



## Free Trade or Fair Trade - why is this issue important?

### The importance of trade

International trade is a complex issue. Understandably, governments are concerned with developing and preserving the standard of living for their own people. Countries with strong economies have great influence over international trade. Many multi-national corporations have more purchasing power than most of the LDCs and the LEDCs. In their drive to maximise profits and reduce the price of their finished products, they strike hard bargains with the producers of their primary products. General Motors, Wal-Mart, Exxon Mobil and Daimler Chrysler all have revenues greater than the GDP of the 48 least-developed countries.

All countries need to trade, to exchange products of which they have a surplus for goods or services they need. Given favourable circumstances each country aims to have a trading surplus, which means the value of the goods and services it sells or exports, **exceeds** the value of those it buys or imports. Traditionally those countries regarded as belonging to the MEDC group have had stronger economies and more favourable trading balances, while the majority of countries classified as LEDC or LDC have suffered from significant trade deficits.

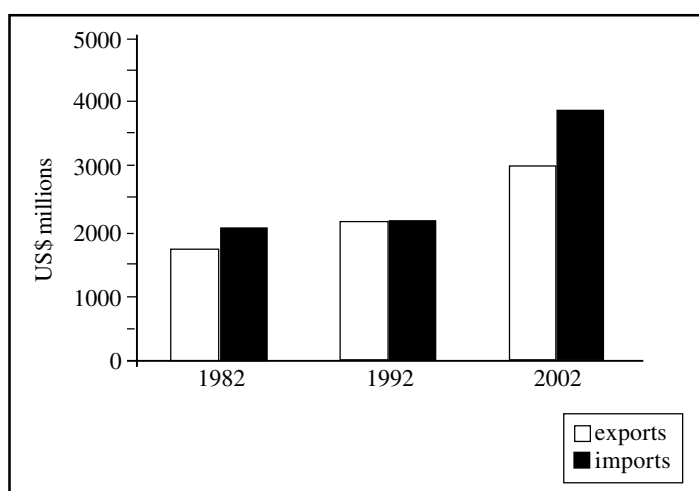
### Why is trade so important in attempts to reduce the development gap?

Debt relief and aid have done much to kick-start development in many countries, but they are not a long term way of improving the standard of living in so many countries. However a country that can develop and sustain a favourable trading balance has the ability to generate wealth that it can invest for the benefit of its citizens, for instance in education and health services.

**Free trade** assumes there are no barriers to trade between countries. The prices paid for all goods and services are determined by the balance between what the producer wants for the goods and services and what the consumer is prepared to pay. Whether the producer or the consumer has most influence over the final price varies. If a commodity is scarce then the producer has most influence. Conversely, if there is a glut, then the consumer can drive the price down.

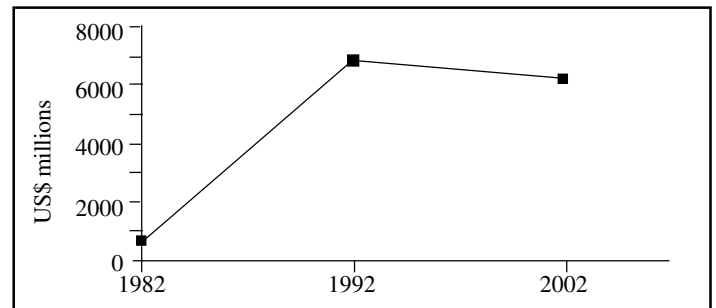
**Kenya** is classified by the World Bank as a **low income** country. Fig 1 shows that although the value of Kenya's exports is rising, the cost of the goods the country imports is increasing more rapidly.

Fig 1. Kenya - imports & exports 1982 - 2002



The size of Kenya's debt has increased significantly since 1982 (Fig 2).

Fig 2. Kenya external debts



Most of the exports are **primary products**: tea, coffee and fresh flowers. Prices paid for these goods vary widely as supply and demand fluctuate. Countries like Kenya usually have little control over these prices even though the cost of the manufactured goods and fuel supplies they need to import continues to rise.

Tourism is a growing industry in Kenya but it is very susceptible to factors like political stability. People do not travel for pleasure if there has been some national or international incident so income from this source fluctuates too. This explains why Kenya, like many other countries in a similar position, continues to have a large trading deficit.

