Taking liberties

Poor people, free trade and trade justice

Christian Aid

We believe in life before death

Contents

Christian Aid/Felicia Webb/IPG

Above: Indian dairy farmers collect fodder for their cattle. A recent World Trade Organisation ruling is threatening their livelihood
Front cover: Thousands have found new jobs in Mozambique's rejuvenated sugar industry. Their future now depends on how the global sugar market is reformed
Front cover photo: Christian Aid/Felicia Webb/IPG

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Taking liberties: poor people, free trade and trade justice

'Above all… more open markets and more trade mean growth and new jobs for the benefit of all our people.'

Statement by Tony Blair, UK Prime Minister, to the World Trade Organisation, 1998

'Ireland should use its influence… spreading to developing countries our intellectual conviction that openness is an opportunity, not a threat.'

The Irish government's draft statement of national trade policy, 2004

'We have opened our economy. That's why we are flat on our back.'

Sam Mpasu, Malawi's commerce and industry minister[1]

It is the end of an era. The 20-year myth of free trade is exploding. Under its influence, most poor people have remained poor, many have been made poorer, and the gap between rich and poor has grown wider.

This report looks at the impact of trade policies forced upon poor people by rich nations and global institutions and finds, as increasing numbers of economic and academic analyses are also finding, that they need trade justice rather than free trade. Stories from poor communities show the devastating impact that inappropriate free trade policies have had in the past 20 years.

But this report is not just a critique of past mistakes.

Examples from Asia, Africa and Latin America show a possible way forward. The use of targeted government intervention coupled with finance can play a positive role in helping communities in developing countries break free from the trap of poverty. Christian Aid is calling for poor countries to be released from the dogma of free trade so that they have the flexibility to choose trade policies that will help promote development.

In 2005 the UK government will host the G8 summit and, for the second six months of the year, will hold the presidency of the European Union potentially putting the UK at the forefront of change. 2005 is also significant because there will be just a decade to go before the Millennium Development Goals of halving the number of people in extreme poverty reach their sell-by date in 2015.

If 2005 is really to mark a turning point for poor people, then rich countries such as the UK and Ireland must fulfil past promises to provide more financial aid and finally cancel poor countries' debts. But developing countries will only reap the benefits of aid and debt cancellation if the rules of global trade are made to work in their favour. Local and international trade that benefits poor people is a prerequisite for a sustainable route out of poverty.

Trade and poor people

'Were those high duties and prohibitions taken away all at once, cheaper foreign goods of the same kind might be poured so fast into the home market as to deprive all at once many thousands of our people of their ordinary employment and means of subsistence. The disorder which this would occasion might no doubt be very considerable.'
Adam Smith, *Wealth of Nations*[2]

At its most basic level, trade demands only two things: that you have a product and a customer. Poor people have always had something to sell – mostly farm produce grown on smallholdings – and markets in neighbouring villages and towns where it can be sold. But since the mid-1980s, these markets have been filling up with products from other countries where producers are technologically advanced and in many cases benefit from subsidies. Poor people simply cannot compete.

Those who have pushed free trade have failed to take into account the economics of poverty in the developing world, in which poor people overwhelmingly live in communities where the main business is agriculture, and the services and infrastructure are either poor or non-existent.

Poor education and healthcare; poor equipment and roads; unsettled climates; and lack of access to power, technology and even water all conspire to undermine competitiveness. The tragedy is that enforced freeing or 'liberalisation' of trade may already have set poor communities back a generation, as people whose livelihoods are collapsing cannot afford to keep their children in school.

But while rich nations have been chanting free trade's mantras abroad they have been carefully preserving their own, protectionist scriptures at home. Rich countries continue to give massive support to their agricultural sectors (the OECD, sometimes called the rich countries' club, estimates members' support at around US$350 billion in 2003).[3] Additionally, they have maintained high tariffs on many products from poor countries.

This is hypocrisy on a grand scale. While maintaining their own protection – especially in agriculture, the most important area of trade for the developing world – rich countries have been arm-twisting developing countries into scrapping theirs. The effect has been devastating.

Limited options

Liberalising trade – abolishing the barriers erected to stop one country trading with another and removing government support for producers – was supposed to bring growth, prosperity, economic diversity and choice to the developing world. It has delivered for some, but for many it has failed on all counts. The average economic growth of poor countries over the past two decades is lower than during the 1960s and 70s, in many cases industries are at the point of collapse, and many of the world's poorest countries are still heavily reliant on tropical commodities, such as coffee and cocoa.

The income gap between the richest fifth of the world's population and the poorest fifth was 74 to one in 1997, up from 60 to one in 1990, and 30 to one in 1960.[4] This pattern is repeated within countries. A study of 73 states found that in 48 of them, which contain almost half the world's population, income inequality is increasing. Inequality is only falling in nine.[5]

One of the arguments put forward by supporters of trade liberalisation is that consumers will benefit from cheaper products as a result of import competition. But this does little for communities of subsistence farmers for whom production and consumption are intrinsically linked. Similarly, if people have lost their income as a result of import liberalisation, low prices are little consolation. As one delegate at a recent international development conference put it, 'There is no point to a

globalisation that reduces the price of a child's shoes, but costs the father his job.'[6]

So why do poor countries not use protection to prevent subsidised goods produced using advanced technology flooding their markets and driving domestic producers out of business? And why do they not develop their own competitive industries so that in the future they can compete?

The answer to these vexed questions is staggeringly simple. For the past 20 years, rich countries have been putting pressure on poor countries to open up their markets and to deregulate and privatise indigenous industries. Through a combination of ideological dogma, conditions attached to aid and loans, and straightforward bullying, poor countries have been convinced, forced and threatened into accepting that free trade is their only option.

One day, poor communities might be able to take advantage of free trade. But for now, with poor countries at an early stage in their economic and human development, and with 2.7 billion poor people to consider, what is needed is a pragmatic mix of trade policies that protect the most vulnerable. This report argues that, in pursuit of free trade, the principle of governments intervening to safeguard people's livelihoods and set their own course for growth and development – something that has worked in the past for almost all of today's developed countries – has been wrongly abandoned.

Christian Aid is not recommending a return to the blanket protectionism of the 1930s or the isolationism and the obsession with self-sufficiency that was common among poor countries once they had thrown off the shackles of colonialism. These days, most developing countries are keen to be connected to the rest of the world and want to make the most of lucrative markets overseas.

The success stories of globalisation, including South Korea, Malaysia, India, China and Mauritius, have all developed industries that sought to compete in global markets. But while developing competitive industries, each of these countries also carefully nurtured and protected them while they grew. Protecting infant industries has been branded heretical by the high priests of free trade in rich countries. And yet there are hardly any examples of countries that have developed without such protection.

Recently, at the World Trade Organisation (WTO), the voices of the heretics have grown louder. The poorest countries at the WTO, known collectively as the G90, are pushing for existing agreements to give poor countries special treatment to be made more precise and effective. Together with a group of 20 of the larger developing countries – the G20, including India and Brazil – they have also wrung a promise from rich countries to cut export subsidies. However, whether these developments result in real change remains to be seen. In the past, powerful trading nations have managed to frustrate and water down similar initiatives.

While the WTO grapples with the widely different needs of its members and with dysfunctional systems of scrutiny and transparency, regional free trade agreements and the World Bank and International Monetary Fund (IMF) continue to push for more free trade in poor countries.

The influence that the two global financial institutions have in developing countries is immense. By attaching trade liberalisation conditions to grants and loans and by offering 'advice' to poor countries that is so biased in favour of trade liberalisation, they have torn down many of the barriers already.

Europe's free trade crusade

One recent report describes the risks of the further removal of trade barriers in poor countries. It says, 'Liberalisation [of trade] could threaten the development of a modern manufacturing sector

which may often only survive and flourish if protections against imported products exist.' These words come not from a left-leaning think-tank or a bleeding-heart development charity, but from City of London consultants PricewaterhouseCoopers (PWC).[7]

The report, paid for by the European Commission, examined the likely impact of new free-trade agreements Europe is poised to make with 77 former colonies in Africa, the Caribbean and the Pacific region.

Called Economic Partnership Agreements (EPAs), the new deals come under the aegis of an agreement signed by all the governments concerned in Cotonou, Benin, in June 2000. While 'Cotonou' has three pillars – trade, political dialogue and development cooperation – its overarching aim is to reduce poverty. But astonishingly, the current terms of the trade pillar of the EPAs require poor countries to eliminate the taxes they levy on imported products from Europe. EPAs are, in other words, free trade agreements.

Europe promised assessments in advance that would examine the 'impact and sustainability' of EPAs, and PWC was duly dispatched to prepare a set of reports. While its analysis was limited, its findings are still damning.

In west Africa, it predicts 'an overall decline in exports of traditional crops such as cocoa, coffee and vegetable oils'. It goes on to say: 'The consequences of such a decrease could be to encourage social instability and struggles for control over land and revenue sources, with specific ethnic and inter-generational problems linked to the exhaustion of rural resources.'

If PWC can anticipate the havoc that imposing free trade on countries that are unprepared could wreak, then why can't the member states of the European Union – including the UK and Ireland – appreciate it? Christian Aid is calling on Europe's governments to halt the EPAs and renegotiate the mandate on the basis of a genuine commitment to development.

Peter Mandelson, Europe's newly appointed trade commissioner, cannot be blind to the often-devastating impact of trade liberalisation on poor countries. Not only was he the UK's senior trade minister in Tony Blair's first cabinet, but as a constituency MP he has also received thousands of letters and postcards from trade justice campaigners. They, and we, are looking to him to take swift action.

Britain and Ireland – shifting rhetoric

The governments of Britain and Ireland need fundamentally to reconsider their policies on trade. But if shifts in language are signposts towards real change, there may yet be hope.

A recent British Department of Trade and Industry white paper, called *Making globalisation work for Good*, plays some of the right mood music. But the same white paper suggests few changes in policy and has little idea of how the lofty principle articulated in its title might be realised.

It also dismisses some of the trade policies that have allowed now industrialised countries to find their own path out of poverty. For instance, the white paper roundly condemns allowing infant industries to be protected on the rather vague grounds that 'times have changed'. Christian Aid rejects this reasoning and is shocked at the UK's keenness to kick away the ladder from under the feet of the very people its rhetoric claims it wants to help.

Equally, the Irish government's trade policy statement proclaims that trade should 'contribute to the reduction of poverty, inequality and exclusion in developing countries' and that 'the rules of the system will need to be specifically designed to ensure they are compatible with development needs'. And yet the practical policy prescription remains simply more and better liberalisation,

the only concession being the maintenance of 'selected, poverty-targeted measures in developing countries to protect the poor'. No concrete examples of such measures are given.[8]

Trade that works for poor people

This report looks in detail at case studies from India, Mozambique and Honduras, where in the milk, sugar and rice industries respectively, trade policies to safeguard the interests of poor people have been chosen.

India: The milk industry is dominated by cooperatives that grew out of the need to counteract exploitative middlemen who were ripping-off both producers and consumers. The Indian government has supported and helped finance the cooperatives, and has protected them from imports of subsidised milk powder from the US and Europe. As a result, every day more than 11 million poor Indian farmers supplement their family income by selling milk. But the cooperatives are under threat after the US won an appeal at the WTO that stopped India protecting its milk producers.

Mozambique: Following 16 years of civil war in Mozambique, rehabilitating the local sugar industry created thousands of jobs in impoverished rural areas. To encourage new investors, the Mozambican government undertook to protect the local market from cheap imports, creating stability from the volatile international trade in sugar. Despite devastating floods in 2000 and IMF attacks on the government policy the same year, four mills are now up and running. The industry provides jobs for more than 25,000 people and contributes thousands of pounds to the national economy.

Honduras: Throughout the 1990s, Honduras liberalised trade and cheap rice from the US began to flood its markets, forcing poor producers out of business. The government responded to the near death of its rice industry by signing an agreement with farmers and millers to restrict imports. As a result, rice production is showing signs of revival, although the policy has been less successful within communities of poor, small-scale farmers because they lack the finance to restart production. These farmers need more, not less, intervention to help them get back on their feet.

All three case studies illustrate how governments invoked policies that suited the needs of a particular industry at a particular time. But in a world where trade policy is being handed down to poor countries in one size only – free trade – examples of this sort are increasingly rare.

Trade justice

The key message of this report is that, to develop, poor people need trade justice. They need the mountain of hypocritical subsidies in rich countries to be moved; they need the physical barriers of poverty that prevent them from taking advantage of new markets to be swept away; and they need to be supported and protected in the meantime.

- Cotonou's disastrous EPAs must be stopped. Europe's former colonies need the EU as a trading partner but not on the terms currently being offered. Other regional free trade

Campaigners in Trafalgar Square, London 2001. An increasing number of people are supporting the message of trade justice rather than free trade for the developing world

agreements that threaten to undermine any potential gains made at the WTO should also be halted.

- The IMF and World Bank should stop using measures such as conditions attached to loans and 'scoring' of trade policies to enforce trade liberalisation. These measures are undemocratic and have failed to reduce poverty in developing countries.

- The WTO itself offers the best hope for poor countries, but an end to background bullying and mercantilism by rich countries is needed if the current round of talks is to favour development. Above all, the WTO must strengthen and implement rules on special treatment. Countries at different stages of development need to apply trade rules differently. They need intelligent discrimination in their favour.

But if poor countries are going to realise the full benefit of trade a massive effort is also needed to tackle the syndrome of poverty.

- Aid and debt relief must be increased so that people in poor countries can improve their infrastructure, import technology and enjoy better health and education. Rich countries must live up to their past promises and agree to boost significantly the financing they give to poor countries – and to demand nothing but poverty reduction in return. All this will help poor countries trade more effectively.

Now and in 2005, the choice for rich countries – Britain and Ireland included – that talk the talk, but have yet to walk the walk, is simple. Back the change in rhetoric with a change in reality or stop spouting the rhetoric. Join the heretics and stop the preaching.

Trade matters

1

‘You saw people’s lives change. You started to struggle, people became hungry and ill. Everyone was looking for money.’

Bernard Ouma, cotton farmer, Nambale, Kenya

Like most farmers in Nambale, western Kenya, councillor Ongaria Peter Johnson remembers the benefits that cotton used to bring to the area. ‘In my youth every farm grew cotton, but now we are one of the poorest districts in Kenya. We have tried other crops but nothing makes us money as cotton did.’ The local ginnery, which used to process cotton, reflects the decline. Almost derelict, a single member of staff maintains the ageing equipment.

The community’s wealth was built up and then destroyed by changes in policies implemented by the Kenyan and foreign governments. Often these changes were introduced as a result of international trade agreements and at the dictates of international organisations. The cotton industry in Kenya was far from perfect – farmers were often poorly paid for their crop and consumers paid higher prices for clothing – but its destruction has brought deeper poverty, uncertainty and social instability to whole communities who have few alternative ways of earning a living.

The challenge for globalisation and international trade rules is to bring change that connects poor people on better terms to more markets, rather

Christian Aid/Isobel Perry

Ongaria Peter Johnson has seen huge changes forced on Kenya’s cotton industry

than pushing them further to the margins and driving them deeper into poverty. The concern of this report, and of millions of poor people, community leaders, campaigners and activists around the world, is that the current global addiction to the economic theory of free trade is obscuring a more pragmatic approach that might benefit rather than harm poor people.

Kenya began cultivating cotton during colonial times. In the 1960s the new national government, in joint ventures with European companies, established textile and garment factories to create an additional market for its cotton and jobs in urban areas. Imports of textiles and clothing were restricted, and factories were required to buy from local cotton farmers.

Problems began to emerge in the 1980s when the cotton industry was caught between rising input costs and government demands to maintain wages and keep prices low. Inefficiencies in the government system of collecting cotton also became apparent as farmers were not paid and factories could not always get the supply of cotton that they needed.

Liberalisation reforms imposed by the International Monetary Fund (IMF) finally led to the collapse of Kenya's cotton industry. The Kenyan government drastically reduced restrictions on imported clothing and deregulated the collection and marketing of domestically produced cotton. Cheap clothing from Asia and Europe flooded into the country. Much of it was either surplus or second-hand and was dumped on the Kenyan market.

While some consumers benefited from cheaper imported clothing, those employed in the Kenyan cotton and textiles industry lost out. In 1984, at its zenith, Kenya produced 70,000 bales per year. By 1995, production had dropped to 20,000. According to the government of Kenya, while in the mid-1980s there were more than 200,000 small-scale farmers producing cotton in Kenya, by 2000 there were less than 140,000.[1] Employment in the Kenyan textiles industry also dropped – from 120,000 to 85,000 – within a decade of the liberalisation of imports at the end of the 1980s.[2]

Christian Aid/Justin Macmullan

Arnold Onyhago started growing cotton again in 2002, but still has no one to sell to

People in other industries in Kenya, mostly in poor, rural communities, have similarly been hit as, under agreements with the World Bank and IMF, import tariffs have been lowered and industries deregulated. However cheap the goods at the market, without jobs people will not be able to afford them. For this reason, and for all the reasons given in this report, the governments of developing countries must have the freedom and the financing to make informed judgements about changing their trade policies and

not be forced simply to follow the free-trade rulebook. Poor people need trade justice, not free trade.

The free-trade argument is laden with hypocrisy. In 1992, the US removed special arrangements that let Kenya export clothes duty-free to the American market. While rich countries have forced countries such as Kenya to lower their barriers to trade and slash support programmes, they continue to protect their own markets and support their own farmers to the tune of US$350 billion a year.[3]

It is estimated that US subsidies have enabled cotton to be exported at up to 40 per cent less than it cost to produce. This has had a huge influence on the decline in the global price of cotton, keeping profits low for Kenyan producers, who are unable to produce at such a low price. As protection has been removed in poor countries, cotton producers such as those in Nambale have been forced out of business.

