DFID Department for International Development

# Trade matters

## in the fight against world poverty

Published by the UK Government's Department for International Development (DFID) and Department of Trade and Industry (DTI), this booklet aims to raise awareness of the importance of trade in eliminating global poverty. The UK Government is committed to working to end world poverty and with public support will push for a fairer deal for the poorest countries.

# "I shop, therefore I am."

## Sure, it's satire, but there's a grain of truth here.

Without buying and selling – without trade between one person and another or one country and another – we're all of us much more likely to be, well, poor.

Our wealth is built on the breadth and choice of the markets we can sell to – or buy from. For many people economic poverty is rooted in their inability to trade – and trade is a vital route out of poverty.


**Ghanaian farmer Sammy Ankama is proof of what's possible. "I have built a lovely house and was the first farmer of the village to buy a car," he explains. And the secret of his success? It lies in the humble pineapple.**

Twenty years ago Ghana exported just 2,000 tonnes of pineapples a year to Europe – today it's 50,000 tonnes. Families in Sammy's village with small plots of land sell pineapples at an agreed price to an exporter. The exporter finds the market and supplies farmers with finance, training and fertiliser. "In the village," Sammy explains, "those working with the exporters are all living in decent houses and sending their children to school."


# Trade means jobs – which means money coming into your household so that you can send the children to school or buy medicine if they are sick.

In recent years many of the fastest growing developing countries – in East Asia particularly – have been those selling their goods abroad.

China, for example, has achieved economic growth of some 8% for 20 years, lifting over 200 million people out of poverty. It's no coincidence that in the last 25 years its exports grew thirty-fold.

While Asia was the poorest continent on the planet 40 years ago – twice as poor as Africa is today – it now has the fastest growing economy and is twice as rich as Africa.

While Asia was increasing its share of world trade, Africa's already small share was falling further, from 6% to 2% in just 25 years. Each percentage point lost represents £40 billion a year.


# But if trade is to really benefit people in the poorest countries, it has to take place within a global trading system that gives everyone a fair chance to compete.

At present global trade is trussed up in a tangle of practices which, while they protect the incomes of some Western producers, leave poor countries with their hands tied.

The UK Government believes that the practices which distort global trade must be sorted out so that trade can play its vital role in creating the economic growth and jobs needed to help fight poverty.

The bottom line with trade is not merely profit, but people – the lives which could be transformed if people were able to sell their goods and services and buy other people's.

The potential benefits of trade eclipse the benefits of both aid and debt relief because they offer people the chance to earn their way out of poverty – and promise a time when poor countries will no longer be dependent on aid.

This doesn't mean we stop providing aid to poor countries. There is still a need for more aid and better aid.

But trade is now walking on to centre-stage in the fight to eradicate poverty.


# Just outside the Ethiopian capital of Addis Ababa is a former dairy farm which used to provide work for fifty people.

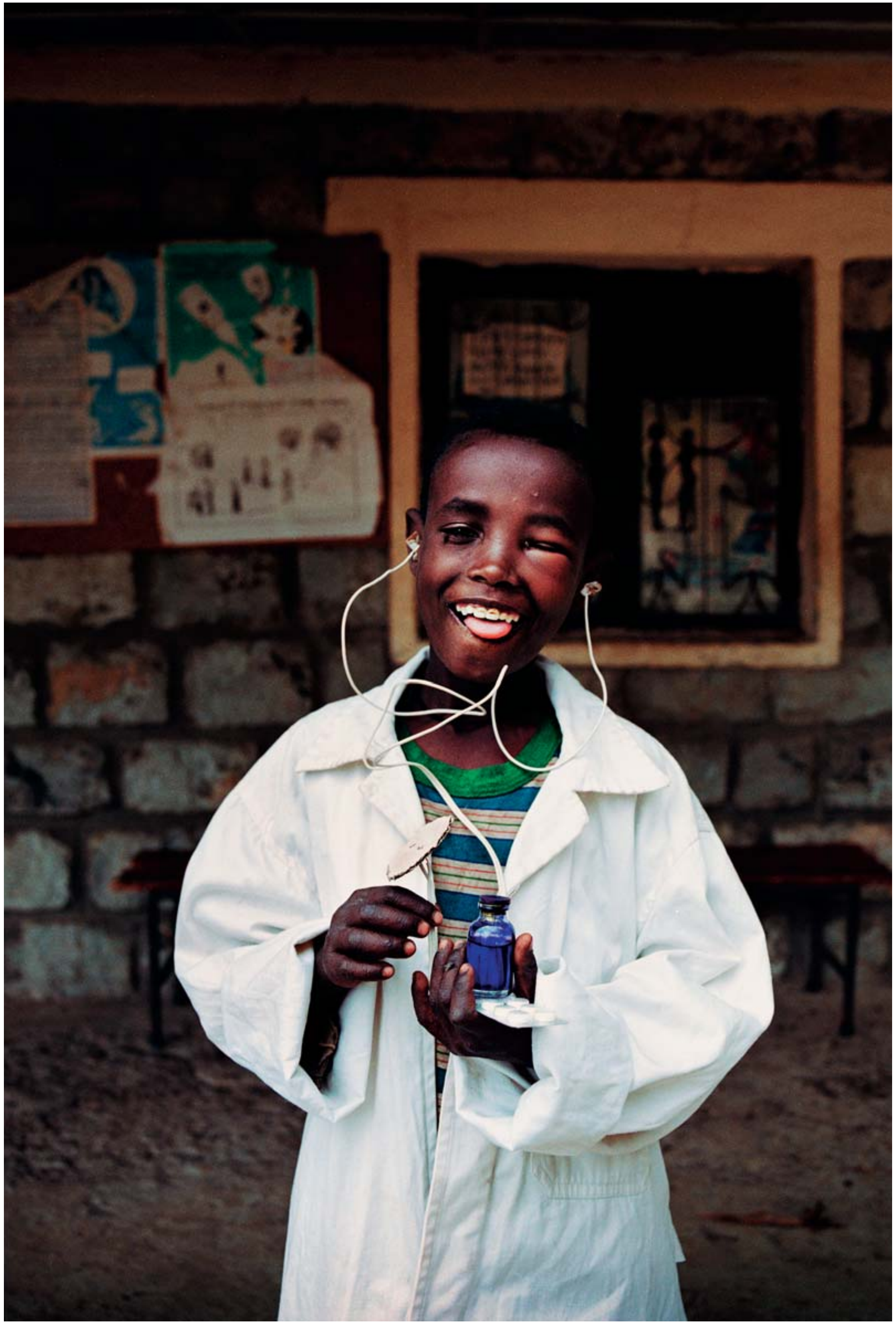
Then someone realised that – with a bit of investment – the high altitude and warm weather would be ideal for cultivating roses.

