

A VERY simple guide to... TRADE

Millions of people are stuck in the 'trade trap'. No matter how hard they work, they earn less every year. The situation is so dismal, half the world's population now lives on less than US\$2 a day - roughly the cost of a burger.

Liberalisation and Free Trade

Trade literally refers to buying and selling items. Trading can be on a micro level (such as between people) or macro level (between countries). In the last twenty years trading between countries has tripled, but the profits have not been equally shared¹. During the 1980s and 1990s, there was a growing feeling that the best way for countries to develop was through 'trade liberalisation'. This refers to "the reduction of tariffs and trade barriers to permit more foreign competition and foreign investment in the economy"². Liberalisation was enforced by the World Trade Organisation (WTO).

This process led to 'free trade' i.e. trade without restrictions. This means that all countries can sell their goods for the best price available. In theory, countries with low labour costs ('developing countries') are able to sell their goods at a cheaper price than countries with higher costs. In reality this is not the case as multi-national companies are able to exploit the low labour costs in developing countries and can offer their goods for a lower price than smaller, local companies (or individuals).

- World Trade is estimated to be worth \$10 million a minute – the world's 49 least developed countries account for only 0.4% of this (Christian Aid).
- A Ghanaian cocoa farmer only gets 1.2% of the price we pay for a bar of chocolate (Oxfam)

Agriculture and commodities³

The economic systems put in place by colonial rule mean that most developing countries are extremely dependent on a narrow range of exports. More than 70% of the world's poorest people live in rural areas and depend on agriculture for part or all of their income. The price paid for agricultural crops (e.g. coffee, sugar, chocolate) and commodities (e.g. textiles) are very dependent on global factors. 'Big players' are able to stockpile supplies when they are cheap or stop buying when prices rise. This means that commodity-dependent nations can find themselves having to export increasing quantities to earn the same amount of money.

Case-study research has shown how particular groups can suffer from high unemployment levels as local industries collapse due to competition from local imports, or because of declining prices for their crops. The increased risks from greater exposure to international competition are suffered by people with very few resources, and with extremely limited opportunities to find other sources of income if things go wrong.

- Around 65% of India's population (600 million people) depend on agriculture for at least part of their income. India's farmers represent 20-30% of the world farming population.

¹ Oxfam's Cool Planet website

² BBC Worldservice Guide to Development Speak

³ Make Poverty History Tool Kit April 2005

- Between 1996 and 2000, Ghana increased cocoa production by almost a third but was paid a third less (Oxfam).

Protecting trade

The opposite of free trade is to restrict competition from other countries or companies by imposing restrictions on imported goods; called 'Protectionism'. The options:

- Embargo - a complete ban on the importing of certain goods.
- Quota – setting a limit on the amount that can be imported.
- Tariff – tax applied only to imported goods, making them more expensive than home-produced ones.
- Subsidy – a government may give assistance to a home producer to allow them to compete more successfully.

These systems should help countries and businesses that are vulnerable, however this is not always the case. In reality these trade rules usually work in favour of richer countries. They are able to offer high subsidies for their own industries allowing them to sell their produce at cheap prices. At the same time the richer countries can impose high import tariffs on imported goods, making it more difficult for goods from developing countries to be sold at competitive prices.

- Europe and the USA combined subsidise their farmers around \$1 billion a day (Oxfam)
- Average tariffs on manufactured goods from developing countries are more than four times those on goods from developed countries (UN Human Development Report, 2003).

What needs to be done

At the moment the world's richest countries are in a win-win situation, while people in the poorest countries continue to live in extreme poverty. The solution has to be trade justice instead of free trade. We need to put pressure on governments to change the rules of international trade so that poor countries can develop, build their own industries and grow stronger. Changes would make sure that developing countries increase their share of world exports; if this happened by only 1%, 128 million people could be lifted out of poverty (Oxfam).

The UK government should⁴:

- Fight to ensure that governments, particularly in poor countries, can choose the best solutions to end poverty and protect the environment.
- End export subsidies that damage the livelihoods of poor communities around the world.
- Make laws that stop big business profiting at the expense of people and the environment.

⁴ Trade Justice Movement

Jewish sources on trade

Jewish tradition pays great attention to ethics in business and economic life. Indeed one story relates that the **first** question one is asked when one arrives in the world to come is, “Did you deal fairly in business”.

The starting point is a basic consideration of justice.

If you sell anything to your neighbour or buy anything from your neighbour, you shall not wrong one another. (Leviticus 25:14)

An important concept derived from this text is the idea that BOTH selling and buying have the potential for wrong-doing.

An overview of Jewish texts suggest the following principles.

Honesty

Maimonides teaches:

It is forbidden to cheat people in buying and selling, or to deceive them. (Mishneh Torah, Hilchot Mechirah 18:1)

Fairness

You shall have true scales, true weights, true dry and liquid measures. (Leviticus 19:36)

Don't abuse your greater knowledge or power

You shall ... not put a stumbling block before the blind. (Leviticus 19:14).