By the end of the 1990s, cotton production in Kenya was worth less than five per cent of its value in the 1980s. Following the reforms, the production of cotton fabric fell to less than half what it was in the 1990s.

However, in 2001, change appeared to be on the horizon. In return for African countries committing to further reform, the US promised African exports duty-free access to the lucrative American market under a trade agreement called the African Growth and Opportunity Act (AGOA).

'I was excited. I remember what it used to be like,' says Bernard Ouma, a cotton farmer from Nambale. Encouraged by their government, Kenyans began cultivating cotton again in the belief that the AGOA would lead to increased orders.

But giving poor people theoretical access to new and potentially lucrative markets is never enough. After years of under-investment and premature exposure to volatile and distorted global markets, farmers in the developing world cannot compete with their counterparts in the rich world.

For millions of agricultural producers, access to markets is not only obstructed by trade barriers, but also by poor technology and farming techniques, woefully inadequate transport links, low levels of education and near non-existent healthcare. While there has been a boom in clothing exports from Kenya to the US, most factories use imported textiles. Instead of selling their crops to the local ginnery, Kenyan farmers were stacking bags of raw cotton in their houses and the ginnery continues to stand idle.

This simple tale of the fall of an industry encapsulates much of what is wrong with the way international trade works. Post-imperial protection and government intervention – including state ownership – failed to construct an industry that was truly competitive. But protecting the industry at least provided some guarantees for those involved in cotton and textile production. Stripping away protection and dismantling the often government-controlled marketing systems exposed Kenya's cotton and textile industry to cheap imports of clothing and to a market in raw cotton heavily distorted by US subsidies. The industry, from cotton field to factory, is dying as a result.

Pressure from rich countries and international institutions that are in thrall to their governments has forced Kenya and other developing countries into an invidious position. They are now greatly exposed to the global market and it is causing intense pain, especially in poor communities.

As a result, many in the developing world see the World Trade Organisation (WTO) as critical to their survival. The only way in which countries such as Kenya can secure trade that works in their favour is through international rules that are negotiated by governments coming together and recognising their differences. However, the WTO is currently a million

miles from this. It is dominated by the robber-barons of the international community who control the most powerful fiefdoms, such as Europe and North America, and are largely concerned with ensuring their own continued dominance.

But there are signs of change. Recently, Brazil, backed by a number of African cotton-producing countries, complained to the WTO about US cotton subsidies. In a landmark ruling, the WTO upheld the complaint, effectively making illegal the US$1.5 billion the US government pays its farmers in cotton subsidies.

Other recent developments at the WTO also offer signs of hope. The formation of strong alliances between groups of developing countries is forcing rich countries to take their concerns seriously. However, it is too early to say whether this will result in agreements that will benefit poor countries or merely a new era of prolonged stalemate and frustration. Christian Aid believes the ball is in the rich countries' court.

One rule for the rich…

'Globalisation led by capitalist interests alone is likely, akin to what it accomplished a century ago, to produce a wild global capitalism with social exclusion, unbridled competition and exploitation.'
Branko Milanovic, senior economist, World Bank Research

In spite of signs that developing nations are finding their voice at the WTO, rich countries still have greater influence and experience in trade negotiations, and use straightforward bullying tactics to weight the international trading system in their favour. This has enabled them to continue protecting their own markets while forcing poor countries to open theirs to create what amounts to unfair competition. It is estimated that protectionism in the rich world costs developing countries US$100 billion annually in lost opportunities to trade.[4] This is around twice as much money as poor countries receive each year in aid.

In particular, rich countries have maintained high tariffs on a number of products of particular interest to developing countries. Another trick has been to maintain high tariffs on processed goods, stifling the development of new, 'value added' industries in developing countries. As World Bank President James Wolfensohn put it: 'Tariff peaks – exceptionally high tariffs on goods that poor countries are best able to produce – can be particularly pernicious. In the US, tariff peaks are concentrated on textiles and clothing, in Europe and Japan on agriculture, food and footwear,' Mr Wolfensohn said, adding that these were precisely the labour-intensive products that offer developing countries the first step up the technology ladder.'[5] The World Bank estimates that tariffs and quotas on textile exports to developed countries cost developing countries some 27 million jobs.[6]

Additionally, the rich world maintains agricultural support programmes on a scale unimaginable to many in the developing world. The US$350 billion in subsidies still paid to mostly large-scale farmers in Europe, North America and elsewhere, has visited a double indemnity on developing countries. These subsidies mean that poor producers struggle to compete in western markets even when they can get access to them, but they also face a barrage of cheap products from the developed world with which they struggle to compete in their domestic markets.

…and one for the poor

In contrast to the continued protection of markets and retention of massive subsidies in rich countries, poor countries have been forced to open up or liberalise their markets and cut the support they give to their own producers.

Liberalisation is not all bad. In some countries it has provided the impetus for the reform of ineffective state industries that were not serving the needs of poor people. And there is a strong argument for liberalising some imports into poor countries, particularly those that are helpful to their industrial

development and that they do not produce themselves, such as machinery and technology. But wholesale liberalisation – executed with little thought as to what the consequences for poor people might be – has proved disastrous.

- Following the liberalisation of agriculture in Sri Lanka, food imports doubled between 1985 and 1998. Without the expected rise in exports, the production of many of the country's food products has declined, leading to massive job losses in rural areas.[7]
- In Jamaica, imports of vegetable oils between 1995 and 2000 were more than double what they were between 1990 and 1994. Domestic production fell by 68 per cent.[8]
- Import liberalisation in the 1990s, under pressure from the World Bank and International Monetary Fund, has undermined Haiti's rice industry by precipitating a huge influx of heavily subsidised US rice. Haiti now imports 312,006 metric tonnes of rice.[9]
- In Senegal, 52,324 tonnes of imported onions from Holland[10] have put huge pressure on local onion production by overloading the market with cheap, poor-quality competition.
- In Ghana, 24,077 tonnes of imported tomato paste from southern Europe[11] has created further problems for tomato farmers, whose canning industry was wiped out by internal reforms pushed through by the World Bank and IMF.

Christian Aid/Harriet Logan/Network

Dutch onions stacked in a warehouse in Dakar, Senegal. Local farmers struggle to compete against the European imports

Such examples are common, and may become increasingly so if poor countries keep being forced to pay for better access to rich countries' markets by opening up their own. This is especially true in agricultural markets, which are hugely distorted by subsidies in rich countries. Significant reductions in such subsidies may take a further decade or longer to be realised.

Organising world trade

'Whosoever commands the trade of the world, commands the riches of the world and hence the world itself.'

Sir Walter Raleigh (1552-1618)

Camera crews and journalists from every corner of the globe surrounded Kenya's trade minister as he walked into a humid press room at the convention centre in Cancun, Mexico. From the middle of the scrum, he calmly announced that the WTO's fifth full ministerial meeting was over.

The 2003 talks in Cancun collapsed because rich countries pushed other WTO members too far. Poorer nations chose no deal in preference to a bad deal and walked out.

The acrimony of Cancun quickly became panic as trade negotiators returned to Geneva having failed to put flesh on the bones of the so-called development round of trade talks launched in Doha, Qatar, in 2001. Some even feared the collapse of the WTO, although this was probably scare mongering from rich countries wanting to force poor countries back round the table. The US, for instance, talked of world trade retreating into 'bilateralism', and of only being prepared to deal with 'can do' countries if the WTO could not reach agreement.

In July 2004, away from the glare of publicity that surrounds major 'ministerial' meetings such as

Cancun and Doha, a fresh deal was struck. Europe and the US, along with Japan and Canada, promised to cut subsidies and eliminate those paid to support or underwrite exports. In return, WTO members, including all but the very poorest,[12] agreed to further cuts in barriers to trade.

In an echo of Seattle in 1999 – the WTO meeting that was met with violent anti-globalisation protests – the negotiations leading up to the '2004 framework accord' were characterised by background bullying. For instance, Pascal Lamy, Europe's trade commissioner, offered 90 of the poorest nations at the WTO a 'round [of trade talks] for free' that would not require them to make trade-liberalisation concessions.

The 'round for free' offer appeared generous, but it was designed to undermine the position of a group of 20 of the more powerful developing countries, including Brazil and India, to which the offer was not extended. These countries had been instrumental in standing up to Europe and the US in Cancun, Doha and Seattle, but were left isolated by Lamy's divide and rule manoeuvre. And while Pascal Lamy and others may promise a 'free round' with no further concessions on import liberalisation for the poorest countries, many of them have already been forced to open up their markets.

Lamy's offer appears even less generous in the light of the deal Europe is currently negotiating bilaterally with many of the 90 poorest WTO countries under the Cotonou Agreement (see page 15). This threatens to force poor countries to open their markets to products from Europe by agreeing to scrap import tariffs altogether.

The talks were also characterised by a lack of transparency. As Love Mtesa, Zambia's WTO ambassador, put it: 'You are kept out of the picture and you only depend on hand-outs from time to time. We need to reform the process. There is no reason why an international organisation like the WTO should keep important NGOs and international media away from what is happening.'

Closer examination of the accord confirms Mtesa's fears. Promises to cut export subsidies in rich countries are not yet tied to a timetable, allowing plenty of room for Europe and the US to wriggle off the hook. The critically important principle of permitting a system of special treatment for poor countries under all WTO agreements is still vague in its language and also has to be agreed in detail in future talks. This special treatment hinges on a reference to 'small and vulnerable economies' not having to allow other WTO members greater access to their markets. But it is not yet clear which countries will be defined as 'small and vulnerable' or how that definition will be reached.

More worrying still are the concessions poor countries appear to have made on non-agricultural market access – abbreviated to NAMA in WTO circles. NAMA is a vital issue to developing countries that have fragile manufacturing or processing industries, such as Kenya's clothing industry. Allowing rich countries access to these markets in return for greater access to the markets of rich countries – when rich countries have all the advantages of high technology and decades of government support – could prove disastrous.

But the WTO is neither the only nor the most significant organisation through which rich countries have plied their double standards.

The World Bank and IMF

'We have swapped government failure for market failure.'

World Bank official, Senegal[13]

For two decades, since the first wave of 'structural adjustment' agreements were signed in the early 1980s, the World Bank and International Monetary Fund (IMF) have, by stealth, had a significant impact on trade policies in poor countries – even though such

influence isn't part of their remit. This has led to widespread and dramatic cuts in the import tariffs and quotas set by poor countries to protect their producers and left many exposed to cheap imports from rich countries. In effect, much of the damage has already been done by World Bank and IMF policies, regardless of what may or may not be agreed at the WTO.

The World Bank and IMF intervene in the trade policies of developing countries in a number of different ways. In the past, they attached explicit conditions to grants and loans demanding the recipient country open up its markets. They have also insisted on massive cuts in government spending in developing countries to free-up money to repay debts and reduce government deficits. In many poor countries, this has led to the government withdrawing the financial support, advice and credit it gives farmers, as well as cuts in agricultural research and development.

The numbers of conditions attached to grants and loans grew rapidly in the 1980s and into the 1990s. Recently, there has been some effort to cut back, mainly because the two Washington-based institutions were concerned that their proliferation had diminished their usefulness.[14] But the process of attaching conditions is still going strong. The IMF currently 'ranks' countries according to their compliance with liberalsation policies. This ranking influences their access to virtually all forms of financing.

Christian Aid would like to see trade liberalisation conditions ended altogether as we believe that they do not help to reduce poverty. But the two institutions now tend to rely more on striking mutual deals with governments over changes in policy, through documents such as poverty reduction strategy papers (PRSPs). Although a significant step in the right direction, because they are written and supposedly 'owned' by developing-country governments, the PRSPs still have to fit within the range of policies that have the World Bank and IMF seal of approval, such as trade liberalisation.

More pernicious is the 'advice' given, especially by the IMF. Poor countries rely heavily on receiving the IMF's economic green light, which in reality means loan approval. Without this, countries are all but blacklisted by other donors and foreign investors, too. In some cases, it is the need to win IMF approval rather than explicit conditions that force countries to liberalise.

Christian Aid/Penny Tweedie

Agatha Yumbia – a Ghanian poultry farmer – with her son Breno. Farmers in Ghana face stiff competition from subsided European imports

Consider the plight of Agatha Yumbia. She has a small chicken farm in southwest Ghana. A widow with a young son, she started her business two years ago with the help of a loan from her local church. A key issue facing Ghanaian farmers is the competition they face from imports. In 2002, more than 27,000 tonnes of chicken was imported into Ghana,[15] mostly from European countries, including France and Belgium. Yumbia has managed to hang on to her most local customers, but in the face of imported competition has lost important urban markets.

Six hundred miles up-country, Zakaria Abu, a rice farmer, tells a similar story. 'One of the main problems we experience is in the marketing of our rice. We find it difficult to compete with imported rice on the market.' Sales of imported American rice have grown on the back of large advertising campaigns and the clean, white appearance

Christian Aid/Penny Tweedie

Zakaria Abu (centre), a Ghanian rice farmer who is struggling to get a fair price for his crop because of competition from imports

achieved by modern US rice mills. Ghana now imports 314,626 tonnes of rice per year.[16]

The Ghanaian government has introduced a number of programmes to help farmers such as Yumbia and Abu. And in its 2003 budget it announced that it was taking the next logical step – it was going to increase the tariffs on imports of chicken and rice. The government wanted to reduce imports and give local producers a better chance of selling their own produce.

But the new tariffs were never implemented. Within days of the budget announcement, the IMF had put pressure on the government and its plans were shelved. It is said that even James Wolfensohn, the president of the World Bank, intervened to ask the government of Ghana to scrap its planned tariff increases.[17] The IMF representative in Accra, Ghana's capital, dismissed the ensuing controversy as 'a storm in a teacup'.[18] Others, including Christian Aid, have viewed it as an affront to Ghanaian democracy.

There may be more storms in Ghana's teacup ahead. The government has recently announced its ambitious Rural Enterprises Development Programme (REDP), which involves financing new rural industries while raising tariffs on imports of potentially competitive products. The plan recognises the need for the government to intervene to stimulate recovery in Ghana's failing regions in the centre and north of the country, but by encouraging private-sector development rather than state-sector control. However, if Ghana goes ahead with its plan to protect its emerging private sector, it is likely to raise the hackles of the free-trade-promoting IMF and World Bank.

The IMF has enormous power in developing countries, and it is easy to see why the Ghanaian government find it hard to reject the IMF's 'advice' on tariffs. In 2002, the IMF had suspended its financial assistance to Ghana because of a dispute over teachers' pay. As a result, the World Bank and many other donors also froze payments to Ghana.

Ghana, however, has almost no influence over the IMF. As a poor country it has only 0.18 per cent of the vote. Its permanent representative at the IMF is in fact from Pakistan and is also the representative of six other countries including Afghanistan, Iran and, of course, Pakistan.

In recent years, the World Bank and IMF claim to have moved away from one-size-fits-all policy recommendations. But the latest report measuring statistical progress towards achieving the 2015 Millennium Development Goals – which is published by the UN's office of the secretary general but written by the World Bank – clearly backs liberalisation as the best route to poverty reduction.

In July 2004, in response to Christian Aid's report *Owning the loan,* examining the continued conditions attached to World Bank and IMF assistance,[19] the IMF reaffirmed its commitment to the 'clear benefits that are to be gained from trade liberalisation'. The IMF told Christian Aid that its focus on trade 'is based on the vast experience since World War II'. It also outlined a new financing policy called the Trade Integration Mechanism to 'help countries through the temporary financial shortfalls that might result from their liberalisation'.

Regional trade agreements

'Manufacturing industry in Africa is being wiped out as a result of the liberalisation that is already under way – we can't deal with any more.'

Tetteh Hormeku, Third World Network, Ghana [20]

If markets in developing countries have not already been opened by the World Bank, IMF or WTO, then there is still the danger that bilateral and regional deals between rich and poor countries may.

The European Commission (EC), backed by the UK and Irish governments, is pushing for zero-tariff access to the markets of 77 former colonies in the Africa, Caribbean and Pacific (ACP) regions, against the advice of its own consultants' impact assessments. The EC argues that it has to pursue these negotiations because the current agreements on market access into Europe for these countries are scheduled to run out, but observers are increasingly concerned that a new deal is being bought at a high cost.

The Cotonou Agreement is predicated on the notion that 'the objectives of the future trading arrangements… are the smooth and gradual integration of ACP states into the world economy and the eradication of poverty.'[21] However, the EC's approach is one of free trade agreements through a series of negotiations under Cotonou with groups of ACP countries. These negotiations will lead to Economic Partnership Agreements (EPAs) between Europe and its former colonies, and could drive a steamroller through other trade negotiations, including those at the WTO.

It is not just the EC's own consultants that are alarmed about the impact of opening up poor countries' markets to products from Europe. The views of many in the developing world are summed up by Tetteh Hormeku of campaigning NGO the Third World Network in Ghana, who said: 'If EPAs carry through, African countries have to kiss goodbye to their industrialisation efforts. Manufacturing industry in Africa is being wiped out as a result of the liberalisation that is already under way – we can't deal with any more.'[22]

Aubrey Taylor, Chairman of the Jamaica Dairy Farmers Federation, is more specific about the threat: 'Opening up our markets to the EU would be the straw to break the camel's back. It would totally wipe out local dairy farmers.'[23]

One of the lessons of this report is that trade policy alone will not lift poor people out of poverty. Financing and investment are also necessary to help people take advantage of trade.

A study by two MPs from South Africa and Namibia showed that: 'No attempt has been made by the EC to assess systematically the underlying factors which have prevented individual countries and ACP regions from effectively exploiting the available tariff preferences [tariff-free access to Europe's markets]… It should not simply be assumed that trade and macro-economic policy changes will, in and of themselves, transform the physical constraints which face ACP companies and small-scale producers.'[24] Such costs and physical constraints are discussed on page 23.