Today the farm is home to a series of vast, fabric-covered hothouses where hundreds of thousands of roses bloom. Computer-linked sensors operate roof awnings and sprinklers creating a controlled growing environment. Some roses are sold direct to wholesalers, others via giant Dutch flower auctions, eventually turning up in vases all over Europe.

"This has made a big difference to our lives," says 24 year old supervisor Meseret Mekalese. "Before, we were just sitting around with no job and nothing to do. But now we are learning and helping ourselves and our families."

Five hundred and fifty trained staff, paid above local rates, receive meals and healthcare advice – and in turn they help other family members go to school and college.

This kind of story is repeated across the world, as developing countries discover how trade drives economic growth and job creation. More income means more tax revenues, which governments can invest in education, which means more people have opportunities to find jobs and they themselves produce more and so on…

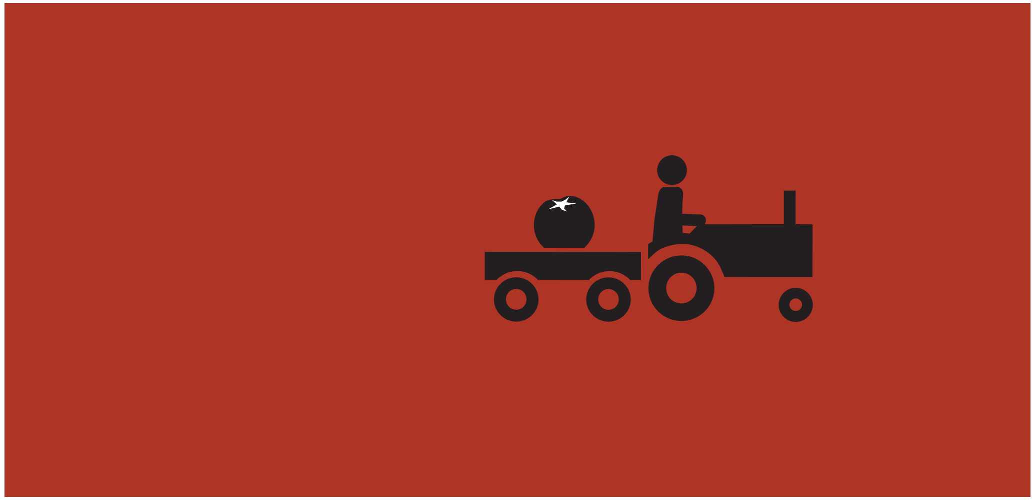


# So much for exports but aren’t imports the hidden catch with globalised trade?

After all, a developing country importing goods cheaper than its own workers produce means shoppers buy the cheap imports and so put their own producers out of business.

There’s no denying this can happen. But at the same time, if a country has millions of people who are malnourished, then the chance to buy, say imported chicken at two-thirds of the price could mean the difference between a family eating and going hungry.

Imports change economic patterns, but we must not forget the benefits they bring – not just consumer goods such as food or home appliances, but the contribution they make to industry. Ugandan businesses may grow by buying computers from China. Angolan clothes shops can source garments from Vietnam. Factories in Cote D’Ivoire can import high-tech items from Germany. Without imports, people in developing countries would be denied vital medicines developed in the West.