**Exam Hint.** Make sure you are familiar with abbreviations like:-  
LDC – Least Developed Country  
LEDC – Less Economically Developed Country  
MEDC- More Economically Developed Country

### Why is the present trading pattern working against these poorer countries?

Goods are not always traded freely. Traditionally, many countries have tariff barriers designed to protect their own agriculture and manufacturing industry. Farmers in countries like the USA and EU do receive subsidies for some of the crops they grow. In some instances this has led to increased production and these countries find they have surplus supplies that they sell to other countries, often at cheap prices. Countries whose farmers are not protected in this way find they cannot compete with these subsidised producers.

### What is fair trade?

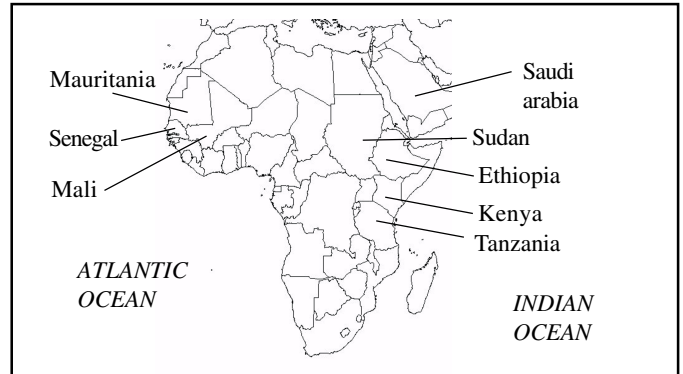
Fair trade differs from standard trade in six principal ways:

- Focuses on trading with poor and marginalized producer groups, to help them develop skills and sustainable livelihood through trade.
- Pays **fair** prices that cover the full cost of production and provide a living wage for the producers.
- Provides credit for producers when it is needed so they have the funds to cover production costs. This allows for a steady flow of goods so orders can be fulfilled on time.
- A premium can be paid that will provide funds for social development work in communities where the producers live.
- Encourages the fair treatment of all workers and ensures healthy and safe conditions in the work place.
- Allows for the development of long term trading relationships that will benefit the producers rather than short term contracts.

**Senegal – how is agricultural production affected by world trading patterns?**

Most people in Senegal in the towns and the rural areas eat a dish called *thieboudienne* at lunchtime. The main ingredients are fish, tomato paste, rice and onions and it is cooked in groundnut oil. Traditionally all these ingredients have been produced in Senegal by their own farmers and fishermen. However there are problems relating to the production of these commodities.

- Onions that keep much better than the locally produced ones are being imported from Holland. Senegalese farmers need better storage facilities so they can compete.
- Rice crops require fertilizers. These used to be supplied to Senegalese farmers at subsidised prices. The Senegalese government was persuaded by the World Bank and the International Monetary Fund to drop the subsidies on fertilizers and to reduce the duties charged on imported rice. So even in rural areas people can buy imported rice more cheaply than locally produced crops - so the farmers are earning less.
- A recent deal with the EU lead to an agreement that trawlers from the EU could fish along Senegal’s coastline for four years in return for a payment of £41 million to the Senegalese government. However the local fishermen are finding it difficult to compete and their income is declining.



- According to the World Bank’s price index, the price of groundnut oil has dropped from US\$1,576 a tonne in 1960 to US\$700 a tonne in 2000. Obviously this means less income for the Senegalese farmers.
- Imported tomato paste from Italy tends to be sold more cheaply than the locally produced product.

This shows that opening up markets to completely free trade does have disadvantages for countries like Senegal. Countries like Senegal need to trade but they are not in a sufficiently strong financial position to negotiate favourable terms with institutions like the European Union.

**Maize in Mexico**

- Since 1994 Mexico belongs to the *North American Free Trade Agreement (NAFTA)*.
- Cheap maize is imported from USA.
- Mexican farmers cannot compete so they are selling less and earning less. See [www.cafod.org.uk/wto-roughguide](http://www.cafod.org.uk/wto-roughguide)

**Cotton in West Africa**

- Growers in the USA are heavily subsidized by US\$3billion a year.
- Farmers in countries like Burkina Faso, Benin, Chad and Mali cannot compete so they are finding it difficult to sell their crops. See [www.economist.com](http://www.economist.com)

**Exam Hint.** Look out for further examples. Oil has been found in the Congo. Will the income generated benefit the peoples of the Congo? Foreign capital will be needed but will firms be prepared to invest in a country that is not politically stable?