As with the WTO talks, the EPA negotiations appear beset by a lack of transparency. Cotonou provides a role for observers such as NGOs and journalists, but the information the EC provides about the negotiations is woefully inadequate. There is very limited information about timetables of meetings, and no official documentation is available on the negotiations and how they are proceeding. This means that it is very hard for people from the countries involved – either in ACP regions or Europe – to hold those negotiating on their behalf to account. Christian Aid and other agencies are demanding that the EU be more open about what is going on.

The US has also been pushing strongly for bilateral trade agreements with its neighbours in Central and Latin America. The North American Free Trade Agreement between Canada, the US and Mexico was merely the forerunner for a much more ambitious plan known as the Free Trade Area of the Americas.

But whether via WTO rule-making, through influencing the World Bank and IMF, or by brokering regional agreements, it is clear that while rich countries repeatedly incant the mantra of wanting trade to work for poor people, trade liberalisation – sooner rather than later – is the only game in town.

However, it is Christian Aid's view that poor countries must be free to put the needs of poor people ahead of the pressure to liberalise. There are few examples of developing countries making successful economic transitions towards liberalisation and benefiting the majority of their people in the process. There are, however, a plethora of examples from the industrialised world of government intervention in trade policy being an essential ingredient in development.

Lessons from history

2

‘Economic theorists more than any other social scientists have long been disposed to arrive at general propositions and then postulate them as valid for every time, place and culture. There is a tendency in contemporary economic theory to follow this path to the extreme.’

Professor Gunnar Myrdal, former Swedish commerce minister and Nobel Prize winning economist

More than 40 years of post-independence history in the developing world has almost entirely failed to alter the status quo. With the exception of China, India (see page 21) and a number of Southeast Asian states, most poor countries have seen little change in their economic fortunes. There is also a widening gap between rich and poor, both between and within countries, as small elites reap the rewards of liberalisation.

As James Wolfensohn, the President of the World Bank, said: ‘Something is wrong when the average income for the richest 20 countries is 37 times the average of the poorest 20.’ Despite falls in the percentage of people living in poverty, the rising global population means that the absolute number of people living on less than US$2 a day has increased to 2.7 billion people.[25]

If rich countries are to live up to their rhetoric of wanting trade to be a tool for development they must learn the lessons of history and transform rhetoric into action.

The first and most important lesson is that trade liberalisation will have disastrous consequences for the world’s poorest and most vulnerable people if it robs them of support and exposes them to cutthroat competition in often distorted global markets. The pain inflicted on poor people during the past 20 years of increased free trade has set the course of development back in many countries and will cause severe problems for years to come.

Liberalisation has failed to take into account the economics of poverty in the developing world, in which poor people live in rural areas where the main business is agriculture and the services and infrastructure are either poor or non-existent. Forcing the hundreds of millions of people who live in this way to bear the brunt of trade liberalisation and the resulting economic and social upheaval is unnecessary and works against the stated aims of rich governments that wish to tackle poverty.

This is not to say that government intervention is always the best policy. It has often been inefficient, especially when the government seeks to own and control whole sectors of the economy and stifles innovation, growth and the development of a local private sector. While massive state ownership and high levels of protection can shield vulnerable producers from harm, it can also leave developing countries with uncompetitive industries that are a huge burden on the public purse.

But history shows that few countries have developed without some degree of government intervention in trade policy. This report argues that if they are to develop, both economically and socially, poor countries will need to be able to use well-targeted intervention to protect domestic markets, while stimulating new business sectors capable of competing globally. This will require rich countries to stop imposing ‘one-size-fits-all’ liberalisation policies.

The long view

This report takes its cue from history and urges today's leaders to learn its lessons. More than 50 years of development economics means there is now evidence on which to base policy.

- In the immediate post-independence period, new governments in former colonies were wary of the existing international economic order. Many adopted protectionist trade policies, often reflecting the socialist agenda of the independence movements they had led.

- Ironically, the Cold War was a period of relative flexibility in the trade arena. Although the Soviet-bloc countries were dogmatically interventionist, other nations chose from a range of interventionist and free-market policies.

- The oil crisis that struck in 1973, coupled with a collapse in the prices of many of the commodities on which most poor countries rely, caused massive balance-of-trade deficits in oil-importing developing countries.

- Following the oil crisis, 'Third World' debt began to rise during the late 1970s and early 1980s. It made many developing countries beholden to creditors, especially the World Bank and IMF, which increasingly called for poor countries to adopt liberalisation policies in return for a rescheduling of their debt repayments. They also called for a reduction in government expenditure to make it possible for poor countries to repay their debts.

- By the 1980s, free trade had become the dominant economic theory in the West. Increasingly, research and scholarship created what has been called an 'echo chamber' through which the dominant economic theory resonated. Questioning the assumptions of the theory became heretical.[26]

- The US treasury's love of liberalisation in pursuit of free trade, along with its popularity with the IMF and World Bank, meant that as it spread across the world, this 'neo-liberal' set of policies increasingly became known as the 'Washington consensus'.

- Because its grip on global economics is so complete, it is only very recently that those who challenge the efficacy of the Washington consensus have begun to make inroads into the argument. Even now, in spite of increasing evidence of the high costs of rapid liberalisation and its ineffectiveness in achieving sustained growth and benefits that accrue directly to poor people, the 'echo chamber' is still ringing with the repeated mantra of liberalisation.

Lesson 1: Failing on its own terms

The aim of liberalisation reforms is to stimulate economic growth in developing countries, diversify poor countries' economies away from agriculture and increase international trade. However, in many developing countries liberalisation has failed on all three counts.

Growth is the holy grail of economic liberalisation. The drive over the past 20 years for more open markets and less government intervention in the developing world has been based on the idea that economies must grow if poor people are to reap the benefits of globalisation. It was also hoped that more open trading regimes would stimulate a more diverse range of industries in the developing world and help wean poor countries off their dependence on producing raw commodities for increasingly low-value global markets.

Since the start of the new millennium, several commentators have taken a more critical view of neo-liberalism and have concluded that in the developing world in general, and in the poorest countries in particular, it is failing on its own terms.

That is not to say that liberalisation has not brought benefits. Well managed liberalisation of selected sectors has often yielded benefits. For instance, many African villages now have mobile-phone kiosks that are available to the community because previously state-owned telecommunications industries have been opened up. Mobile-phone coverage in countries from Senegal to India is now as comprehensive as it is in many rich countries.

Some of the early World Bank and IMF structural adjustment programmes also had a positive impact. In a number of countries they swept away inefficiencies that worked against poor people. Many state enterprises were overly bureaucratic and were failing to deliver services to the poor people they were set up to help. The 'urban bias' of many post-independence policies that effectively taxed the agricultural sector (where the majority of poor people lived) in order to subsidise the urban industrial sector worked against poverty reduction.

Some countries have also experienced periods of phenomenal economic growth in the past 20 years. For instance in Ghana, domestic industry responded well to reforms in the early 1980s, especially once foreign-exchange transactions were liberalised. Increased investment and imports of essential industrial equipment led to rates of growth in manufacturing ranging from 10 to 24 per cent a year between 1983, when the first structural adjustment agreement was signed, and 1987.[27]

But whether this growth is due to trade liberalisation or to other reforms is a subject of heated debate. In countries that have experienced trend-bucking growth rates – especially India and China – high levels of government intervention and a managed approach to liberalising certain sectors of the economy at opportune moments has been the hallmark, not rapid and wholesale liberalisation.

Lack of growth

A World Bank study comparing the period from 1960 to 1980 with the period from 1980 to 2000 shows that the earlier period scored better in several key respects. Surprisingly, economic growth rates were on average higher in the period of greater government intervention between 1960 and 1980 than in the past 20 years.[28]

Some analysts go further. Research by economist Dani Rodrik for the United Nations Development Programme[29] points out that until the first oil shock in 1973, no fewer than 42 developing countries, most of which were following highly interventionist policies, were growing faster than they had been during the past 20 years under the Washington consensus.

The pro-interventionist economist Ha-Joon Chang has also compared the 1960s and 70s with the 1980s and 90s. Chang argues that:

- In the 1960s and 1970s, when there was more protection, the world economy was growing at around 3 per cent per year. In the past 20 years, it has only grown at around 2 per cent.[30]
- Growth in per capita income in developing countries fell from 3 per cent between 1960 and 1980 to 1.5 per cent in the past 20 years.[31]

A more detailed look at economic growth rates between 1990 and 2002 – arguably the period of most intense liberalisation – reveals a mixed picture (see table below). What is clear is that these rates fall woefully short of estimates of what is required to meet the Millennium Development Goals.

	1990 – 2002
Middle income	2.0
Low income	2.3
All developing countries	2.8
Least-developed countries	1.4
East Asia and the Pacific	5.4
Latin America and the Caribbean	1.3
South Asia	3.2
Sub-Saharan Africa	0
Mozambique	4.5
Rwanda	0.3
Uganda	3.9
Ghana	1.8
India	4.0
China	8.6
Vietnam	5.9

GDP per capita annual growth rate (%)
UN Human Development Report 2004

The poorest (least developed) countries – already highly exposed to international trade – have experienced the slowest rates of growth, with sub-Saharan Africa faring the worst. Since 2000, for example, average economic growth rates in sub-Saharan Africa have fallen to half that predicted by the World Bank.[32] East and south Asia have done better, but without the strong performance of China and India, average growth rates across these regions and the developing world as a whole would have been significantly lower.[33]

Overall, many economists now concede that the relationship between liberalisation and growth is uncertain at best. A paper commissioned by the UK government's Department for International Development (DFID) concluded that the fairest assessment of the evidence is that trade liberalisation alone has not been shown unambiguously to foster growth, but it has been identified with its hindrance.[34]

Lack of trade and diversification

It is not through want of trying that poor countries have been seemingly unable to reap the benefits of trade liberalisation. The world's poorest countries are already wide open to international trade.

According to the United Nations Conference on Trade and Development (UNCTAD), most of the world's poorest countries now have trade policies that are more open than those of high-income Organisation for Economic Cooperation and Development (OECD) countries. Trade is also relatively more important to them than it is to high-income countries. The ratio of exports and imports of goods and services to GDP – an indication of the importance of trade in the economy – was higher for poor countries than for high-income OECD nations in 1999-2001 (51 per cent, as against 43 per cent).[35]

In spite of this, and after more than 20 years of liberalisation:

- the vast majority of people in developing countries continue to rely on agriculture as their main source of income[36]
- many countries still depend on primary commodities, such as coffee, cocoa, sugar and

What worked in China and India?

India and China are often quoted as examples of how liberalisation can have a positive impact on poverty. They are particularly important because half of the people who survive on between US$1 and US$2 per day live in these countries.

Between 1990 and 2002, China and India recorded average annual GDP per head[37] growth rates of 8.6 per cent and 4 per cent per year[38] respectively. In China in particular, the proportion of those living in absolute poverty (less than US$1 per day) has fallen dramatically – from 64 per cent to 17 per cent[39] between 1981 and 2001. This is a huge achievement. But was more openness to trade the main reason for it? Or did the governments of these countries choose carefully which sectors should be opened up and which should remain protected?

According to Joseph Stiglitz, Nobel Prize winner and former World Bank chief economist: 'They [India and China] happen to be the two that bought the least into the globalisation story that the IMF and others are selling.'

India has resisted trade liberalisation for decades. An IMF document[40] recognises that improvements in Indian productivity were a result of a more pro-business approach adopted in the 1980s rather than as a result of liberalisation reforms that were only implemented in the 1990s. This view is supported in other studies that show growth doubling in the early 80s and only being maintained following the reforms of 1991.[41]

During the 1980s, protection was still considerable: tariffs increased and quantitative restrictions declined only marginally, and between 60 and 80 per cent of industry was subject to licensing and controls (see The White Revolution, page 34). Growth was mainly concentrated in areas where manufacturing firms had already been established. When liberalisation reforms were undertaken in the 1990s they were phased in gradually,[42] and as the list of WTO complaints against India suggests, it is still by no means an open economy.

In China, liberalisation reforms have certainly gone some way towards transforming a centrally planned economy into a regulated market-based economy.[43] But unlike other countries in transition, China did not adopt 'shock therapy', but has taken a more gradual and cautious approach, where the state has continued to play a central role. The state has maintained tight controls over portfolio investments, loans and external capital, and privatisation of state-led enterprises and the financial system has been slow.

China also 'maintained a battery of protective measures', because it recognised that the country was technically backward and could not compete effectively in the global market until reforms had been implemented.[44] The country has only recently joined the WTO and has never signed a structural adjustment agreement with the World Bank and IMF. However, even when carefully planned, more openness may have its costs. The country has just recorded its first increase in the number of people living in poverty since 1978.

- cotton for three-quarters of their export earnings[45]
- the prices of such commodities have been declining for decades and have fallen by 50 per cent or more in the past 20 years[46]
- the global terms of trade have remained weighted against the poor[47]
- Africa accounted for 6 per cent of world trade in 1980, but this fell to just 2 per cent in 2002.[48]

In a number of African countries, liberalisation has in fact led to 'de-industrialisation': factories closing, jobs being lost and what was once produced domestically being imported. Projections for the impact of further liberalisation of former European colonies under the EU's Cotonou Agreement, highlighted in this report, suggest that the process of killing off existing industries in poor countries will continue.

Supporters of free trade see this clearing out of industry as necessary adjustment, but the process has high social and economic costs (see Lesson 2). Skilled people, such as artisans and engineers, on whom industrial development depends, lose their jobs. In Ghana, employment in manufacturing plunged from 78,700 in 1987 to 28,000 in 1993 after the local market was opened up to cheap consumer imports.[49]

Perhaps more concerning is the failure of liberalisation to replace these lost jobs with new ones. Former chief economist at the World Bank Joseph Stiglitz has concluded that in many circumstances the market does not provide the education and technology necessary for further development. 'The unspoken premise [of neo-liberalism] is that governments are presumed to be worse than markets... [however] left to itself, the market will tend to under-provide human capital and technology. Without government action there will be too little investment in the production and adoption of new technology.'[50]

In fact, the process of imposing trade liberalisation on less-developed countries has been described as kicking away the ladder, in other words, developed countries are denying poor-country governments the opportunity to stimulate new industries and build up existing ones as they did themselves. Even in the nineteenth century, some economists saw the promotion of free trade as a cynical attempt to stop other countries catching up.

As Friedrich List, a nineteenth century pro-interventionist economist and author of *The National System of Political Economy* in 1841, said: 'It is a very common clever device that when anyone has attained the summit of greatness, he kicks away the ladder by which be has climbed up, in order to deprive others of the means of climbing up after him... Any nation which by means of protective duties and restrictions on navigation has raised her manufacturing power and her navigation to such a degree of development that no other nation can sustain free competition with her, can do nothing wiser than to throw away the ladders of her greatness, to preach to other nations the benefits of free trade.'

While poor countries have become more open and more vulnerable to imports, the chance of exporting to the rest of the world has remained a world away. UNCTAD concludes that despite considerable efforts to integrate their economies and open their markets, and considerable duty-free access to rich countries' markets : 'In the LDC context, trade liberalisation plus preferential market access do not equal poverty reduction.'

And the poverty divide widens

Largely because of the advances made in China and, to a lesser extent, in India, global poverty (people living on less than US$2 per day) has fallen from more than half to less than half the world's population, and currently stands at 2.7 billion.[51] But the period in which the ideology of neo-liberalism has dominated has born an intensely worrying hallmark – inequality. The gap between rich and poor countries has grown wider, and in the

developing world, the gap between rich and poor communities has experienced the same trend.

Poverty is now concentrated in sub-Saharan Africa and south Asia with more people experiencing a syndrome of 'chronic poverty' in which they do not move in and out of poverty according to shocks and trends but remain constantly poor.

- Currently, the average income of the world's richest 20 countries is 37 times that of the poorest 20.[52]
- The income gap between the richest fifth of the world's population and the poorest fifth was 74 to one in 1997, up from 60 to one in 1990, and 30 to one in 1960.[53]
- One World Bank study found world per capita income increased by 5.7 per cent between 1988 and 1993. But all the gains went to the richest 20 per cent whose income was up 12 per cent, while the income of the bottom 5 per cent declined by 25 per cent.

This trend is echoed inside countries, where whatever economic growth there is, does not necessarily translate into poverty reduction. A study of 73 countries found that in 48 of them, comprising almost half the world's population, income inequality was increasing. Inequality was only falling in nine out of the 73. One of the countries in which inequality was increasing was China.[54] Even in the UK, inequality between rich and poor has been increasing in recent years, with the wealth held by the top 10 per cent increasing by 7 per cent to 54 per cent.[55]

The trend towards growing inequality is also manifested in a geographical poverty gap within poor countries. In Ghana and Mozambique, for instance, reductions in poverty in their more industrial southern areas, especially around the capitals Accra and Maputo, contrast with deepening levels of poverty in their rural northern regions.[56] This has enormous social implications as people are pulled from poor areas to wealthier ones. Those that move face a new kind of poverty in urban slums, many with little hope of stable employment in the near future. Those that stay behind often face increasing isolation and deepening rural poverty.

While supporters of liberalisation argue that it is 'distribution neutral' in that it creates growth that benefits everyone, experience has shown that it favours those who are already wealthy and have the skills and technology to compete. In poor countries, where only the fortunate few are highly skilled and already have capital and wealth, this trend is amplified. Those who are not in a position to benefit are increasingly marginalised.

Lesson 2: Counting the cost

The costs of liberalisation are born predominantly by the poorest and most vulnerable people. These 'costs' are not just short term. They trap families in poverty for the next generation and set development back by decades.

Perspiration pours from Kofi Eliasa as he lifts his pickaxe. The afternoon sun beats down on his back as he pounds the rocks at his feet. Streaked with sweat and dust, the most he can hope to earn for a 12-hour shift is the equivalent of £1. He is feeling the pain at the sharp end of what economists in cities thousands of miles away call 'adjustment costs'. But the price of changes in the structure of the economies of countries such as Ghana, where Eliasa lives, is high.