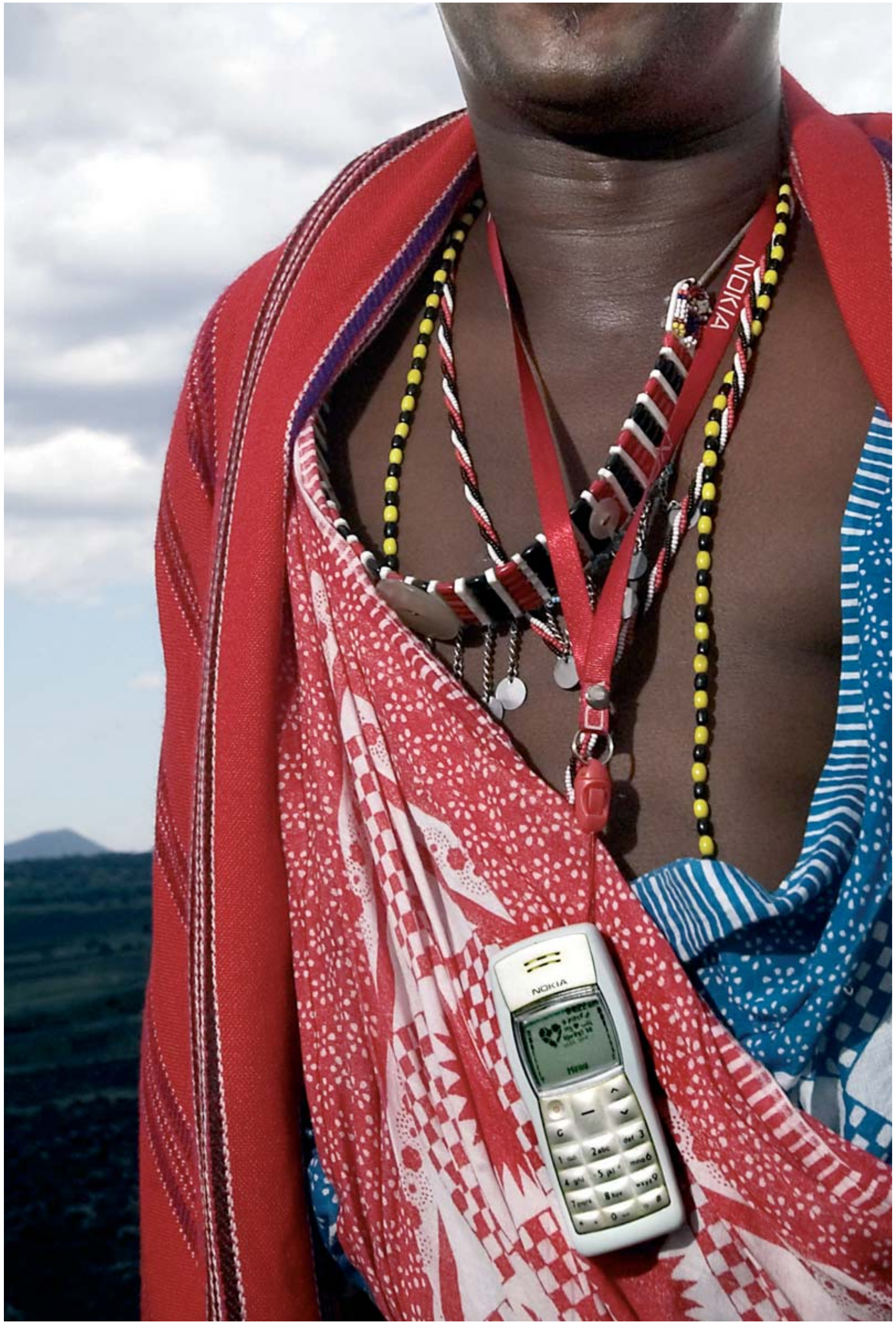
# Instead of being priced out of the market, some farmers are improving techniques to compete with imported produce.

“The challenge,” says Kofi Ampah, a Ghanaian tomato producer facing competition from cheap imports, “is for our farmers to produce a high yield per acre so that we can sell them at a price to compete with imported tomatoes.”

Kofi is one of 500 farmers being trained in efficient techniques to produce good quality tomatoes. Since the project, funded by the UK’s Department for International Development (DFID), began, harvests have tripled and are still rising. The tomatoes are now canned for sale in local supermarkets.

It’s true that there are risks for poorer countries when they open their markets too rapidly to foreign goods. Sometimes, industries may collapse, leaving people without an income and forced into poverty.

But this does not mean that poorer countries shouldn’t take part in trade. Instead, it means countries need to manage any opening of markets they undertake very carefully – making sure that the process encourages national development and the prosperity of the population – especially the poor. The goal of both the UK Government and the EU is that all countries will have the freedom and flexibility to do this.