This well known text was never assumed by the Rabbis to be about literally putting blocks in front of blind people. It was always interpreted metaphorically and widely, particularly in the area of commerce. It is not permitted to use one's greater knowledge or power in the marketplace to the disadvantage of someone else. Another teaching derived from this text is the prohibition from selling something that can cause harm to the buyer or someone else.

You should treat those working for you properly

You shall not oppress a hired servant. (Deuteronomy 24:14)

The wages of a hired servant shall not remain with you at night until morning. (Leviticus 19:13)

In contemporary society when multi-national companies may choose to produce goods wherever they wish, we are all responsible for ensuring that the people who make our goods are treated properly. And, taking these texts one step beyond the literal meaning ... if those in poorer countries are our 'hired servants' making the things we desire (tea, coffee, sugar, clothes) then we have a responsibility to ensure they are paid properly and fairly for their work.

A VERY simple guide to... AID

For all developing countries, the amount of aid they receive and how it is spent is a critical part of their efforts to reduce poverty.

Today rich countries give half as much aid, as a proportion of their income, as they did in the 1960s. In 1970 countries agreed to spend 0.7% of their Gross National Income on aid by 1980. In 2005, almost all the richest countries have failed to reach the target. Countries of the European Union are responsible for more than half of the world's aid flows – we have the ability to significantly increase the aid that is needed to meet the Millennium Development Goals (MDGs) by 2015⁵.

Why is more aid needed⁶?

There is a problem with *how* the money from richer countries is given to poorer countries. Aid can make the greatest impact if it is given to the poorest people. However, richer countries (called the 'donors') often prefer to give aid money to some countries rather than others (with whom they have a special relationship). This means that some poorer countries have a few donors giving money to them and that others may not have any donors at all. For example, the British government sends most of its \$5bn of aid to former Commonwealth countries.

Oxfam reports say that this failure to focus on the poorest countries is unacceptable. These countries, particularly in Africa, are the least likely to be able to reach the MDGs. Aid money for these countries must be immediately increased⁷.

However, even poorer countries with several donors can still have problems because each of these donors may ask the government to do different things with their aid money. This makes it hard for the poorer country's government to follow its own plans for the country (including economy, health, education and other services). Providing stipulations for receiving aid is called 'Conditionality'.

How should it be improved?

Very often the donors only promise aid for a short time. The money may only be given for one year and not the next, or the amount of money given may go up and down. This means that governments cannot rely on this money to spend every year and it is very hard for them to make plans. Long-term promises can help tackle the causes of poverty instead of only looking at the symptoms⁸.

Donor governments must stop providing conditional aid (sometimes referred to as tied aid). This is when aid is given "on the condition that developing countries use these funds to buy

⁵ OXFAM NGO Joint Briefing Paper (2005)

⁶ Taken from Oxfam's Cool Planet Website

⁷ OXFAM NGO Joint Briefing Paper (2005)

⁸ HM Treasury International Finance Facility Proposal (2004)

goods (such as medical supplies or water pumps) or services (such as consultancy contracts) from the donor country⁹.” Currently about 21% of aid is still given with conditions¹⁰.

ActionAid UK highlights the problems with Conditional Aid:

- It put the needs of companies over those of poor people.
- The developing country may be able to get lower priced, better quality products and services from elsewhere¹¹.
- It creates a link between donor governments provision of aid and the possibilities of market expansion.
- It discourages local ownership and commercial participation in development projects.
- It creates a reliance on the donor country – for knowledge, technology and spare parts.

Giving aid without conditions attached can solve these problems and can increase the value of the money by up to 20%¹².

What must be done?

- The targets of giving 0.7% of national income in aid must be met.
- Low-income countries must be prioritised.
- There must be no requirements to purchase goods or services from donor countries
- Aid should aim to build the economic capacity of developing countries.

What effect could that have¹³?

If the UK met the target of giving 0.7% of their Gross National Income on aid by 2008, an extra 1.5 million people could be lifted out of poverty that year.

Education - Young people who have completed primary education are less than half as likely to contract HIV as those missing an education. Universal primary education would prevent 700,000 cases of HIV each year, almost 30% of all new infections in this age group. Providing universal primary education would cost just \$10 billion a year.

Health - One woman dies every minute as a result of problems in pregnancy or childbirth. Of these, 99% are in developing countries. 8 million lives could be saved every year if minimal healthcare was available in developing countries.

⁹ Action Aid UK

¹⁰ HM Treasury International Finance Facility Proposal (2004)

¹¹ Organisation for Economic Co-operation and Development studies have shown that tying aid can increase the prices of goods and services by up to 25%

¹² HM Treasury International Finance Facility Proposal (2004)

¹³ Make Poverty History Campaign

A VERY simple guide to... DEBT

Where did the debt come from?

Poor countries were lent money in the 1960s and 1970s. Some was for useful purposes, but much went to projects that did not benefit the country's people or that helped to prop up dictators. As interest rates shot up in the 1970s and 1980s, many countries ended up still owing more than the original loan, even after years of repayments. To make matters worse, lenders have attached damaging conditions to debt relief, for instance demanding privatisations which benefit big corporations in the rich world, or forcing cuts in public spending, meaning that some countries are prevented from employing teachers or buying basic medicines. People in the poor world are suffering both from repaying the debts and from these conditions.