Those who promote the rapid liberalisation that precipitates economic adjustments rarely meet the people who suffer its consequences. And yet as trade policies and poverty reduction increasingly converge, the victims of liberalisation must increasingly be placed at the heart of the argument.

'I used to have a one-acre tomato farm but I couldn't feed my family,' says Eliasa. His story is familiar.

Austin Hargreaves

Kofi Eliasa once had his own tomato farm, but now breaks rocks in a quarry

Tomatoes are one of several products that Ghanaian farmers have struggled to sell since tariffs on imports were cut under World Bank and IMF edicts. Ghana's marketplaces are now flooded with cheap imports of tomato paste from southern Europe, leaving local farmers struggling to sell their produce in markets that are only a few miles from their fields.

In September 2003, one UK policymaker – Patricia Hewitt, the Secretary of State for Trade and Industry – was given a flavour of the often unseen costs of adjustment. En route to the WTO meeting in Mexico, she accepted an invitation from Christian Aid and the Alternative Community Marketing Network (Comal), a Honduran organisation with which Christian Aid works, to stop off in Honduras.

Ms Hewitt met Maria Marcos Rivera, a former rice farmer who had been forced out of production by waves of cheap US rice that had flooded into the Honduran market as import tariffs were lowered. Rivera told the UK politician how she and her family had suffered after losing their income from rice (see page 49).

The Riveras can no longer afford clothes and buy fewer essentials, even cutting back on sugar and rice. Previously, they would have at least been able to eat some of their own rice crop, but now rely for food on the maize they grow. Furthermore, Rivera has debts resulting from the period when imports were increasing, rice prices were falling and the cooperative, of which she is still a member, was persuaded to put up its land as collateral to support the local rice mill, which was losing money hand over fist. The family could yet lose its land.

A price worth paying?

The stories of Kofi Eliasa and Maria Marcos Rivera exemplify the social costs incurred when an economy is forced to liberalise and make free-market 'adjustments'. The fact that the closure of 'inefficient' industries and government support programmes means capital and labour have to adjust is well documented. Just as well documented is that the poorest and most vulnerable people often suffer first and for longest. Even Adam Smith, the 'father of free trade', wrote:

> 'Were those high duties and prohibitions taken away all at once, cheaper foreign goods of the same kind might be poured so fast into the home market as to deprive all at once many thousands of our people of their ordinary employment and means of subsistence. The disorder which this would occasion might no doubt be very considerable.'[57]

Is this a price worth paying? If trade, as the rhetoric claims, is to be used as a weapon in the war on

It hurt but it worked:[58] the UK town that almost died

The social costs of 1980s liberalisation on traditional manufacturing and heavy industries across Britain were extreme. The selling off of industry and the removal of state protection precipitated strikes, acts of civil disobedience, increased poverty and worst of all, high unemployment, which peaked at more than three million in 1983.[59] In the same year, manufacturing output was 15 per cent lower than in 1979.[60]

Consett in County Durham was a one-industry town. 'The town was built on steel. It was the only reason Consett existed.'[61] At the beginning of the 1970s, Consett had a population of 105,000,[62] many of whom were either directly employed in steel production or relied on the steel industry for their survival.

When the Conservative government appointed Sir Ian McGregor as the steel industry chairman in 1979, the global steel industry was hugely oversupplied and the price of UK steel was uncompetitive. Every country in Europe resorted to throwing large-scale subsidies at their steel producers, and between 1980 and 1985, such subsidies exceeded US$35 billion. But the UK introduced huge subsidy cuts. In Wales alone, 25,000 steel workers lost their jobs almost overnight.[63] The pattern of closures took in large swathes of the British industrial heartland.

On 12 September 1980, Consett steelworks were closed and 4,500 jobs were lost at a stroke. Consett's unemployment figures peaked at 26 per cent in late 1981.[64]

But the difference between the UK and poor countries currently experiencing the pain of liberalisation is that in the former there are social and welfare safety nets that break the fall of the poorer people who usually pay the price. Rich countries are also more diverse and alternative forms of employment more available, so adjustment tends to be quicker and easier than in developing countries.

In 1991, ten years after unemployment peaked, 11.5 per cent of the UK population was still out of work,[65] and by 2000, unemployment in the northeast was still running at 10.1 per cent, 4 per cent higher than the national average.[66]

Consett itself has, through concerted effort and much government assistance, managed to buck the regional trend and now has a low unemployment rate. It has also generated many new small and medium-size businesses. But even in a wealthy and industrialised country such as Britain, the town that almost died has taken 20 years to recover.

poverty then perhaps a policy that, in the first instance at least, deepens poverty is not ideal.

A WTO study admits: 'Empirical evidence tends to show that trade liberalisation may entail non-trivial adjustment costs for certain groups.'[67] There is even recognition that: 'The costs of adjusting to greater openness are borne exclusively by the poor, regardless of how long the adjustment takes.'[68]

Consultants PricewaterhouseCoopers produced new EU social impact assessments ahead of the

EPA negotiations. They paint an even grimmer picture of the impact of further trade liberalisation in the former colonies of the African, Caribbean and Pacific (ACP) regions. 'The ACP countries maintain relatively high tariffs on food products, the removal of which could increase the imports of EU products. Where these products compete with domestic production, they could further discourage the development of processing and manufacturing capacity in ACP countries in export-oriented and other industries.'

The report goes on to describe how imports from Europe of dairy products, clothing, chicken, staple grains and other products could cost the 77 ACP countries dearly. It is the poor people who rely on those industries that will take the impact.

These costs are often written off as being short term or something that can swiftly be dealt with. But the reality for many of the world's poorest people is that these 'short-term' costs can become longer-term disasters.

Take, for example, new research from CCFMC and the Anglican Church of Kenya, both Kenyan organisations with which Christian Aid works, exploring the link between loss of livelihoods and increased prevalence of HIV/AIDS.

The research focuses on the west of Kenya where small-scale sugar-cane producers have experienced plummeting prices and an industry in collapse since the country joined the African COMESA trade agreement and cut tariffs on imports of sugar. The loss of income and jobs has forced people to seek other ways of making a living. Women who worked casually in sugar production have been hardest hit. Parents have struggled to find school fees, and some children have had to abandon their education.

Fewer jobs for women and fewer children in school are grave social costs, which merit serious concern. They have the knock-on effects of higher numbers of women working in the sex trade and more 'sexual transactions' among teenagers – inevitably increasing the spread of HIV/AIDS. Contracting HIV/AIDS cannot by any standards be termed a short-term cost.

At the very least, poor families that lose their main source of income or see it severely reduced may have to sell animals or land – in effect diminish their savings and capital – reducing their chances of escaping poverty in the future.

If adjustment costs are not just short term, then human development indicators across the period of most intense trade liberalisation paint a worrying picture for the future of many poor countries. Today, some 54 countries are poorer than they were in 1990: in 21 states a larger proportion of people go hungry; in 14, more children under the age of five are dying; and in 12, fewer children are enrolled in primary school.[69]

Lesson 3: Forgetting the farmers

Liberalisation ignores one of the most fundamental characteristics of the developing world – 900 million poor people are based in rural areas and rely on farming.[70] These small-scale farmers are in no position to compete with large-scale, industrialised agricultural businesses that often have the additional benefit of government support.

According to the UN, despite urbanisation, nearly half of the world's poorest people are likely to be living in rural areas in 2020 and will therefore still rely on agriculture to a greater or lesser degree. The rules under which agricultural trade takes place internationally and how agriculture is supported nationally are matters of life and death to hundreds of millions of poor people and will continue to be for many years to come.

Many of the early protectionist policies of the newly independent developing countries were designed to transform largely rural agricultural societies into

Is it consumers vs producers?

Supporters of rapid liberalisation often argue that removing import tariffs may hamper the efforts of producers in developing countries, but it does give consumers access to cheaper goods. They also argue that protectionism benefits a select few producers while hurting consumers, the poor suffering disproportionately from high prices, especially of food, on which they spend a high proportion of their income.

This is a false dichotomy: the needs of consumers and producers are inextricably linked. In the critical area of food and agriculture, arguing that consumers and producers have opposing interests is particularly misleading, as they are often one and the same. In many developing countries, the majority of people are still rural-based and poor. They depend mainly on subsistence agriculture for their food requirements, and need to sell any surplus at a decent price to buy other essentials. A higher price for food crops is therefore better for poor people as it boosts their income without affecting their food consumption.

Christian Aid research in Ghana indicated that price stability was often more important to poor people struggling to make a living than the price itself. Most of those who took part in the study identified producer and consumer price volatility as their most serious concern.[71]

It is important to recognise that international trade not only affects the prices poor people pay for goods, it also affects their employment opportunities and ability to make a living as producers, all too often adversely. As one Philippine participant in the World Commission on the Social Dimensions of Globalisation observed: 'There is no point to a globalisation that reduces the price of a child's shoes, but costs the father his job.'[72]

Christian Aid has observed this phenomenon in poor communities across the world, from the milk-producing villages of India, where any fall in milk production affects the consumption of other goods, to the rice-producing communities of Honduras, where the collapse of the industry has led to a similar collapse in consumption.

And while a balance does need to be struck on prices, the market is not necessarily any better at achieving this than the state. For instance, traders in developing countries that import cheap goods from world markets will not necessarily pass on the price benefits to consumers. In the imperfect markets of developing countries, consumers and producers have limited access to price information. Producers also lack the ability to control supply because they often have no way of storing their produce and in any case need to sell quickly because they are desperate for cash. Under these circumstances, the market is not the best route to lower and more stable prices for consumers.

It is Christian Aid's view that efforts to benefit poor people through trade must recognise that general theories of the divided interests of consumers and producers may not apply.

urban industrial ones. In this grand scheme, small-scale farming was merely a transitional stage towards greater urbanisation, and it was the duty of the government to speed this transition.

In practical terms this meant that governments in developing countries often had an urban bias, taxing rural areas by paying them less than the market rate for their produce and subsidising industry by ensuring their urban workforce had a cheap supply of food. The government would also pay farmers less for their cash crops so that it could earn more for itself when the crop was sold on the international market. The government would use this money to buy the imported products the developing industries needed.

But one extreme, where the government intervened too much and overwhelmed the market, has been replaced by another where the government is removed altogether, leaving millions of farmers at the mercy of a hostile market distorted by subsidies and where competitors in rich countries have huge technological advantages.

In its 2002 *Forgotten Farmers* report, Christian Aid argues that alternative, urban employment does not, and will not, automatically exist for the millions of poor people in rural areas, and that they will remain rural and dependent on agriculture for decades to come. So if their livelihoods are rapidly disappearing, and work is not available elsewhere, the question that neo-liberals are unable to answer is: what will they do?

When Patricia Hewitt met the rice farmers of Honduras, she appeared to dismiss small-scale farming as a viable option for the future of developing countries. According to the *Daily Telegraph*, Ms Hewitt said helping small farmers to make a living from agriculture was not the way forward.[73] Christian Aid awaits her answer as to what, in that case, they can be found to do as an alternative.

EPAPHOTO/EFE/Gonzalo de Metzli

Patricia Hewitt meets Maria Marcos Riviera, a Honduran rice farmer, in September 2003

As the debates increasingly converge around trade on the one hand and hitting the targets defined by the Millennium Development Goals on the other, the fate of the 900 million rural poor in the developing world that will be the acid test for success.

Lesson 4: Intervention but without the blanket

Blanket protectionism, where the state not only intervenes but also seeks to dominate and isolate the country from the global market, has not made trade work for poor people. But government intervention has always been an essential ingredient in successful development.

The decades before the advent of neo-liberalism are often portrayed (by neo-liberals) as years of lost opportunity. Huge mistakes were made during this period, as governments sought to replace markets and dominate emerging industries, such as agricultural processing. But the zeal with which government intervention is now dismissed masks some important lessons about how trade can be made to work for poor people.

During the first decades after independence, in the 1960s and 70s, governments in developing countries generally played a more interventionist role in their economies. They were generally sceptical about the market and sought, through government control,

to achieve great leaps forward in economic development. The theories were grand and visionary, but also intrinsically linked to the mood of the moment, when newly independent countries looked to make their mark and assert their national identity.

Two theories, borrowed from early 20th century economists, dominated the thinking of developing country governments at this time. The first was dependency theory, which involved developing countries effectively attempting to detach themselves from the world economy and build up their own industries behind protective barriers. Governments would play a central role in developing these industries either via subsidy or ownership, and shield them from international competition through protective barriers.

The second theory, import-substitution industrialisation (ISI), was a companion to dependency theory. It was pursued in India, the Philippines, widely in Latin America, and in some African countries. It aimed to create a favourable environment for establishing national industries whose products would take the place of imported goods. Nationalisation, the protection of domestic markets from imports, price controls and subsidised food to keep manufacturing wages cheap were all used to help infant industries develop.

But by the late 1960s and early 1970s studies were already lamenting the 'crisis in planning'.[75] Cases of extreme waste and inefficiency were reported, especially where the policies were dogmatic and ideologically driven.[76]

The impact of this period on economic and human development was disappointing:

- Growth rates were lower than hoped, although at around 3 per cent still higher on average than in the period of liberalisation that was to follow.
- Mass poverty persisted with the number of people living in absolute poverty increasing and unemployment in many countries remaining high.

Tanzania's enforced 'villagisation'[74]

In the Arusha declaration of 1967, the Tanzanian government adopted a new socialist policy of intervention with the aim of developing the economy under the slogan of 'self reliance'. The rural areas were to be transformed through 'villagisation' – the creation of communities from smaller hamlets and villages in order to form cooperatives and make the delivery of services more efficient. A basic industrial strategy sought to replace imports with domestic production and provide for the basic needs of the population. As part of this strategy, both agriculture and industry were heavily protected from international competition.

However, by the mid 1980s agricultural output had stagnated and industrial output was actually falling. Much of the capital – machinery and technology – that was imported for the new industries was not appropriate and proved difficult to maintain.

The effectiveness of government planning was also limited. The government was heavily overburdened with more than 400 state-run enterprises by the late 1980s. Additionally, there was a lack of information on which to make decisions, and communication between the industries and the government was poor.

By 1988, such were the problems in Tanzania's economy that it had to submit to an IMF structural adjustment programme. As one observer pointed out, Tanzania was now neither 'socialist nor self-reliant'.

- Although some countries acquired a nascent industrial sector, few reached internationally competitive levels of quality or efficiency.

Costly mistakes that hindered rather than helped development were made. Generally, these arose when governments followed the ideology of intervention to the point of interference and disregarded lucrative and important export markets. More importantly, the dominance of the state in economic ownership and management left little space for the development of a domestic private sector. It also failed to address the chronic lack of resources and infrastructure.

Grand planning often led to the creation of large, state-supported sectors that placed a huge burden on government finances but failed to build local, sustainable capital that might have allowed people to step in when governments withdrew.

A key problem was that cutting the country off from the rest of the world meant that there was little

The 'demon' of protectionism

The UK government and other supporters of liberalisation insist that countries should commit themselves to economic reforms and free trade principles to avoid backsliding into protectionism. Protectionism has, in short, become the pariah of trade policy.

It is demonised because it is seen as harmful to consumers, taxpayers and also to development, on the grounds that it tends to benefit an elite. It has been shown in the past to be inefficient because it does not encourage the development of internationally competitive industries.

But Christian Aid believes that demonising protectionism is unhelpful and misleading. While not advocating a return to blanket protectionism and autarky (isolationist self-sufficiency), it is our view that protectionism includes some important trade policies that poor countries can use to smooth their integration into the global economy and, above all, make trade work for poor people.

More interventionist and protectionist policies have also tended to be the path to development, and it is hypocritical of rich countries to deny poorer nations the opportunity to protect infant industries as they develop. It is doubly hypocritical because denying them this opportunity will expose them to competition from rich countries where heavy subsidies and high levels of technology put producers at an immediate advantage.

It is of course important that protection is used intelligently and as part of a strategy that develops an indigenous business sector that is outward looking and competitive. Protectionism can be time-bound, rather than entrenched. It need not benefit elites but, in contrast to liberalisation, can be carefully targeted to support social development.

The current problem for many poorer developing countries is that they have little other than raw commodities to sell on the international market and this must change. Without intervention and left to market forces, countries usually fail to diversify into high value-added industries and don't advance technologically.

competition and therefore little incentive to improve either quality or quantity. Crucially, other parts of the economy such as agriculture – which is central to the interests of most poor people – suffered greatly from the effort to promote non-agricultural sectors of the economy. Similarly, many argue that, since in internally focused economies the country's population must pay for any wealth created, consumers lost out by paying higher prices for goods produced by domestic industries that were moribund rather than nascent.

Five years ago, when the dominant ideology of neo-liberalism had barely been questioned, an UNCTAD report sounded a controversial note. It concluded that the blanket dismissal of past policies was no more helpful than blanket adherence to them:

> A sophisticated infant industry programme designed to reduce the import content of growth also needs to be part of the policy arsenal available to developing countries. The current aversion to such programmes reflects a misreading of the reasons for failure of an earlier generation of import substitution policies. A careful review of past experiences shows that design and implementation problems and not misguided logic were the main source of failure.[77]

Furthermore, some significant improvements in human development had been achieved. For instance, between 1967 and 1977 life expectancy at birth rose by four years in Brazil, and by five years in Côte d'Ivoire and Mexico. In Kenya, infant mortality fell from 112 per 1,000 in 1965 to 72 in 1980.[78]

There were particularly impressive results in east Asia, where governments followed their own version of intervention, often referred to as 'export-orientated industrialisation'. This mimicked ISI in that the government picked out key infant industries, or 'winners', and sought to industrialise by supporting and protecting them.

