efforts.

Oxfam is funding projects in more than 70 countries in the South. The main aim of its overseas programme is to alleviate poverty and suffering. The nature of poverty and its causes varies a great deal from country to country. Yet a major unifying feature is the developing world's dependence on primary commodities. *The Trade Trap* draws on

Oxfam's overseas experience to show how the terms of North/South trade disadvantage the poor and argue for structural change.

This book begins by exploring the extent to which developing countries are dependent on primary commodities, and the devastating impact that a sudden price fall on the international market can have on the lives of individual producers. It looks at the underlying causes of these price swings, and shows how efforts to stabilise them, through mechanisms such as International Commodity Agreements, have proved largely unsuccessful.

Even when prices are high, the producer receives only a fraction of the amount paid for the end-product by consumers in the rich industrialised countries. To show why this is the case, *The Trade Trap* traces two commodities, tea and coconut, on their respective journeys from the producer to the consumer. In doing so, it considers the central role played by multinational corporations in the commodity trade, and explains the workings of the futures markets.

Third World producers of primary commodities desperately need markets for their goods yet face a daunting array of trade barriers which often deny them access to rich world markets. The latest round of negotiations under the General Agreement on Trade and Tariffs – the Uruguay Round – has underlined how much the interests of the developed world predominate over those of developing countries. The growing trend towards regional trade blocs, in Europe, North America, and East Asia, could further marginalise poor producers.

The Trade Trap, which draws heavily on case studies from Oxfam's work overseas, ends by looking at some alternative models for a fairer world trading system. These are based on Oxfam's own experience of alternative trade, through Oxfam Trading. It concludes that while there is much to be learned from alternative trade, the real challenge is to move such models from the periphery of northern consumerism to the mainstream. Only then will trade become less of a trap for poor producers, and more of a means for sustainable development in the South.