# Trade is not just about 'things' (goods), it's also about 'services'.

Services range from insurance and banking to telecoms and tourism – "anything you can't drop on your foot", as someone put it. Often services are invisible such as when a UK company sells insurance online to an Indian company. And just as trade in goods can boost developing country economies, so can opening up services.

For example, reliable banking facilities help attract incoming investment, ensure that local savings are turned into local investment and enable small businesses to get credit and cut overheads.

Opening up services like telecoms to competition can revolutionise the prosperity of people and their countries. In Botswana, it led to a doubling of landline coverage, while the numbers using mobile phones leapt from none in 1998 to 250,000 in 2001 – around 16% of the population. When one out of every ten people gets access to a mobile phone in a developing country, it's estimated that national earnings rise by 0.6%.

Opening up services can provide real benefits to developing countries, as long as the process is managed well and regulated properly. And as long as developing countries are able to choose which services they want to open up and how.

Trade can help reduce poverty, but only if the conditions are right. Global trade must take place on a level playing field, and the trouble at the moment is that developing countries are being asked to play uphill and into a fierce wind.


# The anger people feel about the inequity of the global trading system is captured in the fish on our plates and the cotton in our shirts.

Around 70% of Africans work in agriculture, a huge number compared to a small minority of people working the land in rich countries. Developing countries often have a natural advantage in producing agricultural goods, but 'the system' seems designed to undermine that advantage. Financial support to farmers and fishermen in the West is a case in point.

The EU, for example, underwrites its fishing industry by about £500 million a year, more than a quarter of which goes to support 850 vessels to fish outside EU waters, threatening African fisheries. African countries can get income from allowing European boats to fish African waters, but deals are often badly negotiated, sometimes netting a royalty of less than 1% of the catch value.

Unsurprisingly, fleets bankrolled by the EU have superior equipment, catching far more than African boats and dumping their cheap fish on African markets.

Of course African fishermen can export their fish to the EU, and between 1998 and 2001 seafood exports from Southern Africa quadrupled to £514 million. But even here the trading rules are loaded against developing countries. For instance, while poor African countries can export fish to the EU free of taxes, 'better off' countries (like South Africa) cannot. This also applies to the fishermen. If a fishing boat in, say, Mozambique is skippered by a South African, the catch is deemed 'South African', liable for EU tax and so less competitive.

Fair trade? It looks pretty unfair to most people.


# Or take cotton. If EU and US cotton subsidies were removed, cotton exports from sub-Saharan Africa could increase by up to 75%.

It's not hard to identify why the subsidies persist: African farmers can be much more competitive than their EU and US counterparts. A pound of cotton can be produced for 12 pence in Burkina Faso compared with 42 pence in the US.

Some progress has been made in redressing the balance in favour of developing countries. The EU undertook a major reform of its subsidy mechanism, the Common Agricultural Policy (CAP), in 2003, and while it still gives help to its farmers – inevitably making it hard for farmers in poorer countries to compete – the amount of help has been reduced. It has also agreed to change the rules on fishing, which may go some way to help African countries earn more from the fish in their waters.

But there's a lot more to be done and the UK Government, within the EU, is committed to further reform and, ultimately, the end of trade-distorting subsidies.

# Rich countries have also created obstacles designed to bar imports from developing countries with a natural advantage in producing agricultural goods. These barriers include high 'tariffs'– taxes charged at the border on imported goods.

For goods imported into the EU or US, these can be as high as three times the price of the product itself. For example, fruit and nuts imported into the US can have a tax of 200% slapped on them, and for meat brought into the EU this can be as much as 300%. People in Japan or Korea buying imported rice may pay a tax of 10 times the original price of the rice.

These tariffs are there to protect producers of, say, meat, rice, or nuts, in rich countries by keeping cheaper alternatives grown in developing countries off the supermarket shelves. And so farmers in poorer countries are left out in the cold.

# Governments of poor countries want someone to referee when more powerful countries take unfair advantage over those who have less.

That's why the World Trade Organisation (WTO) was set up. The WTO, with 148 member countries, is the main international body that decides the rules which govern world trade.