Christian Aid/Penny Tweedie

Village children in Ghana selling local rice to passing cars. In the background the bill poster advertises imported US rice

However, as well as building local and national industries by protecting their domestic markets, east Asian countries also orientated their industries toward supplying export markets. These countries have proved more resilient to shocks, such as falling prices, have attracted more investment and have advanced technologically because of export competition and importing new technologies when required.

The exact policies followed by the east Asian 'tigers', as they became known, are a matter of hot debate. However, what is clear is that these countries achieved the most dramatic improvements in economic growth alongside

poverty reduction ever recorded. Many factors undoubtedly contributed to this success, but the government played a key role in building up domestic industries, in some cases through state control, through increasing the returns on private investment and providing preferential credit. Importantly, none of the tigers liberalised imports until quite late in the 1980s when growth was already firmly established.[79]

Three stories from the rich world

1. Protecting the Japanese car industry

In 1950 Japan produced just 30,000 vehicles, but by 1990 annual production had risen to 13 million. Exports of these cars increased more than 1,000 fold during the same period.[80] In 1950, US companies produced more than two-thirds of the world's motor vehicles. By 1980, the US global market share of the industry had fallen to just one-fifth. Japan, on the other hand, had become the world's second largest producer of cars by 1970. By 1980 it was the world's largest, and has remained so ever since.[81]

The Japanese government's combination of protecting the domestic market and ruthlessly promoting exports was responsible for creating a world-beating motor industry. The government rejected free trade and extensive foreign investment out of hand and instead promoted its own national industries.

Although Japanese companies were encouraged to import foreign technology, regulation required them to produce 90 per cent of the parts domestically within a five-year timeframe.[82] In the 1950s, quotas were placed on car imports to the value of just US$500,000 a year. In the 1960s, quotas were replaced with exceptionally high tariffs, again preventing major incursions by foreign companies into the Japanese market, and protecting the developing domestic car industry.

2. Feeding the South Korean tiger economy

Since the early 1960s, South Korea has witnessed incredible economic growth. However, four decades ago the situation was very different. GDP per capita was comparable to the poorer countries of Asia and Africa, and GNP in 1963 stood at just US$100 per person. Today, South Korea is the 12th largest economy in the world,[83] with a per capita GNP exceeding US$9,800 in 2002.[84]

This transformation began after General Park Chung Hee took power following a 1961 military coup and was subsequently elected president in 1963. His reforms laid the foundation for turning the country from an agricultural backwater into a modern industrial nation. The Park administration decided that central government had to play the pivotal role in South Korea's economic development. It believed that no other institution had the ability or resources to direct the change that was required in such a short period of time.

The economic system responsible for South Korea's financial turnaround was based on heavy government intervention, protectionism and prohibiting foreign firms from competing in the rapidly expanding domestic industrial sector. Park's first aim was to establish a strong and self-reliant industrial economy independent of the US aid that had kept the country from bankruptcy during the Rhee years.

At the time, South Korea was dependent on imports of raw materials, such as oil, so a major objective was to raise the level of exports to improve its balance of trade. This meant helping companies increase their international competitiveness and productivity. The government's policy backed the import-substitution and export-led approach.

Planners carefully selected a group of strategic industries to support, including electronics, shipbuilding and car production. Part of this involved restricting the imports of such products. Park's policies also promoted private enterprise

rather than state ownership. The government helped businesses obtain preferential low-interest loans, and gave them import privileges, permission to borrow from foreign lenders and tax privileges, all to encourage them to export.[85] Direct subsidies were also used to encourage exports, and all restrictions on imports of goods used to produce exports were removed.

By the 1970s, Seoul was estimated to have the world's most productive economy. Between 1965 and 1978, GNP increased five fold, and in the mid-1970s exports increased by an average of 45 per cent per year.[86] The government's allegiance to business was an extremely important ingredient in South Korea's economic success. However, just as important was the government's protectionist policies while South Korea's industries were in their infancy.

3. Promoting a European airliner

Airbus was established in 1970 by a consortium of French, German and later Spanish and UK companies to compete with the US firm Boeing, the world's leading aircraft manufacturer. By joining forces, it was hoped that the European consortium would be able 'to compete effectively with the US giants',[87] prise away lucrative orders and thereby dominate what was a highly profitable market.

The company that emerged from the consortium is now hugely successful. With massive government support and a seemingly unworkable economic model that would never have emerged from an entirely free-market approach, Europe has built a world-class civil-aviation manufacturer from almost nothing.

One of the reasons for Airbus's strength lies in the scale of support it has received from its partner governments. A non-binding bilateral agreement between the US and the EU in 1992 allowed Airbus's partner governments to lend it up to 33 per cent of the costs of developing an aircraft. Although these loans have to be repaid within 17 years, it is at a minimum interest rate equal to the cost of government borrowing plus 0.25 per cent.[88]

In 2001, Airbus became a single company, the European Aeronautic Defence and Space Company (EADS).[89] EADS's individual companies transferred all of their Airbus-related assets to the newly incorporated company and, in exchange, became shareholders in Airbus. Success for EADS and Airbus in the market over Boeing soon became apparent. By 2003, turnover at Airbus had reached €19.2 billion (£12.9 billion)[90] and orders received in the same year surpassed US$32 billion.[91] Crucially, it also captured more than 50 per cent of the market from Boeing for the first time.

3 Lessons from the developing world

The white revolution: milk in India

'Without the milk cooperatives, this area would have been very bad. If you're seeing signs of development and progress then it's all to do with milk.'

Ramhuki Parmar, vice-chairman, Anand Milk Union Limited (Amul)

It is early morning. Already there is a queue of people stretching from the desk at which the milk is checked for its fat content, along the concrete platform in front of the dairy and onto the street below. Women, elderly men and children of upper and lower castes stand side by side, each carrying at least one stainless-steel container.

As the sun lifts its head lazily above the jumble of buildings in the centre of Ghopal Pura, a village close to the western Indian city of Anand, Reva Bhoi walks away from the dairy, a small slip of paper in his hand.

Milk production is down because of the summer heat. 'I gave only 2.1 litres this morning,' says Bhoi, reading from the paper, which reveals he was paid a little more than 30 rupees (36 pence) for the milk he sold to the cooperative. Bhoi will take the money home to his family, perhaps picking up some groceries on the way.

'Milk has made a huge contribution to this village,' he says. 'I've been looking after my four grandchildren since my son died and we survive on this money.' Bhoi has been a member of the milk cooperative for longer than he can remember. 'It must be 30 or 40 years,' he says.

Bhoi does not know how old he is. But he can remember what life was like before the cooperative existed. 'People would come to the village to buy our milk and you would have to accept the price they were offering. Sometimes they would promise to return with the money and you would not see them again.'

Ghopal Pura's small, yellow-painted dairy has a special significance not only in the history of the village but also in the transformation of milk production in India. It was the first cooperative milk society formed in an effort to break the monopoly of middle-men that had flourished under the English colonial system. In the space of 50 years, India has moved from a net milk importer to become the world's largest producer.

In nearby Hadgud, another village to establish a milk cooperative early in the movement's history, villagers have had a recent reminder of the importance of milk sales to the community. 'Amul [the Anand Milk Union Limited] closed the society down in 1998 because they discovered corruption,' explains Mahebub Saiyad, the honorary secretary of the newly reformed cooperative.

Saiyad and a small group of volunteers who managed to restart the cooperative in 2003 are crowded into its small office at the back of the village's dairy. On the wall above a desk is a picture of Prince Charles standing in the centre of the village. 'He came here in 1980,' says Saiyad.

'Since 2003,' Saiyad continues, 'the traders in the market have been taking more money. There's more money circulating around the village because we're selling milk again.'

Hadgud's cooperative milk society was formed on 7 October 1946 after the village was visited by Tribhuvandas Patel, the founder of the Kaira District Cooperative Milk Producers' Union, and Dr Verghese Kurien, who at 84 is still chairman of the union's marketing federation.

Christian Aid/Felicia Webb/IPG

Seventy year old Nanda Parmar (her daughter-in-law and grandson in the background) has been a member of Nawali village milk society for as long as she can remember. Her five cattle are now looked after by her sons

The village cooperatives at Hadgud and Ghopal Pura, and hundreds like them in India's Gujarat state, have a history that is intrinsically linked to India's independence movement. But the milk cooperatives were originally founded to combat the monopolies in the milk industry.

In 1945, the Greater Bombay Milk Scheme signed a contract with Polson Dairy, a private company supported by the local colonial governors, for supplies from Kaira district. In effect, Polson was given the monopoly over both producers and customers as the sole licensed purchaser of milk and seller of dairy products to nearby Bombay. But the company's command of the market, from cow to city, meant high prices for urban consumers and low prices for producers.

Vallabhbhai Patel, a close associate of Mahatma Gandhi, understood the problems milk producers faced, and suggested forming cooperatives to challenge Polson's monopoly. In May 1946, farmers across Kaira district went on strike and refused to sell the company milk, many of them joined forces in village cooperative societies.

There are currently 1,035 societies in Kaira district, 11,200 in Gujarat state and more than 100,000 across the whole country. And while only around 17 per cent of India's milk is produced 'cooperatively', more than 11 million farmers are involved.[1] To these people, many of them small-scale farmers with no land and only a handful of cattle, milk is a vital source of supplementary family income.

But the success of the cooperatives is not only due to the phenomenal number of farmers involved or to the remarkable logistical operation required to collect their milk twice daily. The Indian dairy industry as a whole, and the cooperatives in particular, have benefited from both the protection of the government and injections of capital from international donors. The result is a highly sophisticated industry that delivers keenly priced products to consumers – from milk powder to mozzarella-style cheese – and provides a reliable market for small-scale milk producers.

Amulya – the priceless dairy

'The beauty of this operation is that it provides a market for milk produced by poor farmers. Milk helps them meet the cost of their daily necessities and since it is often the women who run the milk sheds, then it is they who benefit and the entire dairy industry is arguably in the hands of women.'

Dr Verghese Kurien, co-founder of India's milk cooperatives[2]

In Nawali village, close to Anand, farmers gather, milk containers in hand, for the evening collection. In temperatures of almost 40 degrees centigrade, milk has a limited lifespan, but Nawali is one of an increasing number of village societies that has invested in a local chiller unit. 'This means that within one hour of it being taken from the animals, the milk is chilled,' says Nilesh Patel, the society's secretary, as villager after villager pours milk into the chiller. Here, the Amul milk tanker comes only once a day because the milk is kept cold.

On the lower-caste side of the village, 70-year-old Nanda Parmar is preparing for the wedding of her grand-nephew. 'Milk allowed me not to work in the fields,' she remembers. 'Once our buffalo fell ill and I had to work for one of the upper-caste people and he was awful to me. I still remember how badly I was treated.' Money from milk will also pay for the food for the wedding and the dowry.

While milk has perhaps not revolutionised village social and cultural structures, it has undoubtedly enhanced the role of many women. It is usually women who do most of the work with the cows and buffalo and so tend to earn a significant proportion of family income. They are often the named members of the village cooperative.

Milk has also helped ease tensions within some of Gujarat's communities. In 2002, more than 1,000 people were killed in the state as conflict between Muslim and Hindu communities flared-up. But milk-producing villages were, on the whole, not affected. Those inside the cooperative movement suggest that this was in part because the cooperative structure in these villages, and the shared economic goals, have fostered greater integration between Muslims and Hindus as well as between upper and lower-caste communities.

Nanda Parmar has passed on the running of the milk business to her sons, Raiji, Ambalal and Raman who now look after the family's two buffalo and three cows. These produce between eight and 16 litres of milk per day, depending on the time of year. From this they earn an average of 200 rupees (£2.50) per day. Like their mother, they worry that the costs of farming are making inroads into their profits, but more than half the family's income still comes from milk.

'We can buy our cattle feed from Amul, which is more expensive than buying it from the market,' says Raiji. 'But it yields one-third extra milk so it is usually worth the expense. We often mix the two together.'

'We never earned enough to send the children to high [secondary] school,' says his mother, 'but money from the milk helped keep them in basic education. Now, though, we struggle because the price of household basics, such as rice and sugar, is increasing.'

Christian Aid/Felicia Webb/IPG

Women from the Bharwad tribe of semi-nomadic dairy herders. The reliability of income from the cooperative has meant they have given up their roaming lifestyle and settled close to Ghopal Pura

Amul, the cooperative milk producers' union in Kaira district, is both an acronym of Anand Milk Union Limited and shorthand for Amulya, meaning priceless. As well as being the name by which farmers refer to their cooperatives, Amul is also one of India's most successful brands, processing 6.7 million litres of milk per day and with an annual turnover of about three billion rupees (£38 million) per year. In Gujarat, Amul accounts for 54 per cent of milk production.[3]

The professionals in the milk cooperatives' marketing chain, all of whom are keen to emphasise that they are employees of the farmers, work hard not to overstate the part that milk plays in the lives of rural families in Gujarat. 'It is a supplementary income for most,' says Himanshu Rathod from the milk marketing federation, the slick agency that sits at the consumer end of the Amul cooperatives. 'But farmers know they can sell whatever milk they have at a guaranteed, agreed price every morning and every evening, each day of the year.'

Rhamhuki Parmar, Amul's elected vice-chairman and a dairy farmer from Ghopal Pura, is more willing to sing the praises of the cooperatives. 'Milk's played an important role in this village [Ghopal Pura],' he says. 'Out of the profits the local society makes, we keep back around 50,000 rupees to spend on community facilities. This has helped pay for a new washing area, to sink tube wells, and to improve health and education. This year our 50,000 rupees is adding to 100,000 rupees from the government to build a new main road.

'The price we pay our members is always set modestly at the beginning of the year to ensure the survival of Amul. Then it is often adjusted upwards as the year develops and at the end of the year, any surplus is returned to the farmers as a percentage of the milk they've sold,' says Parmar. 'Even if rains fail or people's crops are poor, if they have a cow or a buffalo, they can earn money selling their milk.'

Operation flood

'The first question should be, "Where is the market?" Then, when the market is secured, the second question should be: "How do we raise production?" The dairy cooperatives have followed this rule and that's why they've been successful.'
Dr Abraham Joseph, a former Indian dairy professional

In 1964, Lal Shastri, India's then prime minister, was invited to Anand to inaugurate a new cattle-feed plant, the first of its kind in the cooperative movement and built with support from the New Zealand government. He insisted on staying in a

village to learn about the success of the milk cooperatives, so Dr Kurien arranged for him to stay in a village near Anand.

'The PM walked around the village and saw the way it was working. He was out until two in the morning,' recalls Kurien. 'The next morning he asked me the secret of our success, and I told him that it was because Amul is owned by the farmers and run by elected farmer-representatives.' Legend has it that Shastri returned to Delhi having agreed to allow a National Dairy Development Board (NDDB) to be set up in Anand to replicate the success in Gujarat around the country.

The NDDB came into being the following year. Dr Kurien took charge and began the task of repeating the 'Anand pattern'.

Up until this point, the dairy industry appears to have been stagnant, with milk production growing at around one per cent per year, while the population of the country grew at around 2.6 per cent. Consequently, the daily per capita availability of milk dropped from 132 grammes in 1951 to 107 grammes in 1969. Meanwhile, imports of skimmed milk powder – presumably to meet the shortfall – grew more than four-fold over the same period to 27,400 metric tones.

At this point in its history, India could clearly have followed Sri Lanka and become a major milk importer. After its imports were liberalised and its industry deregulated, tariffs on milk imports into Sri Lanka fell from 20 to 10 per cent between 1994 and 1997. Sri Lanka became a net importer of milk. Imports have grown alongside the decline of the domestic milk industry, and in 2002 stood at 63,859 metric tones of dairy products (mostly whole-milk powder).[4] While Sri Lanka does have a processing industry, it is dominated by one multinational company – Nestlé. And, unlike India, its dairy farmers do not supply the majority of milk for the industry. In India, under the guidance of those who had founded the cooperatives, the government chose to intervene, although the industry remained outside of direct government control, in either the cooperative or the private sectors.

Even in the early days of the Anand cooperatives, milk involved several multinational players. But the industry was shielded from imports by a policy of 'canalisation' of trade through NDDB. Behind protective trade policies, the Indian government also permitted the cooperatives to use a series of major capital injections to build up the industry. This capital was not used to subsidise individual farmers, but was invested in the infrastructure needed to connect farmers in villages across India to urban markets. It was used to further the interests of the industry as a whole, benefiting farmers as a result.

The first of these capital injections came in the form of a threat as mountains of milk powder and butter began to pile up under the Common Agricultural Policy of the European Economic Community (EEC), some of which was offered to India as commodity aid. Had this been allowed to flood directly onto the open market, it would probably have reduced the price of milk and dealt a damaging blow to the cooperatives.

The Indian government allowed the newly formed NDDB to use 127,000 tonnes of milk powder and 40,000 tonnes of butter oil to supplement what was produced locally. This gave the cooperatives a huge advantage over competitors by allowing them to utilise the supply of cheap imported milk powder. It also prevented the price of milk from crashing and generated financial surpluses for the cooperatives that were ploughed back into improving milk collection and infrastructure.[5] Between 1970 and 1981, 1.15 billion rupees (£14.7 million) was used to establish 13,300 new village cooperatives across the country and begin investing in local procurement and processing infrastructure nationwide.

In this period, the NDDB also persuaded the World Bank to begin giving the dairy industry a series of

loans and grants with no strings attached. The president of the World Bank, visited Anand in 1969 and offered to help fund what became known as 'Operation Flood' – the initiative to replicate what had been achieved in Anand around the country. Kurien told the World Bank director: 'Give me the money and then forget about it.' World Bank assistance came without conditions.
A cost-benefit analysis of Operation Flood, commissioned by Christian Aid and prepared using World Bank statistics, calculates that it benefited from a total of US$2.7 billion worth of loans, grants and commodity aid throughout the three phases of its existence, between 1970 and 1996.[6] Using the same statistics, the analysis also reveals that this has contributed to a welfare rise (increased income and investment in communities) among farmers that is perhaps greater than the total capital injection.[7]

Chanelling imported milk powder through the cooperative sector alone meant that private companies, which included a host of multinationals such as Nestlé and Unilever, had to buy milk from Indian farmers.[8] This also boosted the domestic industry. With the same objective, the Indian government also 'reserved' domestic milk production by restricting the number of licences it gave to dairy operators. This policy favoured the cooperatives, although as Amul and the other cooperative dairies grew, they also competed in the domestic market with multinationals.