Hasn't all poor country debt been cancelled?

No! At the beginning of 2005, only \$49 billion of debt has been cancelled. Low income countries still owe over \$523 billion. Cancellation so far has happened through the Heavily Indebted Poor Countries (HIPC) initiative, the current - grossly inadequate - international debt relief scheme.

They can never be paid anyway

- Unlike individuals, there is no international law of bankruptcy to draw a line under poor countries' debts.
- Interest rates and currency devaluation mean that debts are growing faster than poor countries' ability to pay.
- Unfair conditions in the global economy, such as trade barriers and collapsing prices for poor country exports, have meant that even as countries work harder to pay their debts they are able to earn much less. The International Monetary Fund and World Bank, bodies which police the international finance system, have forced debtor nations to accept advice which makes these problem worse.

Debt Hurts

- Zambia's debt repayments to the IMF alone cost \$25 million, more than the country's education despite 40% of rural women being unable to read and write.
- Sub-Saharan Africa receives \$10 billion in aid every year – but has to pay back at least this amount in debt repayments.
- Malawi spends more on servicing its debt than on health, despite nearly one in five Malawians being HIV positive.
- Despite being the second country to be granted debt cancellation (after Uganda) Bolivia still spends more on debt servicing than on health, even though its infant mortality rate is 10 times that of the UK.

How can we prevent another debt crisis in the long term?

In the longer term, governments must take action to ensure that we never return to a debt crisis like the one which has now been crushing poor countries for decades. It must be recognised that 'odious' debts, incurred by oppressive regimes, should not be repaid. Debt

audits or an open, just and impartial arbitration process is needed to judge which debts countries cannot and should not pay. The rich world should ensure that poor countries have sustainable financing to meet their needs, through an increase in aid and a bias towards giving grants not loans.

What still needs to happen?

In country after country governments are spending more on repaying debts than they are on health or education. Rich countries continue to pursue claims on the budgets of poor nations, with devastating effects for the world's poor. To date only 10% of the total debt owed by low-income countries has been cancelled.

- All unpayable debts must be cancelled.
- Countries must show moral and political leadership in debt negotiations.
- Funding for debt relief should come from new sources and not from the funds already allocated.
- More grants should be made to poor countries to avoid future debt.
- The debts should be cancelled without imposing economic-policy conditions.
- A fair and transparent debt-arbitration process should be created to ensure that poor countries can meet the basic human needs of their people.

Debt Relief Works!

- In Benin, 54% of the money saved through debt relief has been spent on health including rural primary health care and HIV programmes.
- In Tanzania, debt relief enabled the government to abolish primary school fees, leading to a 66% increase in attendance.
- After Mozambique was granted debt relief, it was able to offer all children free immunisation.
- In Uganda, debt relief led to 2.2 million people gaining access to clean water.

Jewish sources on debt

If you lend money to any of My people who are poor, you shall neither act like a harsh creditor toward them nor shall you collect interest. (Exodus 22:24)

Much has been written, positive and negative, about the Jewish approach to lending and borrowing, so there is no room here to discuss all dimensions. Starting from the text above, we see the assumption and recognition that lending and borrowing are bound to take place in any but the most primitive economies.

In the Mishneh Torah, Maimonides derives two principles from this verse.

It is a positive mitzvah to lend to the poor. This mitzvah is greater than giving charity to a poor person who asks for it, since the one who asks is already at the point of begging while the other has not yet reached that stage.

But he warns that,

anyone who acts as a creditor towards the poor while knowing that the debtor has nothing with which to repay is breaking a negative commandment.

In ancient Israel land ownership, debt, slavery and poverty were intimately linked. If one became poor for any reason the routes out were to sell your land, borrow money or sell yourself into slavery. The end result was similar, you lost control over your own life.

So, the institution of the Sabbatical year was created to rectify these distortions in society and restore balance.

At the end of seven years you are to make a release. Now this is the manner of the release: he shall release, every possessor of a loan of his hand, what he has lent to his neighbour. He is not to oppress his neighbour or brother for the release of the Lord has been proclaimed. (Deuteronomy 15:1-2)

The Jubilee Year – every 50 years - expanded this concept to land restoration, and Jewish slaves (who had sold themselves to pay off debts) were freed after seven years.

It is tempting to get drawn into the debate about whether this was strictly for Jews only, and perhaps this legislation was only implemented for a limited period. But that would be to miss the point which is that it set out a series of extraordinary principles.

- People fall into poverty for all kinds of reasons, but these are not examined. Everyone, no matter what the circumstances, deserves a fresh start. This is especially true when those suffering are the children of those who originally fell into poverty.
- Taking advantage of a poor person is wrong and must be rectified;
- Relative wealth is to be welcomed but it must always be shared with those who are relatively poor;
- An arbitrary date for the Jubilee is chosen. We should not need to wait for the 'right' time.