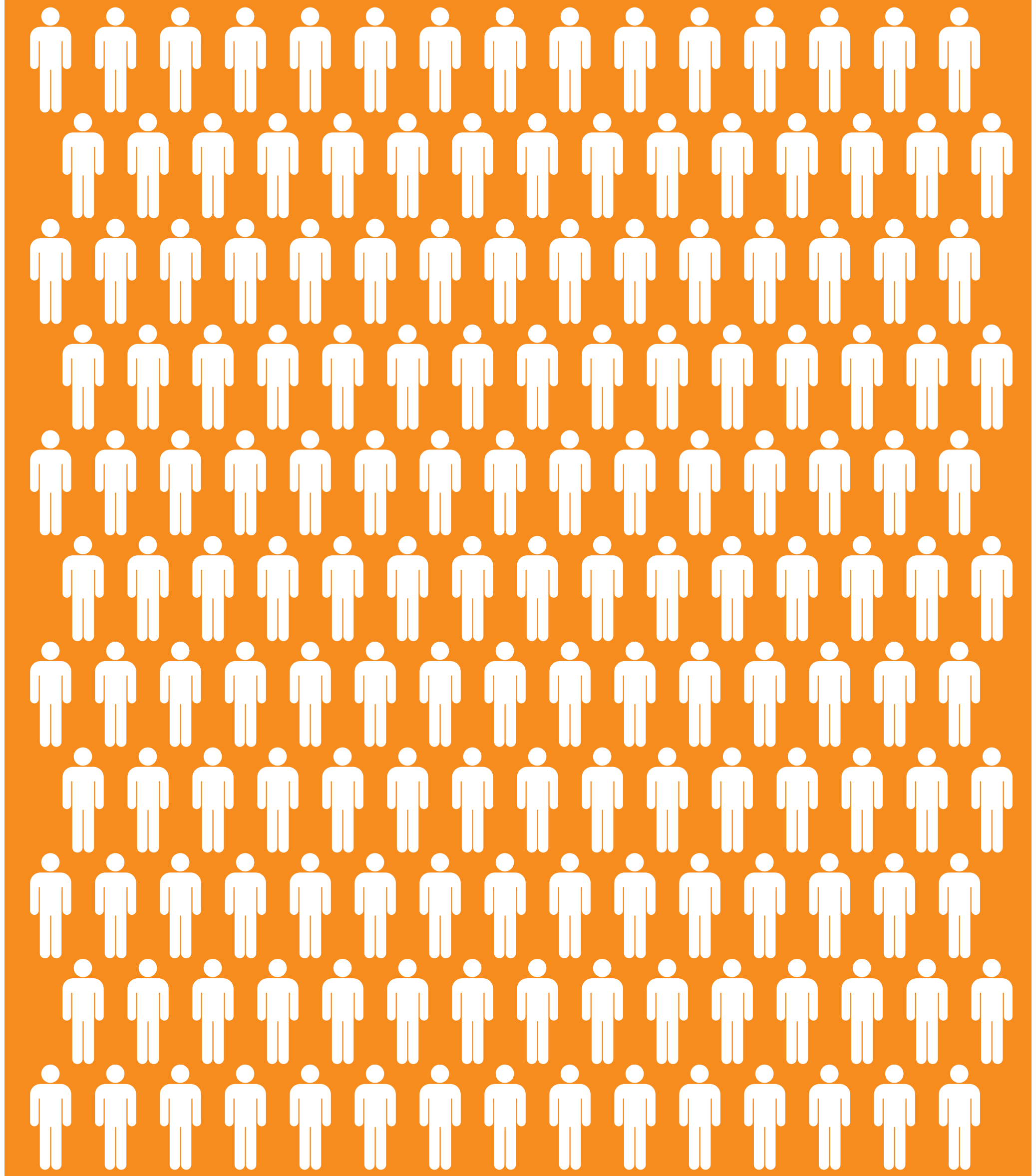
Many people think that the WTO makes unjust demands on developing countries, denying them a fair hearing. Yet without an institution like the WTO, the world would end up with hundreds of little corner shops pitted against a few gargantuan supermarkets. Without a referee, whose laws are binding, the giants trample the little guys and the corner shops go out of business.

Within the WTO, each member – big or small – gets a vote.

In 2001, a WTO meeting in Doha, Qatar, made development its focus. The Doha Development Agenda, which it agreed, is the basis for the present global negotiations and aims to reorganise world trade to the benefit of developing countries. Poor countries need more backing to ensure they can negotiate effectively. At present many can't afford to send enough representatives to argue their case before voting takes place.

For all the shortcomings of the WTO, calls for it to be scrapped are misplaced – in fact this is an institution vital to the prospects of the poorest countries in turning trade into a way out of poverty.





France has 165 members of staff at the WTO.

Malawi has one member of staff at the WTO.

# The lesson of history is that the alternative to open markets – protecting your own goods by handouts and taxes against competition from imports – doesn’t work in the long run.

It leads to inefficient companies, supplying consumers with products they don’t want at artificially high prices. The companies close, the jobs are lost. Markets shrink, economic activity slumps. And the poor remain poor.