Dr Abraham Joseph, a one-time insider and long-term observer of the milk industry in India, thinks that the protection they received from the Indian government was no more than the cooperatives needed or deserved. 'Take any industry in any sector in any country and it has to go through a developmental phase,' he says. Joseph also thinks that an open investment market in milk would have ruined the cooperatives. 'They steadily built up their capital, which is now intrinsic to the villages, whereas a multinational would have been able to begin straight away by moving in enormous capital from elsewhere.'

Maintaining the white revolution

'My government is duty-bound to protect our farmers against unfair competition. If they don't, they have no right to remain in power.'

Dr Verghese Kurien, co-founder of India's milk cooperatives[9]

Above the city centre of Anand, a billboard bears a giant US flag on which the red stripes are running as if the paint has been applied too thickly. A slogan written across the flag reads 'Scars and stripes'.
It is Amul's latest 'topical' advert.

The sophistication of Amul's relationship with its urban consumers, through a slick combination of brand association and lifestyle selling, is worthy of some of the world's largest multinationals and belies its humble roots. 'The topicals have been running for more than 40 years and always parody a current debate or controversy in India,' says Kishore Jhala, general manager of the Gujarat Cooperative Milk Marketing Federation (GCMMF).

Jhala claims a few multinational scalps for Amul. 'When we started producing condensed milk, Nestlé was selling at around 58 rupees per tin and we came into the market at 32 rupees,' he says. Amul has also recently entered the ice-cream market and now claims to be the most popular ice-cream brand in India.[10]

Any notion that the cooperatives have become uncompetitive through government protection is firmly rejected by those at the heart of the business. But in recent years, the debate over whether the industry should be liberalised, against a backdrop of increasing international pressure, has become intense. As early as 1991, India was forced to expose its milk industry to international competition when the government signed its first structural adjustment agreement with the World Bank[11]. Ever since, the government's efforts to protect India's dairies

Christian Aid/Felicia Webb/IPG

The majority of the 11 million members of village milk cooperatives in India have fewer that five cattle. But the money they earn from milk provides a valuable supplementary income for their families

from imported milk and from falling prey to acquisitive multinationals have been squeezed.

As a part of the reforms to which India agreed, the handling, processing and marketing of fluid milk, was deregulated, effectively allowing in a host of new private-sector operators. But quality suffered,[12] and the sale of substandard and even contaminated milk became a more frequent occurrence, forcing the Indian government to pass the Milk and Milk Products Order (MMPO) in 1992. The MMPO reintroduced registration for dairy plants handling more than 10,000 litres of milk per day or 500 tonnes of milk solids per annum. It also specified the standards of hygiene and sanitation expected of dairies.[13]

In its 'India Livestock Review' in 1996, the World Bank expressed concern about continued protection in the dairy industry, saying that the government's policy was limiting competition in the non-cooperative private sector. Under sustained pressure from both the World Bank and rich-country governments, India further liberalised its precious milk industry.

The chanelling of imports through the NDDB ended.[14] But between January 1996 and March 1999, the oversupply and depressed price of milk powder in the global market caused the price in India to crash. In 1999, with imports now duty-free and being released onto an open market, India imported more than 17,000 tonnes of skimmed milk powder.[15]

In December 1999, in order to stem the flow of imports that were harming producers, India negotiated at the WTO to increase its import tariffs on dairy items to 15 per cent on the first 10,000 tonnes and then 60 per cent thereafter.

But India has since come under further pressure to liberalise its milk industry. In 2000, a group of countries brought a complaint at the WTO against Indian import licensing on 2,714 products, including dairy. India was able to make bilateral deals to phase out what is known as 'quantitative restrictions' over six or seven years. But the US government argued that this was too slow and pursued the complaint.

The WTO ruled in favour of the US and India was forced to capitulate. It promised that by March 2000, around half the products in question would be 'unfettered' from these 'quantitative restrictions' on imports. The rest, including dairy, would suffer a similar fate one year later.

In the US, the Ways and Means committee in the House of Representatives heralded the victory as a breakthrough. The committee was considering a motion requiring the US to leave the WTO. The motion was defeated, after which Chairman Bill Archer stressed the 'positive' aspects of US WTO membership, saying, 'We have had historic victories breaking open India's closed trade regime to 2,700 categories of products.'

As a result of the WTO ruling, there are currently no tariffs or quotas imposed on imports of milk products into India. The government has instead focused on trying to limit the quantity of such products by applying rigorous sanitary standards.[16] But since 2000, imports of skimmed milk, cream powder and other low-fat dairy products have risen by one-fifth to 61,412 tonnes, a much quicker rate of growth than in the years preceding the WTO dispute.[17]

Throughout the recent changes in prevailing trade and market conditions in the Indian milk industry, the cooperatives have continued to grow. Those at the heart of Amul are proud of their achievements and bullish about their ability to deal with a more open market. 'Last year there were imports again [of skimmed milk powder],' says Kishore Jhala of GCMMF. 'But we are very confident now of our ability to compete.'

But even the hard-headed salespeople in charge of marketing the cooperatives' burgeoning portfolio of products concede that protection and investment has been important for an industry which relies on what they call 'trickle-up' economics. 'We've had a government that has supported us at the right moment – supported but not interfered,' says Jhala. 'When a plant is growing, it should not be trampled.'

J John, the executive director of Christian Aid's Delhi-based partner the Centre for Education and Communication agrees. 'The Indian dairy cooperatives have grown strong as a result of being protected by the government, but also because they've operated in the private sector, competing with other dairy brands, including multinationals,' he says. 'Governments must be free to intervene in this way – the WTO rules must recognise that enterprises like cooperatives that ensure food security need to be protected.'

A sweet deal: Sugar in Mozambique

'As a woman there are not many jobs open to me, but there are many women working at the sugar plantation. Before the sugar factory opened, we were very poor. We had no money and little food. Now things are better, we can earn money and buy food from the markets.'

Louisa Mahahele, sugar plantation worker, Maragra, Mozambique

Antonio Mwaomane sits on the side of the road resting his head in his hands. On the other side of the road, his colleagues are chatting, joking and cleaning themselves using a tap attached to a large water tank.

Antonio suspects that he is suffering from another bout of malaria. His head is throbbing and he feels lethargic and weak. Malaria is common among Mozambicans. It is something that many have learnt to live with – enduring the recurrent bouts that last for two or three weeks at a time. This afternoon, Antonio will go to the clinic attached to the sugar factory where he works. With a certificate from the clinic he will be given a lighter shift tomorrow.

No one would question that Antonio's life is tough, but given the situation in Mozambique he is the first to admit that he is one of the lucky ones. Antonio works on one of the sugar plantations that was rehabilitated after Mozambique's civil war, when the government protected the local market to encourage investment.

'I am fortunate to have work,' Antonio says. 'For those with work, life is improving. For those who don't have work, life hasn't improved – for them it is as bad as in the past. As many don't work as work.'

It's just after 2pm and Antonio has completed a seven-hour shift cutting sugar cane. Each morning he starts work at six having woken two hours earlier in order to catch the bus that takes him to the sugar plantation.

Cane cutting is hard, dirty work. At eight feet, the sugar cane towers over the cutters. The length of the shift depends on how long it takes the team to do their allotted work.

The day before the cane is cut, the whole field is set alight to remove the undergrowth. Giant flames leap above the cane. The burning makes it easier for the cutters the following day, but also means that they are covered in soot by the end of their shift.

For the past three years, Antonio has worked for the Maragra sugar factory located about three hours drive from Mozambique's capital, Maputo. However, his home is in Imwambané, some 450km away in the centre of the country.

'There is no work where my home is and nothing between here and there,' he says. 'They say they are opening a pipeline, maybe that will bring some work. But until then I will continue to come to Maragra.' Antonio works during the 'campaign' – the six months of the year between April and November when the sugar cane is cut. Fortunately, the campaign is well-timed, coinciding with the period when there is less to do on Antonio's own smallholding.

At the end of each month, his wife makes the 900km round trip to collect his pay and take it back to his family. To western ears it sounds miserly – little more than £1.50 per day with the option of more for overtime – but it makes a significant difference in a country where the average income is

less than £110 per year.[1] 'It was very different before because at the end of the season on the farm there was nothing else to do,' says Antonio. 'Now it is much easier. My house has been improved, sometimes we can rent extra land to farm, all my children are now able to go to school.'

Rebuilding Mozambique
Ranked the poorest country in the world in the 1990s, Mozambique is still in the process of recovering from a 16-year civil war. The fighting between the government and Rhodesian- and South African-backed rebels cut off large parts of the country and destroyed what productive capacity Mozambique once had. The impact was devastating. In 2004, Mozambique was still ranked only 171 out of 175 nations on the UN human development index, and life expectancy was just 39 years.[2] Rebuilding the country is a massive task.

One of the key areas the government identified for reconstruction was the sugar industry. Sugar plantations had been established during colonial times, but production began to decline with independence as foreign managers and specialists pulled out and sources of capital dried up. With the onset of the civil war, five of Mozambique's six sugar-processing factories closed down completely. Several were also damaged in the fighting. There were even cases of workers defending the factories from the rebels, who caused most of the damage.

Maragra itself was defended by its workers, many of whom came from the Makonde ethnic group. They were rewarded with their own land, where they can now grow food for their families or sugar to sell to the factory.

With the signing of the peace agreement in 1992, the government was faced with rebuilding the country and dealing with pressing social issues with minimal resources. As a labour-intensive industry, sugar held the promise of creating thousands of new jobs – the vast majority of them in impoverished rural areas.

A hostile external market
Economically, redeveloping the sugar industry made sense. Mozambique has excellent growing conditions for sugar cane and a plentiful workforce.

However, the particular nature of the international sugar market meant that this alone would not be enough. International sugar production is divided between sugar-beet farmers in colder, northern countries, and sugar-cane farmers in the south. Sugar cane is much cheaper to produce than sugar beet, so in order to maintain their own sugar industries northern countries have protected their markets from imports of sugar cane. Additionally, sugar beet production is often subsidised so that it can compete with sugar cane in international markets. As a result of this protection and support, the world produces roughly equal amounts of beet and cane.

As well as being distorted by massive subsidies, the international price is also affected by the fact that much of the exported sugar is residual production, effectively 'left over' after the needs of the protected markets have been met. As a result, traders on the international market are more concerned with disposing of whatever they have than the price they receive for it. So the international price for sugar often falls below the price of production even in the most efficient countries. Most, if not all, sugar-producing countries therefore choose to intervene in some way to ensure that their producers receive a remunerative price.

In its efforts to redevelop the country's sugar sector, the Mozambican government recognised that it had to intervene to ensure the industry would be an attractive prospect for investors. It therefore set a 'reference price' for imported sugar. This reference price was based on an historical average and was designed to iron out the price volatility that is a characteristic of the international sugar market. The government charged a variable import tax on all imports that fell below this reference price.

The system aimed to provide stability for national producers, ensuring they wouldn't be undercut by sudden reductions in the world price. Because it didn't completely ban imports of sugar, it also guarded Mozambique's consumers against spiralling prices. At the same time – according to the level of the reference price – it gave national producers an incentive to keep their production costs low to avoid being undercut by imported sugar.

The policy proved effective in encouraging investment in the newly privatised mills. Four of Mozambique's six mills received capital from South African and Mauritian investors in the late 1990s. Rehabilitation had begun.

Floods and the threat of man-made disaster

The floods that hit Mozambique in February 2000 were the worst in living memory and destroyed vast areas of the country. Few will forget the disaster's defining image – a woman giving birth in the tree in which she was stranded.

The impact on the newly established sugar plantations was catastrophic. The previous year Maragra had planted its first cane and was poised to start production. Then the floods hit. Antonio Jaieia, who now manages a small team of workers, remembers the sight: 'The floods in this area were as high as a one-storey building. The whole area was completely submerged as far as you could see. No fields, just water. It all had to be rebuilt. The roads, the bridges, the pumping station.'

Restarting production cost US$15 million in Maragra alone. 'We thought God had come back to us and brought the factory back,' says Jaieia. 'We were able to work again, and we had money.'

However, within months, storm clouds of a different nature gathered over the industry. As in other heavily indebted poor countries, the International Monetary Fund (IMF) and World Bank have enormous power over economic decision-making in Mozambique. Their influence is either felt directly through conditions attached to loans and debt cancellation or through the 'advice' they give. In negotiating a new loan in March 2000, the IMF challenged the pricing policy that the government had introduced three years earlier to help rebuild the sugar sector.

The IMF argued that Mozambique should open its sugar market to international competition – removing the variable levy and adopting a simple low tariff. Its logic was that this would reduce prices for consumers and would prevent Mozambique from developing what it declared would be an internationally uncompetitive industry.

'If the viability of the enterprises can only be assured with very high protection levels, with no prospect of future reductions,' said Jurgen Reitmaier, the IMF official in charge of negotiations with Mozambique, 'then perhaps they're not very good projects.'

The then general manager of the Maragra sugar factory, Paul de Robillard, summed up the feelings of many in the industry. 'It's like the sword of Damocles over our head,' he said. 'Especially after the flood, what do we do? Do you turn to them [the factory workers] and say, "Sorry, because of the IMF there are no more jobs?"'[3]

The case for intervention

Miraculously, the IMF was persuaded to change its mind. It is believed the World Bank and a number of European donors, who had supported the rebuilding of the mills, influenced its thinking. Mauritian and South African investors also supported the Mozambican government's policies.

The debate finally went to Washington where a team of US lawmakers lobbied the US Treasury on behalf of the Mozambican government.

The Mozambican government itself also made a strong case for continued intervention in sugar. A

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Antonio Jaieia (centre), remembers the floods in 2000 that destroyed the sugar plantation at Maragra, 'The whole area was submerged as far as you could see. No fields, just water'

report by the UN's Food and Agriculture Organisation [4] and a previous submission from international commodity consultancy LMC International [5] challenged the IMF's assumption that forcing Mozambique to scrap its variable tariff on sugar would benefit the Mozambican economy.

The only significant potential benefit of liberalisation, said both reports, would be to consumers. It could be argued that the pricing policy meant they were paying a higher price for their sugar, and would enjoy lower prices if the restrictions were removed. However, there was no guarantee that traders would pass low import prices onto their customers, and very poor distribution and transportation in Mozambique means that imported sugar may not even reach many of its intended markets.

The studies also showed that very few other countries operated a free market in sugar. Given the need for employment and income, said the studies, it would be perverse to require Mozambique – one of the poorest countries in the world – to opt for a free market.

A policy for development

'This factory was closed for 11 years. There was no work in that time. The men left to look for work in Maputo and in other countries. The women were left at home with the children. There was crime and prostitution – much more crime.'

Mr Armando Tivana, district health director, Manhiça, Maputo Province, Mozambique

The rehabilitation of the sugar industry in Mozambique has so far attracted US$350 million in

Christian Aid/Felicia Webb/IPG

Louisa Mahahele (centre), is a worker at Maragra. She is the only one with a job in her family

investment,[6] a sum the government could never have raised on its own. The growth of the sector has had a significant impact on development.

'There are no other jobs around here,' explains Louisa Mahahele, a plantation worker at Maragra. 'I am very grateful for the work, even though it is seasonal, because I am able to bring in some money.

'As a woman there are not many jobs open to me, but there are many women working at the sugar plantation,' says Mahahele. 'Before the sugar factory opened, we were very poor. We had no money and little food. Now things are better, we can earn money and buy food from the markets.'

The greatest direct benefit of the rehabilitation of the mills is the employment that the sugar sector now provides for more than 20,000 people.[7] Maragra alone employs 1,500 permanent staff and 5,000 seasonal workers. All of the estates are located in rural areas where there is little alternative employment.

Wages may seem low by European standards, but are above the minimum agreed by the government, employers and unions. Moreover, trade unions are free to organise and operate in all the factories and plantations. There are also opportunities for a small number of workers to progress to higher positions in the companies. The increased incomes from a revitalised sugar industry have helped to revive Mozambique's rural areas. Armando Tivana, the district health director for Manhiça, the region in which the Maragra sugar factory is based, rocks back in his seat when asked what the area was like when the factory was shut. 'This factory was closed for 11 years. There was no work in that time. The men left to look for work in Maputo and in other countries. The women were left at home with the children. There was crime and prostitution – much more crime.'

The town is by no means large: a main street with businesses, cafés and a school. But it has the atmosphere of a bustling centre and appears prosperous. 'Now there are jobs, people earn salaries, they can afford food, education, healthcare,' says Tivana. 'You can see our businesses are doing better now. Without the factory we wouldn't be at the stage we're at now.'

Benefits from rebuilding the sugar industry have also been felt in other sectors of the Mozambican economy. The new industry generates further employment through orders for packaging and the use of transport services. This knock-on effect for the wider economy is particularly important given the limited industrialisation in Mozambique.

Increasing this knock-on effect in the future will depend to some extent on continued growth in the industry. Some goods and services that are currently imported could be provided by Mozambican companies if demand increased enough to make local companies economically viable. However, Mozambican suppliers will always face stiff competition from companies just over the border, which are already supplying the sugar industry in South Africa and Swaziland.