**Metals and mineral production**

Less attention is paid to this important sector of world trade probably because proportionally fewer people are dependent upon this sector for their immediate livelihood. However as a means of generating wealth it is important. Also it is generally acknowledged that there is a positive correlation between a country’s consumption of metals and metal products and its level of development (Table 1).

**Table 1. Population and consumption of metals in a selection of countries as share of total consumption in 2000**

	% of World population	Aluminium % consumption	Copper % consumption	Lead % consumption	Steel(1999) % consumption	Gold % consumption
USA	4.6	24.4	19.7	26.6	16.2	7.3
Western Europe	6.9	23.3	27.2	26.2	20.2	22.2
South Korea	0.8	3.3	5.7	4.9	4.6	2.9
Latin America	8.6	3.7	6.6	6.5	5.3	3.2
China and India	38.8	16.6	14.1	11.5	21.5	23.4
Africa, Middle East, and Other Asia	22.4	3.6	2.7	4.2	5	16.5

Organisations like **Traidcraft** are playing an important role in assisting many small and medium sized producers to sell their produce for a fair price in overseas markets (Fig 3)

**Fig 3. Traidcrafts producers around the world**

<b>Main producers: Asia</b>	
<b>Bangladesh</b>	Groups producing traditional arts and crafts: <ul style="list-style-type: none"> <li>• screen printed goods, bags,</li> <li>• hand woven &amp; knitted goods</li> <li>• woodcarving and basket weaving.</li> <li>• Handmade paper, cards and stationery.</li> <li>• Raw materials eg jute and bamboo (produced locally).</li> <li>• Coconut.</li> </ul>
<b>India</b>	<ul style="list-style-type: none"> <li>• Craft goods including textiles , usually cotton (using traditional dyeing techniques).</li> <li>• Beadwork and bamboo weaving, embroidery.</li> <li>• Many cooperatives and self help schemes are run by, or support, women in their aim to increase their families' incomes.</li> <li>• Rice from Hayana state.</li> <li>• Candied pineapple, papaya and ginger from Nadukkara (in Kerala fruit and vegetables growing region).</li> <li>• Cashew nuts from Agrocel in Western India.</li> </ul>
<b>Nepal</b>	Knitwear and paper products.
<b>Philippines</b>	<ul style="list-style-type: none"> <li>• Craft made goods and paper products.</li> <li>• Dried banana chips.</li> </ul>
<b>Thailand</b>	Craft made goods (jewellery and ceramic products).
<b>Main producers: Africa</b>	
<b>Burkina Faso</b>	Sun dried mangoes.
<b>Cameroon</b>	Coffee.
<b>Ghana</b>	Cocoa.
<b>Kenya</b>	<ul style="list-style-type: none"> <li>• Craft goods.</li> <li>• Tea.</li> </ul>
<b>Malawi</b>	<ul style="list-style-type: none"> <li>• Craft goods (particularly paper products).</li> <li>• Sugar.</li> </ul>
<b>Mauritius</b>	<ul style="list-style-type: none"> <li>• Furniture.</li> <li>• Pressed flower cards.</li> <li>• Hand screen-printed T-shirts.</li> <li>• Packing (tea/ sugar), sugar.</li> </ul>
<b>South Africa</b>	<ul style="list-style-type: none"> <li>• Dried apricots, raisins, sultanas from the Orange River region.</li> <li>• Wine from the Northern Cape region.</li> </ul>
<b>Tanzania</b>	<ul style="list-style-type: none"> <li>• Craft producer groups.</li> <li>• coffee, tea, honey.</li> </ul>
<b>Uganda</b>	Coffee, tea, sun dried pineapple.
<b>Zambia</b>	<ul style="list-style-type: none"> <li>• Hand painted textiles, soft furnishings and home accessories.</li> <li>• Peanuts.</li> </ul>
<b>Main producers: Latin &amp; Central America</b>	
<b>Bolivia</b>	<ul style="list-style-type: none"> <li>• Cocoa, pasta.</li> <li>• Brazil nuts from the Amazon forest.</li> </ul>
<b>Chile</b>	<ul style="list-style-type: none"> <li>• Craft made goods.</li> <li>• Honey Wine from the Curico valley.</li> </ul>
<b>D. Republic</b>	Coffee, cocoa.
<b>Haiti, Mexico, Nicaragua, Costa Rica</b>	Coffee.
<b>Paraguay</b>	Sugar.
<b>Peru</b>	<ul style="list-style-type: none"> <li>• Hand knitted goods.</li> <li>• Ceramic products and musical instruments.</li> <li>• Coffee.</li> </ul>