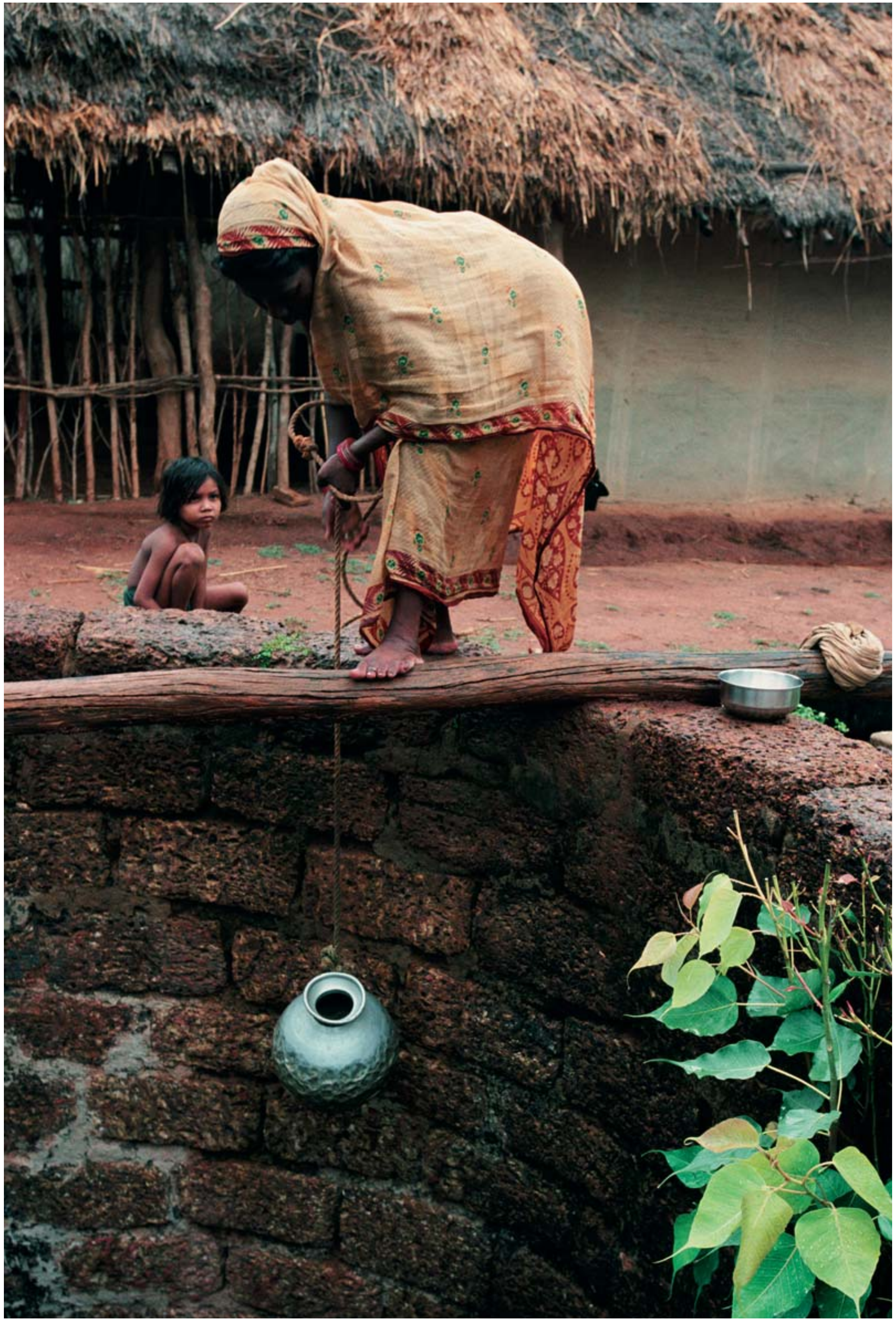
But it’s also true that as a temporary, stop-gap measure to manage transition, or to help new industries get off the ground, a degree of protection may be necessary.

After all, this is how many countries first got on the ladder to prosperity. They built up their economies at home – investing in education and developing the financial sector to create the right climate for doing business.

The poorest countries, too, should receive the support they need to help them upgrade their economies and nurture businesses that can compete on a global scale.

Nobody expects Burundi to take on the same obligations as Brazil, or Chad the same as China. Developing countries must have the flexibility to determine how and when they open up their trade to wider competition.

That’s why the WTO has developed a process to help developing countries gain from world trade at a pace that suits their rate of economic development. At the same time, increases in aid will help them improve their ability to trade as they work to become competitive.