The sugar industry will also benefit the Mozambican economy by increasing the country's reserves of foreign capital. By producing sugar locally, the

industry has already reduced the need to import sugar paid for with scarce foreign currency, while Mozambican sugar exports will earn foreign currency. In 2004 alone, exports of sugar are expected to bring in US$28.4 million.[8] Foreign currency is important for buying products that are not produced within Mozambique, such as machinery and oil.

The industry has also sought to deal with the concern that consumers would suffer from higher prices. The sugar factories are scattered throughout the country and the industry has organised distribution so that locally produced sugar goes to the most local markets. This has helped to reduce transport costs and keep the price of Mozambican sugar lower in its home market.

The future of the sweet deal

In the few short years since the Mozambican government introduced the reference price for sugar imports, the local sugar industry has become well established. Despite the many obstacles the industry has faced, there has been significant investment, the factories and plantations have been rehabilitated and year-on-year production has risen.

However, there is still considerable scope for increasing production and, as all of the country's sugar producers will quickly point out, as yet none are making a profit. What happens next raises important questions about the role of trade policy in helping infant industries establish themselves and supporting development.

If the pricing policy was solely about helping an infant industry establish itself, then is it now time to start thinking about reducing or even removing it? The sugar industry and analysts in Mozambique warn against this. Removing the pricing policy could jeopardise the rehabilitation of the two sugar factories that still lie derelict. In turn, this would undermine the potential for further increases in production and employment. More importantly removing the pricing policy could also seriously threaten the viability of the operational sugar factories.

Another method of increasing incomes in rural areas has been put forward by the sugar industry's trade union, SINTIA. It has suggested that the sugar-producing companies should commit to a social clause in return for the support they receive from the government. Alexandre Cândido, secretary general of SINTIA, argues that ultimately the aim of the reference-price policy is to enable development and poverty reduction and this can only be guaranteed if companies are paying fair wages and offer decent working conditions. Such a clause, Cândido says, would be a safeguard against pressure from the IMF and World Bank to remove the minimum wage in Mozambique and reduce workers rights.

Even without encouraging further investment, the pricing policy continues to play an important role in protecting the industry from one of the world's most distorted commodity markets. Despite much discussion about the future of agricultural subsidies in Europe and other rich countries, the latest estimate is that European export subsidies will not be removed until 2013 at the earliest. Removing the protection afforded to the Mozambican sugar industry in these circumstances could condemn thousands of workers in one of the world's poorest countries to unemployment and further hardship.

This is not an argument for letting Europe, the US and other countries that subsidise their sugar producers off the hook. Agricultural support programmes in rich countries that lead to massive over-production and the dumping of sugar on world markets cannot be justified. However, one of the peculiarities of the current system is that Mozambique and other least developed countries (LDCs) actually benefit to some extent from the European and American support programmes as they have special quotas that allow them to sell a

certain amount of their sugar in these markets where they receive higher prices. However, the quotas are small and in Mozambique's case they could sell more sugar to Europe if they were given the opportunity.

The issues involved are complex. However the reform of sugar policies must proceed in such a way as to ensure the world's poorest people realise the benefits of increased access to rich countries' markets. As in the discussion about Mozambique's own sugar policy, there should not be an assumption that an immediate move to free trade will be the best solution. Pragmatic efforts to meet poor people's needs should come before dogmatic solutions.[9]

Protecting development

'We guarded the factory as best that we all could. We hoped someone would come back when the war ended and reopen it, then we could begin working again.'

Paolo Mutchongo – supervisor at the Maragra sugar factory

Paolo Mutchongo has worked at Maragra for more than three decades. Through 16 years of civil war he stayed in Maragra even though the factory was no longer working. 'We tried to protect the factory during the fighting,' says Mutchongo. '[It] was not working then but life kept going. We tried to plant bananas, vegetables, tomatoes – we had to try to keep living.'

Mutchongo's actions are a testament to the importance of the sugar industry to him and his community. It provides employment and incomes in a country where both are in short supply.

When the civil war ended, the Mozambican government recognised the importance of the sugar industry and protected it to help it re-establish itself – even in the face of attacks from outside. For Mutchongo it was the right decision, 'This factory provides jobs for local people and many people come from far away, too. There are just not enough jobs in Mozambique.'

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Paolo Mutchongo has worked at Maragra since 1969. During Mozambique's long civil war, he stayed at Maragra to protect the factory. Now he is a supervisor overseeing the burning of the undergrowth in preparation for the sugar cane to be cut the following day

Mutchongo is now a permanent worker at the factory and says he has a good house with free electricity and water. One of his three daughters and his two sons now also work at Maragra. 'This happens a lot at Maragra,' he says. 'Many members of a family will work here either as permanent or seasonal workers.'

Grains of hope: rice in Honduras

'This year I am going to increase the amount of rice that I planted to three manzanas.[1] I am doing that because I know I can sell my rice under the terms of the rice agreement.'

Ricardo Martinez Amaya, rice farmer, Guayaman, Honduras

Maria Marcos Rivera greets the minister with arms outstretched, hugging her as if meeting an old friend. A small, elegant woman of 63 years, Rivera has a flicker of mischief in her eye. She lets go to illustrate her conversation with wide-armed gesticulations.

It is Thursday, 11 September 2003. Rivera and her community have been preparing for weeks. Moments ago, two Range Rover vehicles swept along the track to her small, tin-roofed house and Patricia Hewitt, the UK's senior minister in charge of trade, emerged to receive the Rivera greeting. It is raining heavily.

Rivera and her family live in one of Honduras' deep, green valleys. She is part of a 24-strong rice-farming cooperative. Her son is one of only a handful of farmers still planting rice. The others, including Rivera herself, have stopped because they can no longer raise the cash to purchase rice seed, fertiliser and pesticides.

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Maria Marcos Rivera, 63, and her mother Eulalia Rivera (in her 80s) on their porch. In 2003, Maria Marcos met Patricia Hewitt – who was en route to the WTO meeting in Cancun, Mexico – and told her how imports of US rice had made life difficult for Honduras's small-scale rice farmers throughout the 1990s

Ms Hewitt is en route to the World Trade Organisation (WTO) ministerial meeting in Cancun, Mexico, but has accepted an invitation from Christian Aid and its Honduran partner Comal – named after the ceramic griddle on which Hondurans cook tortillas – to meet poor farmers affected by trade. Rivera has agreed to tell her story. The family behave as if they host the visit of a foreign trade minister every day. Switching her gaze from Ms Hewitt's face to the middle distance, Rivera becomes wistful. 'Once all this was rice – as far as you can see,' she says. 'And that's what I want it to be again.'

Rivera describes life without the income from rice. 'We can't afford to buy new clothes and it's a struggle to afford basics like sugar,' she says. 'Put it this way, I won't be appearing in any fashion shows this year.'

The village of Guayaman, where Rivera and her community have lived and struggled for 20 years, is close to Jesus de Otoro in central Honduras. It is well known as a rice-growing area. But as *campesinos* (peasant farmers) the 24 families had to win the right to farm their land.

The fight to farm

From 1960 through the 70s, land law reforms allowed people without land to occupy and eventually take ownership of land that was lying unused. However, Honduras' banks owned much of the unused land, and occupations by landless farmers frequently ended in clashes with the Honduran police and the military.

Rivera recalls vividly how her community won their land. 'At one point, this area was militarised for three months,' she says. 'We were expecting that we would be thrown off the land, but we were supported by people from neighbouring cooperatives and it ended peacefully and we were allowed to stay. Since then we've been struggling and struggling and struggling. Now we'll have to struggle again.'

Ask many people outside of the country what they know about Honduras, and they are likely to mention Hurricane Mitch which struck in October 1998, bringing disaster to tens of thousands of Honduran farmers. But for rice farmers, the problems began at the beginning of the 1990s, and were caused by wholly unnatural forces. Produced using limited resources, poor technology and no irrigation, rice from the Otoro valley and elsewhere in the country has been competing for the Honduran consumer's peso with imports of heavily subsidised white rice from the US.

The impact on Guayaman, where now only four out of its 24 families still grow rice, can be multiplied hundreds, perhaps thousands of times across Honduras. One by one, poor, small-scale family farmers have dropped out of the rice market and slipped back to subsistence farming, growing mostly corn for their own consumption. But a new agreement designed to protect the rice industry against US imports, first signed by the Honduran rice-producers' association, the millers and the government in 2000, is offering grains of hope to families such as the Riveras.

Opening the floodgates

'In the 1990s there was an arrozazo *[rice scandal], a massive importing of rice. It hurt many rice farmers since the traders preferred American rice.'*
Modesto Fajardo Mejía, rice farmer, El Negrito, Honduras

Honduras is a very poor country with a per capita annual income of US$970 and two-thirds of its 6.6 million people living in poverty. Almost a quarter of the population lives in extreme poverty – at or below the UN's US$1 per day benchmark[2] – the majority of which is rural-based and earns a living from farming.

Rice is eaten mostly in cities, but it is also a supplementary staple in rural areas. At the beginning of the 1990s, Honduras produced almost 50,000 tonnes of rice per year. In 2001, overwhelmed by imports and struggling to recover from Hurricane

Mitch, it produced just 7,252 tonnes.[3] By contrast, in 1990, no unmilled rice was imported and only 7,306 tonnes of milled rice ready for eating came into the country. By 2001, rice paddy imports had reached 133,000 tonnes and milled rice 89,560 tonnes.[4]
At the beginning of the 1990s, the Honduran government operated a price-support system for rice through a marketing board. The same marketing board also controlled imports, granting of licences to traders, which it used to regulate the price of rice. So although tariffs on imports are thought only to have been between 15 and 20 per cent in 1990[5] importing was impossible without a marketing-board licence. Under this regime, very little paddy rice (unprocessed rice) was imported.

The *arrozazo*
But in 1991, everything changed. Imports of paddy rice rocketed five-fold from 7,306 tonnes in 1990 to 32,062 tonnes in 1991.[6] This is the beginning of what in Honduras is called the *arrozazo* or rice 'scandal'.

According to farmers, the government marketing board rarely operated in their interests. But it appears that until the *arrozazo*, the system of granting licences for imports did at least protect them from having to compete with heavily subsidised US rice.

At the same time as the *arrozazo*, Honduras was readying itself for the series of economic upheavals necessary to meet the conditions for a structural adjustment agreement with the World Bank and IMF. The marketing board was restructured and its grain storage privatised. The government remained in control of the marketing of rice, but its tight control over imports was replaced with a new price-band system for allocating import tariffs.

Although designed to guard against wild fluctuations in the price of rice, the price-band mechanism exposed farmers to the global market as never before.

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Loading rice into a lorry for distribution at the Beneficio Blanca Nieves processing plant

The price band for rice was calculated each month by averaging out global prices over the previous 60 months and defining upper and lower limits for prices of imports. Any rice imports that were priced within this band incurred no tariff. If the price of imports fell below the lower limit of the price band, then a 45 per cent tariff was levied. But because the price-band mechanism tracked global prices, as these fell throughout the 1990s, so did the lower limit of the price band and, therefore, the price of imports.

At the same time, also in accordance with the programme of structural adjustment, the state bank underwent fundamental changes and interest rates were liberalised. This ended cheap credit for small-scale farmers. Maria Marcos Rivera's son Ricardo and other rice farmers in Guayaman and in neighbouring Ismael Cruz told Christian Aid that interest rates are currently running at around 30 per cent. Credit is now out of the question for poor farmers. Even if they could afford it, few would have the collateral to secure a loan as many have already used their land to raise loans in this way.

In 1996, Honduras experienced especially high imports of rice paddy, with 29,745 tonnes[7] entering the country's markets. 'Farmers were throwing their rice into the road in protest at the poor price,' says Carmen Amaya, the manager of a local producers' association in Otoro (EACTSO). 'Our silos were full

and we couldn't sell our rice and couldn't buy any more from the farmers.'

Throughout the 1990s, farmers continued to produce rice but both they and the local mills to which they sold the rice were incurring debts. EACTSO, where the farmers of Guayaman took their rice to be milled and stored, was plunging deep into debt; it was continuing to buy farmers' crops but failing to sell at anything like a fair return. The cooperative system for which the farmers had struggled and fought was crumbling.

Then, in 1998, Hurricane Mitch struck. In Guayaman, as in much of the rest of the country, the rice crop was lost as high winds and torrential rain tore through the country. Already on their knees, the farmers, their cooperatives and the producers' associations to which the cooperatives sold their produce, were finally felled. Most stopped planting and the local rice mills and silos were left empty and fell silent.

The rice agreement

The IMF now rates Honduras as one of the least protected countries in the world.[8] But since 2000, a fragile agreement between the Honduran government, millers and rice farmers has meant that the millers buy rice produced in Honduras first, after which they can import, at a tariff of only one per cent.[9]

The rice agreement, as it is known, offers rice farmers the opportunity to sell their whole crop of rice to licensed mills at a fixed price. It is an instrument of protection designed to encourage an increase in production, without stopping imports altogether and thereby punishing consumers. But for small-scale farmers it is not enough. Still in debt as a result of the crises of the 1990s and unable to take on new loans to buy seed and fertiliser, the majority have not been able to benefit.

Countrywide, and for larger-scale farmers with more resources, the agreement is taking effect. According to Carmen Amaya of EACTSO, the Honduran rice industry is beginning to recover under the agreement. Honduran government figures show that between 2001 and 2003, rice production in the country almost doubled. 'The rice agreement is very important,' says Modesto Fajardo Mejía, a small-scale rice farmer from El Negrito on the northern coast of Honduras. 'It is a positive step and it has provided good results. We are a little better off because the market for our product is secure. We are guaranteed a set price each year and that price is reviewed year by year.'

For the millers, too, the agreement is good news. They signed it because they foresaw a new wave of milled rice being imported from the US that would threaten their business – until now, most of Honduras' rice imports have been unmilled, allowing the processing industry to remain unharmed.

Adolfo Antúnez, owner of the Granos del Norte mill in La Masica, remembers when milled rice was imported during the *arrozazo*. 'This was devastating for millers here because the rice was already husked and ready to sell,' he says. 'We consider the rice agreement to be a lifesaver. It came about as an initiative from both producers and millers who wanted to find a solution to the problem.'

But Antúnez is also worried about pressure on Honduras from outside the country to bring the agreement to an end. In particular, he is concerned that the new Central American Free Trade Agreement (CAFTA), may jeopardise the gains made since 2000. 'We participated all last year in voicing our opinion as millers to the negotiators of these agreements,' he says. 'Since rice is subsidised in the US and since the agreements will allow non-tariff, finished products into the country… the rice agreement was the only weapon we have to protect our national production.'

The signs are not positive. In spite of the persistent voices of farmers and millers wanting assurances

that the rice agreement or something like it will remain for as long as is necessary, it is already under threat. Dr Francisco Gomez, director of Infoagro, a service provided by the ministry of agriculture in Honduras, says that under CAFTA, the rice agreement will gradually be dismantled. That means that in 15 years, rice will be allowed to be imported without any tariff barriers.

The future for small-scale farmers

'We must allow trade to benefit poor people, especially those in rural areas. We must also invest in them so that they can build up their ability to produce more effectively.'

Trinidad Sanchez, director, Comal

Producing rice again is just a dream for Maria Marcos Rivera. But her son, Ricardo, has begun to take advantage of the rice agreement. 'Most of the farmers in the cooperative do not have the resources available to invest in seeds and fertilisers,' he says. 'In our community, three more rice farmers began to plant again this year because they feel more security with the rice agreement. They know that they will be able to sell the rice they plant.'

On 2 September 2003, a week before the arrival of Patricia Hewitt in Honduras, the Honduran government announced a programme of investment in the rice-growing region of Jesus de Otoro, where Guayaman and Ismael Cruz are situated.[10] It was hoped that this might help bring farmers back into production. But, one year on, Rivera has seen little change. Like hundreds of millions of small-scale farmers across the developing world, she needs trade policies such as the rice agreement, but she also needs assistance to take advantage of it.

Will she and others be able to compete with US rice in the future? Or, after two decades of struggle, should she give up and seek work elsewhere? If so, then can the clothing factories and banana plantations offer enough employment to accommodate millions of small-scale farmers such as Rivera who have left their land? The answer already appears to be no. In fact, so limited are the opportunities in Honduras that most people in poor, rural communities know of a friend or family member that has run the gauntlet of border controls and attempted to gain illegal entry into the US.

If farmers stay on their land, then under CAFTA, a plan appears to be emerging that would see them competing in the open marketplace within 15 years. But if the aim is to use trade to their benefit, then setting timetables for trade liberalisation misses the point.

For the sake of Rivera, her son Ricardo and his young family, it is hoped that when 15 years have passed, policymakers may have learned the lessons of history. And that before pressing ahead with trade liberalisation, they will examine what the impact on poor communities might be.

Back in the Range Rover, Patricia Hewitt revealed her thoughts on the future of small-scale farmers to a group of UK journalists. 'If you are a tiny subsistence farmer then you are going to be living in deep poverty in almost every case,' she said. 'Some may go out of business. Clearly, support must be given.

'Part of the development process is to move people out of small-scale subsistence farming into large scale, industrial productive agriculture or industry,' she said.

Trinidad Sanchez, the director of Christian Aid's partner organisation Comal, rejects Ms Hewitt's view. 'Small-scale farming can be a viable option,' he says. 'But policymakers should be prioritising cooperation amongst farmers rather than the opening of markets. Trade rules should be a tool of development, they should support, not undermine, people's livelihoods and food security.'

4 Making trade work for poor people

‘So now the responsibility falls on this generation to be present at a new creation – of new rules that break with the past and both effectively and fairly meet the demands of the new global economy. We must reject the false choice between clinging to laissez-faire and retreating to 1930s protectionism.’

Gordon Brown, UK Chancellor of the Exchequer[1]

International trade rules and agreements are biased against the interests of the world's poorest people. For them, continued protection in rich countries plus inappropriate liberalisation in poor countries equals disaster.