**Traidcraft in Kenya**

Kenya has the potential to produce a wide range of agricultural produce and to increase the amount it exports. Although there is a diverse private sector, much of the progress made in economic and social development since Kenya became independent in 1963 has been lost in the last ten years. Kenya is ranked 134 out of 173 countries in the Human Development Index and over 60% of the population live on less than \$2 a day. Average annual income is US\$350.

However in December 2002 elections were held and the new government under President Kibaki came to power. Fighting corruption and improving the economy are the main priorities. Agriculture and tourism are expected to be the chief growth areas in the economy.

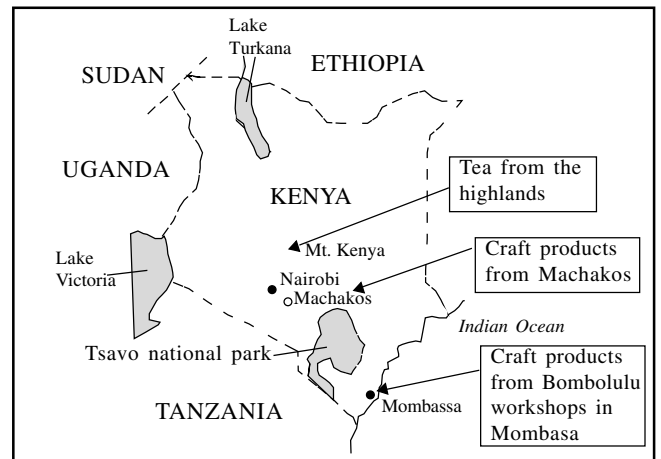
**Aims of Traidcraft policy**

- To help local businesses develop and enhance their capacities
- To promote ethical trading policies which will lead to increased productivity and a reduction in poverty.
- To assist businesses to improve their skills particularly in negotiating trading contracts and related activities.

**Products**

- Craft products from the Bombolulu Workshops for the Handicapped in Mombasa
- Craft products from the Machakos District Co-operative Union. Fifty village co-operatives are involved and approximately 7,000 artisans.
- Tea - from a range of producers on the FLO register.

Map of Kenya  
Successful such ventures must be run on commercial lines.



**Kenya projects – a selection of the nine projects being undertaken in Kenya at the moment**

- In partnership with CAFOD: developing strategies to influence the policy and trading environments in which small-scale producers work.
- In partnership with the UK Community Fund, Oxfam and the Kenya Gatsby Trust: working on the Good Woods- Kenyan Coastal Farmers Livelihoods programme to carry out research into the potential markets for the by-products of the neen tree.

**Kenya future plans**

- Business Linkages Project – aimed at helping small and medium sized businesses build up links in the supply chain so that these businesses can build up sustainable patterns of supplies of their products to their customers.
- For coastal farmers and wood carver co-operatives to gain access to new markets.
- Fair Trade Tourism – promoting people-to-people tours; the first one is scheduled for 2004

**Exam Hint:** Research this aspect of trade. Use the web site [www.traidcraft.co.uk](http://www.traidcraft.co.uk) and find out more about the schemes for developing trade in another of the countries listed above. In India, Traidcraft has 14 suppliers of craft goods, two of which have been supplying products for over 20 years.