# Water has been a particularly steamy debate.

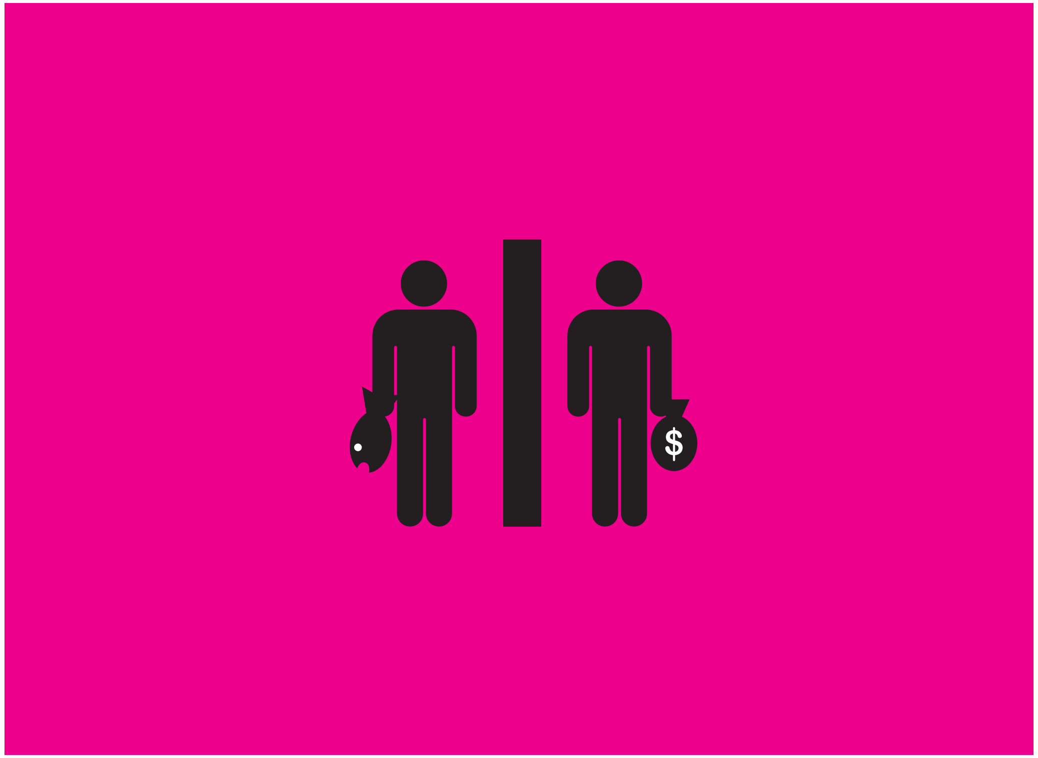
Some campaigners argue that if countries open up their water provision to foreign corporations, they'll lose control of this vital resource at the expense of their own people. The UK Government agrees that developing countries must be able to choose whether and what services they are prepared to open up to international competition.

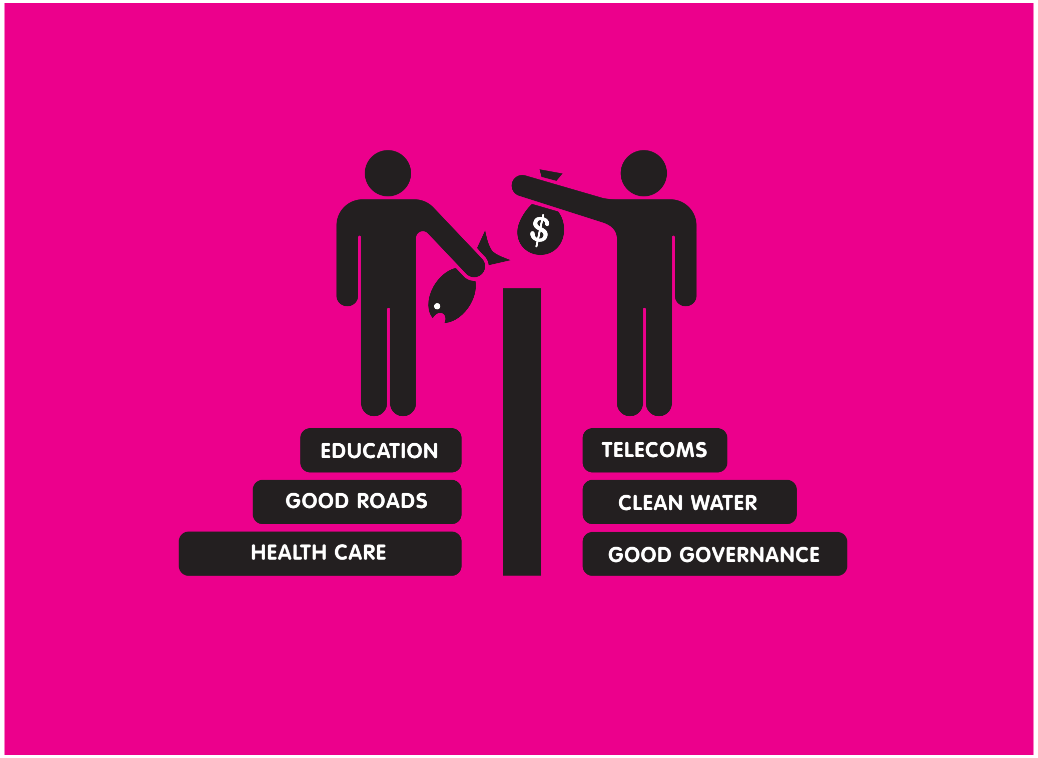
And this is how it works in the WTO, which does not force any country to open up its service sectors. Not water. Not anything. It's up to the country itself to decide how it will provide public services.

The UK Government believes that a country's development should be sustainable – meeting the needs of the present without compromising the ability of future generations to provide for themselves.

Economic, environmental and social progress must go hand-in-hand. Trade alone will not roll back poverty. Without fair prices, good working conditions, a respect for the environment and for intellectual property rights, the benefits of increased trade could be lost.