If a new trajectory is not set, which links trade with poverty reduction, then any hope of meeting or even exceeding the Millennium Development Goals will be lost. Not only will this spell ignominious failure for the current crop of political leaders, it will condemn more than one billion people to another generation of poverty, hunger and misery.

Christian Aid is challenging the hypocrisy of governments in rich countries that are increasingly saying they want trade to work for poor people while continuing to pursue liberalisation as the only means by which this can be achieved. Nothing short of a radical re-think of the policies behind current trade agreements is needed.

Shifting rhetoric

It is not enough merely to play with words and steal some of the clothing of those calling for change. In the past two years, the UK and Irish governments have increasingly adopted the language of trade justice. But their continued policy of prescribing trade liberalisation as the solution does not match the rhetoric.

The UK has championed the term ‘free and fair trade’. In a world of such spectacular inequality, this is an oxymoron. Trade will only be fair if it is managed and if the governments of developing countries are allowed to embrace policies that other countries have used to develop in the past.

UK politicians have also begun to talk of ‘sequenced’ liberalisation. In a recent speech to the IMF, Gordon Brown, the UK's Chancellor of the Exchequer, said: ‘Any liberalisation has to be appropriately sequenced, integrated into countries' poverty-reduction strategies and supported by poverty- and social-impact analysis.’

This notion of sequencing, though currently ill-defined, is a welcome recognition that many countries are not ready for liberalisation and must first overcome massive economic and social barriers. But any attempt to impose a timetable of liberalisation is likely to fail because, once again, it presupposes that liberalisation is in all cases the best option and does not conflict with what works for poor people in practice. In this regard, sequencing as proposed by the UK is not a radical departure from proposals already tabled elsewhere.

Under current WTO rules, transition periods are similarly limited, usually for ten years. This is unlikely to be enough time for countries with cripplingly poor infrastructure and that have endured generations of

limited education and severe health crises to make up the ground. In many instances, poor communities may need different trade policies for a great deal longer. The acid test should be the impact on poverty and the ability to compete in an open market and not merely the passage of time.

When it comes to 'driving the development agenda', the Irish government concludes that Ireland 'should use its influence to ensure that developing countries are given fair access to developed country markets, while spreading to developing countries our intellectual conviction that openness is an opportunity, not a threat.' And yet its own analysis argues that: 'Developing economies have, in general, liberalised more than developed ones and, as a consequence, have experienced many of the disadvantages of greater openness while obtaining few of the benefits.'

Ireland itself steadfastly defends the right to protect its own farmers from such disadvantages. So the government commits itself to global poverty reduction, and clearly sees the downside of indiscriminate liberalisation, but cannot bring itself to draw the obvious conclusions for reorganising world trade.

The central message of this report is that if trade policy is driven only by a push for liberalisation – with that as the presumed end goal – then it is likely to fail poor people. However, if trade is approached from the opposite angle, putting the needs of poor people first and allowing market access between countries to be negotiated with poverty reduction as its goal, then poor people will no longer have to bear all the pain of change. This report also shows how that suffering is not short-lived.

In June 2004, the UK government launched its white paper on trade and investment. It called for:

- less mercantilism in WTO negotiations
- for poor countries to be allowed to develop their own trade and development strategies
- poor countries 'not to have to pay a price' for access to rich countries' markets.

This, too, was a welcome rhetorical change. But there are no concrete suggestions in the paper about how such change could be implemented or how the UK will alter its own policies and influence other wealthy countries to do the same.

Similarly, it is not enough for rich countries to call for poverty reduction to be made an explicit aim of WTO rules and agreements.[2] If poverty is really to be reduced then rules and practices as well as aims have to change.[3] Putting a positive spin on trade talks while developing countries continue to plead for clemency is fooling fewer and fewer people.

Lessons from the case studies

The key message of this report is that trade policy and trade rules need to be flexible enough to:

- permit the protection of the interests of poor and vulnerable people so that they are not made poorer by having to bear the costs of economic changes; poverty reduction must be prioritised ahead of trade liberalisation
- stimulate the development of new industries in poor countries, especially within poor communities. Poor countries need finance and technical help to diversify out of traditional industries, such as raw commodities.

With flexibility as the starting point, it would be wrong to suggest that the case studies from India, Mozambique and Honduras are blueprints that could be lifted from their current environment and used to redesign trade policy elsewhere. Each is specific to its circumstances and, moreover, none is perfect. But each offers important indications about what might work elsewhere.

In each case, the government has recognised the need to use protection to allow a domestic industry either to recover or develop. In India and

Is south-south trade the answer?

'We must take advantage of south-south trade opportunities and cooperation. If developing countries can reduce tariff margins to one another by 50 per cent, this will generate an extra US$15.5 billion in trade.'
Kofi Annan, UN secretary general, speaking at UNCTAD XI meeting, 2004

If trade between rich and poor countries is unfair and riddled with hypocrisy – and likely to be so for decades to come – then is trade between developing countries, so-called south-south trade, the answer? The UK government and others are increasingly suggesting it is.

Currently, the world's developing or 'southern' countries account for 30 per cent of world trade, compared to 20 per cent in the mid-1980s. Trade between these countries – south-south trade – accounts for ten per cent of world trade. South-south trade grew from 34 per cent to 40 per cent of the total trade of developing countries during the 1990s, and has an overall growth rate of 11 per cent per year.

However, it must be noted that the vast majority of this trade is accounted for by the larger and relatively wealthy developing countries. In fact, most of the growth in south-south trade is due to the success of China and India (see Section 1, page 21).[4]

Although often treated as a homogenous group, developing countries are not all equal. As a result south-south trade needs to be carefully managed, much like trade between rich and poor countries. If a poor country such as Mozambique was to open its markets to neighbouring South Africa, for example, it would need to retain the flexibility to choose its own trade policies and protect vulnerable sectors and infant industries. Otherwise, South Africa would reap all the benefits of freer trade between the two countries. Also, as in north-south trade, the problems faced by the least developed countries – the small and vulnerable economies – cannot be resolved by trade policy and market access alone.

The focus on south-south trade must not divert attention from the hypocrisy of trade relations between north and south, where the rich world protects its markets while advocating liberalisation in other countries.

Nor must south-south trade be used by rich countries as a justification for opening markets to all imports no matter where they originate. If the aim is to encourage south-south trade then opening markets to imports from all countries (and not just to imports from other Southern countries) is more likely to benefit exporters from rich countries rather than poorer producers.

Mozambique, finance and investment – either from the private sector or, in the case of India, from the cooperative sector – has complemented protection to help industries grow. It is worth noting that the cooperative sector has allowed groups of poor rural producers to retain a larger share of the income from the sales of milk products in Indian cities than would have been the case under a system that involved private traders.

In Honduras, the recent rice agreement allows rice imports to enter the country, but only once Honduran rice has been purchased. There is evidence that rice cultivation in Honduras is increasing as a result. But the great lesson of the Honduran case study is that the most vulnerable, small-scale producers, who were pushed out of the market by liberalisation, have not automatically been able to re-enter a protected market. To do so, they require finance to build up their businesses more or less from scratch.

In the past, India's technique of 'channelling' milk imports through the cooperative sector, which has an inherently benevolent impact on small-scale dairy farmers, has also proved very effective. Not only did this policy limit the impact of subsidised imports of milk powder, which could have killed off the Indian milk industry, it also ensured India could supply milk to its population in days before its own farmers produced enough.

In Mozambique, the government has protected its domestic sugar sector in order to encourage private investment. In turn, a massive number of new jobs have been created in an industry that could turn Mozambique into a regionally competitive exporter of sugar products.

In Mozambique, much of the investment in the sugar industry has come from outside the country. This has been in the form of foreign direct investment and some concessional World Bank loans. What is crucial is that this finance is available in a form that can be used to benefit poor producers. In Mozambique, there is a fortunate convergence of the needs of the companies and the need for employment. Trade unions and employment legislation help to ensure that this employment is of a reasonable quality.

In India, the policy of channelling imports is the key to some of the cooperative sector's investment in local industrial capital (although, again, some World Bank lending was also used). Imports provided cooperative dairies with a cheap source of processed milk from which they managed to generate hefty surpluses that were in turn reinvested in cementing the links between farmers and their markets.

Poor people and trade policymaking

'The whole world is upside down because it puts economics before the human and social needs of people. We need to have different rules.'

Trinidad Sanchez, director of Comal, a Christian Aid partner in Honduras

The tragedy of economic policymaking is that the people who bear the costs, are rarely asked beforehand for their opinion.

Recent Christian Aid research refutes the assertion that poor people should not be involved in trade policymaking because it is too technical and complex for them to understand. In truth 'poor people cannot only analyse the impact of policies on their lives, but can also generate ideas for policy change that will improve their situation.'[5]

Poor people's analysis also tends to be very different from those standing outside the problem looking in. For instance, Christian Aid research found that while governments and policymakers tend to focus on income poverty, poor people themselves are much more concerned about risk. Increased exposure to the global market presents the risks many of those who took part in this research identified. In other words, poor people were more concerned about the potential costs of the trade policies than what they might gain from trade – useful words of caution for ambitious idealists.[6]

The governments of developing countries must seek to integrate trade policies into national development programmes following negotiations with poor people themselves.

Next steps

'What is required is nothing less than a radical review of the whole system of trade liberalisation and a critical consideration of the extent to which it is genuinely equitable and geared towards shared benefits for rich and poor countries alike.'
UN Sub-commission on the Promotion and Protection of Human Rights

An explicit and deliberate focus on using trade to tackle poverty demands that the process of writing trade rules must be made more accountable to poor people themselves. In turn, international trade rules must incorporate the flexibility necessary to respond to the different needs of countries.

The principle of the level playing field is fundamental to free trade. But a level playing field is inherently unfair when the players are not equal. Poor people need 'intelligent discrimination' in their favour.[7] The poorest countries need genuine access to rich countries' markets so they can benefit from an increasing share of global wealth, but with the flexibility to protect their own markets while they develop world-class businesses. They need reform of rich countries' subsidies, but also the opportunity to support their own producers. They need trade biased in their favour while the massive global inequalities, that have become greater under liberalisation, are dealt with.

The centrepiece for such a change in international trade rules would be for rich countries to agree to poor countries' demands for special treatment at the WTO. Such an agreement would enshrine the principle of unfair trade in favour of poor countries. But special treatment needs to be precise, effective and, above all, actually implemented, rather than fall prey to undermining tactics and willful lack of action by rich countries.

In the short term, rich countries must support existing proposals – agreed at the WTO – allowing developing countries to protect a range of critical products, such as basic food staples, where liberalisation would damage both the livelihoods of poor farmers and threaten the food supply of their communities.

However, if flexibility won at the WTO is to have any credibility it must not be undermined by conditions attached to IMF and World Bank loans and debt cancellation. Neither must it be eroded by the two institutions' 'advice' and behind-the-scenes pressure. If the WTO recognises the need for poor countries to prioritise poverty reduction above the drive to liberalise their economies, then the World Bank and IMF should recognise this, too.

Similarly, regional trade agreements must not be implemented if they put the pursuit of free trade ahead of the need to tackle poverty. Of particular concern are the Economic Partnership Agreements Europe is seeking to forge with 77 of the world's poorest countries and the US's Free Trade Area of the Americas, both of which will require developing countries to make liberalisation commitments beyond what is required under WTO agreements.

Helping poor countries assess the impact of trade policies before they are implemented is of vital importance. Nothing should be inflicted on the world's poorest and most vulnerable people – some 2.7 billion – before its likely impact is understood.

Rich countries and global institutions have a clear role in helping to pay for such assessments, which must be genuinely independent and seek opinions from a variety of different perspectives – especially from poor people themselves. They should not be used to support predetermined positions. They should also be heeded. It is no good consulting poor people and carefully calculating the likely impact of a trade agreement if the calculations and consultations are then ignored.

Urgent steps:

1. **Stop Economic Partnership Agreements (EPAs) under the Cotonou agreement.** In their current form they will be free-trade deals that have little to say about tackling poverty and will cause a great deal of harm to many of the world's poorest countries.

   - If African, Caribbean and Pacific countries are to benefit from trade with the European Union, then the EPAs must be thrown out and replaced with arrangements that do not demand more open markets in countries that cannot afford to liberalise. All regional trade agreements should be assessed for their impact on poverty reduction and WTO agreements covering the negotiation of regional agreements must include provisions for special treatment.

   - The UK and Irish governments, which have both stated their intentions not to force poor countries to 'pay the price' for market access, must wake up to the hypocrisy of also supporting EPAs and insist that the process is halted and the negotiating mandate changed.

2. **Stop the World Bank and IMF setting trade policies in poor countries.** Much of the harm already caused by opening up markets before the local population is ready to compete has resulted from meeting the demands of the World Bank and IMF. These institutions have enormous influence over developing countries, so it is critical that the conditions they set and the advice they give is about reducing poverty. Their 'seal of approval' must not be contingent on further trade liberalisation.

   - The IMF and World Bank should stop using measures such as the scoring of trade policies and conditionalities attached to loans and debt cancellation to enforce trade liberalisation. These measures are undemocratic and have failed to reduce poverty in developing countries.

   - The UK's Department for International Development and Treasury must put the government's rhetoric on trade into action and argue for the World Bank and IMF to drop their one-size-fits-all approach to trade policy.

3. **Strengthen and enforce the principle of favouring poor countries at the WTO.** In Doha, WTO members agreed to work on special treatment for poor countries within current trade rules. Almost nothing of value has since been agreed and rich countries – especially the EU and US – have repeatedly obstructed the process.

   - There is an urgent need for negotiations on special treatment for poor countries to show positive results. If the current round of trade talks is truly to focus on development, the principle of special treatment – of trade rules that are biased towards poor countries – needs to be made much more precise and effective.

   - The governments of the UK and Ireland must support poor and developing WTO member countries and their coalitions in their demands for special treatment and for trade rules that give them access to rich countries' markets while allowing them to protect their own.

4. **The massive subsidies paid in rich countries must be cut dramatically.** The overwhelming hypocrisy of rich countries paying huge, market-distorting subsidies while urging poor countries to open up their own markets must end.

   - Export support (such as export subsidies and credits) must be eliminated immediately. All agricultural subsidies should be shifted away from encouraging over-production.

- The UK and Irish governments should press for the immediate and unilateral elimination of EU export subsidies. Domestic agricultural subsidies, 70 per cent of which go to large-scale farms and agribusiness should be reformed to ensure they reflect social and environmental goals in both rich and poor countries.

5. **Massive increases in aid and debt cancellation are needed to support poor countries' development and trade policies.** This report identifies the chronic problems poor people face in getting their products even to the nearest markets. Poor roads, a shortage of technology and long-term under investment conspire with a lack of healthcare and education to cripple the ability of poor people to trade.

- Rich countries, the G7 in particular, must increase their aid budgets to 0.7 per cent of national income, as promised. Aid provision should not be tied to the adoption of prescribed trade policies in recipient countries. 100 per cent of the historical debts the world's poorest countries owe international financial institutions, such as the World Bank and IMF, and rich countries, must be cancelled.

- The UK and Irish governments must follow through on their respective 0.7 per cent commitments. In the case of the UK, Christian Aid is concerned that its target of reaching 0.7 per cent by 2013 isn't soon enough, and must be brought forward. For Ireland, it is time to deliver on its decision to reach 0.7 per cent by 2007. Both the UK and Irish governments should argue that the debts of poor countries must be cancelled and should follow through with their own 100 per cent debt-cancellation promises.

Notes

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The white revolution: milk in India

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2 Interview with Christian Aid, 18 May 2004.

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7 The OEF (World Bank) paper estimates that the net benefit to farmers covered by *Operation Flood* was approximately US$250 million in 1996. If this figure is taken and it is assumed that the net benefit farmers have receive over the duration of OF is proportional to the procured volume, then cumulative welfare rise over the period 1971-2 to 1996-7 was US$3.2 billion. However, this is based on the OEF paper estimate of a 25 per cent profit margin for farmers, which may be an over-estimate, especially if opportunity cost has not been taken into account.

8 D.R.Shah, *Cooperativization, liberalization, and dairy industry in India*, 2000, p 59.

'If there is a flood of commercially imported milk powder emanating from the pressures of MNC from outside and the corporate giants from inside then, all incentives for production at home will reduce as the price of indigenous milk will get depressed by imports and on account of relatively cheaper imports even the desire to promote production and enhance procurement will get reduced.'

9 Interview with Christian Aid, 18 May 2004.

10 Research by AC Nielson puts Kwality Walls at the number one spot, but an independent study by Ahmedabad-based Consumer, Education and Research Society (CERS) ranks Amul as number one, followed by Kwality Walls on various parameters of taste, melting quality, weight, fat and sugar content.

11 D.R.Shah, p167, see endnote 9.

12 Business practices followed by small-scale private dairy operators have often been below standards of public health quality standards. There have been police investigations into the adding of preservatives like soda and of adulteration of milk using water, refined oil, caustic soda, urea, common salt and sugar.

13 Vijay Paul Sharma, *Trade Liberalization and Indian Dairy Industry, New Delhi*, 2002, p35.

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A sweet deal: Sugar in Mozambique

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Grains of hope: rice in Honduras

1 One manzana is equivalent to 7,025 square metres.

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Making trade work for poor people

1 Rediscovering public purpose in the global economy', speech to Harvard University, 15 December 1998.

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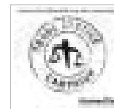

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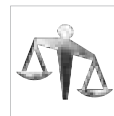

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Patricia Hewitt, UK Secretary of State for Trade and Industry, May 2003

‘Full trade liberalisation is not the way forward. A different approach is needed. One which recognises the importance of managing trade with the objective of achieving development goals.’

Stephen Byers, former UK Secretary of State for Trade and Industry, May 2003

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Christian Aid is a member of the Trade Justice Movement, a growing group of organisations campaigning together for fundamental change to the unjust rules and institutions governing international trade.

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