And we as individual consumers can make decisions which ensure that trade works to benefit the poorest people. Buying fairly traded goods that give poor producers a fair return can make a vital difference for people in developing countries. From coffee to bananas, chocolate to wine, lampshades to trainers, more and more people are voting with their pockets in favour of delivering decent working conditions and wages to workforces in developing countries.






# Trade may be the single most potent tool in the fight against poverty, but it won't work in isolation.

The UK Government believes that rich country barriers to global trade are indefensible. But even if they came down tomorrow, Africa's entrepreneurs – from small farmers to giant corporations – still face serious challenges which make trade difficult.

If the power keeps going off, you can't produce. Bad roads stop you getting your goods to market. Poor telecommunications mean you can't talk to suppliers or customers. Conflict destroys lives, property and work. Corruption means wasting profits on bribing officials. If you can't get capital to kick-start a business, enterprise won't happen.

And without basic necessities like food, clean water, healthcare, housing and education, you don't have healthy, alert, trainable workers.


# There are many hurdles that block people who want to do business. Sometimes it's a simple lack of investment.

Abu Adamu, for example, a handicraft exporter from West Africa, lost vital contracts in Germany and the US because he couldn't afford to visit a trade show in Europe. His business wasn't big enough for the banks to consider lending him the money. He had the product, he had the buyers… he just couldn't afford to reach them.

Sometimes it's the everyday hassle of bureaucracy and red tape. In India an exporter needs 29 documents for clearance. In quadruplicate. That's 257 signatures before the goods can leave the country… by which time many of the buyers are looking elsewhere.

The UK Government recognises challenges like these and is helping countries develop their ability to do business at home and find markets abroad. Here are a few examples of projects we support.

Providing training for a fishing community in Chad meant fishermen could reach new local markets – meaning more money and a more reliable supply of food.

Support for rural weavers in Cambodia, making high-quality silk products, has enabled them to begin exporting internationally. The rise in incomes has led to a jump in children's school attendance.


# With the right backing, red tape can be cut, which is what traders in Lesotho discovered when they switched to a new tax method.

The move slashed the time it takes to cross the border from around three hours to just 30 minutes.

Funding legal support at the WTO can have dramatic results. Peru, for example, was able to overturn an EU ruling which had denied its sardine exporters the right to label their goods as ‘sardines’. Now you can buy their sardines on our supermarket shelves.

Behind the scenes support like this is vital in helping poor communities take advantage of a world of trade. And yet many developing countries remain seriously disadvantaged in the global marketplace for the reasons we’ve already mentioned. That is why the UK Government is working with others to boost the ability of poor countries to produce and export as they increase trade to fight poverty.

The Commission for Africa estimated that we need to provide up to £12 billion a year to get developing countries on the road to becoming global trading partners. And the funds are now on the way. The G8 meeting in the summer of 2005 agreed that almost £30 billion of extra aid would be found annually by 2010 – including £15 billion for Africa. With this kind of backing, poor countries will be better equipped to compete in the global marketplace.

Trade is about buying and selling, it's about being able to put food on the table, sending your kids to school and staying healthy.

Trade is about Sammy Ankama building a house because his pineapple business took off.

It's about Meseret Mekalese whose life was transformed when she found work at a farm that exports roses to Europe.

## Across the developing world, millions of people are ready to do business and banish poverty.

The UK Government wants an international trading system that reduces poverty for the many, not one that makes profit for the few.

That's why we believe it's vital that the Doha Development round at the WTO proves a success. It could turn out to be an historic stepping out of poverty for many countries.

That's why the UK Government is actively working – in the EU and the WTO, and alongside governments of the poorest countries – to make sure trade benefits the people who need it most. Then, maybe, together we can eliminate poverty.

# Here's what you can do…

The sheer enormity of global poverty can make people feel powerless. But your choices and your point of view are taken very seriously, by both business and politicians. Your voice can make a difference in the global trade debate – as both voter and consumer:

- Vote with your wallet – buy fairly traded goods
- Speak out in support of poor people – for more information on how you can do this, read DFID's book 'The Rough Guide to a Better World'
- Write to your Member of Parliament (MP) or Member of the European Parliament (MEP)
- If you do business, think about how your purchasing choices can affect people in poor countries
- Get informed: Subscribe to 'Developments', a free quarterly magazine which explores how countries are finding a way out of poverty. Request your copy from DFID or visit www.developments.org.uk

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**Fairtrade Foundation**
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**Make Poverty History**
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**Trade Justice Movement**
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**UN Conference on Trade and Development (UNCTAD)**
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**World Bank**
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**World Trade Organisation (WTO)**
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There are a lot of ifs and buts on the way to a fairer world. But, if trade took off for the poorest countries…

and if rich nations played fair with poor ones, by allowing them a decent foothold in Western markets…

and if the governments of developing countries ploughed the new revenues back into health and education, back into good governance and improving their infrastructures…

and if they were able to open their markets in their own time…

then many people who are presently poor would no longer be…

and the world would take a giant step towards ending poverty.


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