Traidcraft aims to:-

- Break down the barriers that prevent producers in poorer countries gaining access to markets.
- Provide training, consultancy and internet services for partners in these countries.
- Advocate changes in trade rules at national and international level so that they work more in favour of the poor.
- Raise the awareness of fair trade issues within the UK

Traidcraft now supplies supermarkets throughout the UK with goods like coffee and tea, floated shares in its business in Autumn 2002, raising over £3.25 million. Sales of Traidcraft goods were over £12 million in 2002. These figures show that fairly traded goods are becoming significant elements in the business pattern within Britain, as more people acknowledge the need to look at such questions on a global scale.

### Making free trade fairer

Agreements have been made between different countries to encourage trade. For instance, *the US Africa Growth and Opportunity Act* was signed in May 2000. This aimed to encourage trade between the USA and Africa. The USA is proposing a free trade agreement with the five countries that make up the Southern African Customs Union, South Africa, Namibia, Botswana, Lesotho and Swaziland. This could take two years to implement but hopefully it will benefit producers in these countries by stimulating trade in a variety of goods. Already, manufactures in Lesotho are able to make clothing to be sold in USA.

Obviously the USA will expect to increase the volume of exports it makes to this region. It is to be hoped that the type of problem facing the Mexican farmers today will not be duplicated.

### Role of WTO

The World Trade Organisation Tariff has 148 members, some more powerful than others! Its remit is to reduce tariffs and other barriers to trade between countries. Much effort has been directed towards reducing tariffs on imported manufactured goods. Significant progress has been made; the average rate of import tax has gone down from 40 per cent in the 1940s to 4 per cent today.

In November 2001, WTO members started a new round of global trade talks in **Doha**, the capital of Qatar. The World Bank estimated that if these talks were successful, global income could be raised by \$500 billion a year and over 60% of that increase would happen in the poorer countries. 144 million people could see their income levels rise above the poverty level. Experts expected most of this growth would happen as trade between LEDCs and LDCs grew but a very important aspect would be the reduction of farm subsidies in richer countries, notably the USA and the EU, and the opening up of these markets to trade from the poorer countries.

### Cancun, September 2003

All experts viewed this as an extremely important WTO meeting. Hopes were high that real progress could be made so that the balance of trade could start to move in favour of the less economically developed countries of the world. There was general agreement beforehand that agriculture would be an important item on the agenda. Subsidies being paid to farmers in the USA and the EU are high. Surplus agricultural produce from these areas is dumped in poorer countries. The talks broke up without any progress being made.

Just before the Cancun talks started, a very important development was the emergence of the **G21 group of countries**. This group represents half the world's population and two-thirds of its farmers.

Such a large group of countries has widely differing interests but their common theme was that the rich countries, particularly the USA and the EU, should cut the subsidies they pay to their own farmers and permit free trade in agricultural produce.

### The G21 member countries

Argentina	Costa Rica	Indonesia	Philippines
Bolivia	Cuba	Mexico	South Africa
Brazil	Ecuador	Nigeria	Thailand
Chile	Egypt	Pakistan	Venezuela
China	Guatemala	Paraguay	
Columbia	India	Peru	

### Conclusion

World trade patterns are continually evolving. However there is a growing recognition that it is in everyone's interest to have a system of trade that allows LEDCs and LDCs to develop their industries so that they can compete more favourably with MEDCs long term. These two quotations illustrate the challenge facing negotiators.

From the US government Trade representative, Charlene Barshefsky 2001 *'The trade gains that the United States has won through the WTO agreements and other trade policies have been a major contributing factor to our thriving economy. Studies estimate that the effect of full implementation of the WTO agreements will be to boost US GDP by \$ 125-250 billion per year. We have a great stake in expanding opportunities for US companies and workers in manufacturing, agriculture and service industries through WTO.'*

Government of Kenya statement to the WTO's Committee on Agriculture, March 2001

*'Kenya has faithfully complied with its basic commitments on agriculture in belief of benefits from freer trade. The results of implementation, however, have been extremely disappointing. The reform process has neither helped the sector nor improved food security. The annual average growth of our agricultural sector fell from 3.3 per cent during the 1980s to 1.4 per cent in the 1990s without compensating growth in industrial or the service sectors. Increase in imported foodstuffs displaced rural farmers from the domestic market. Without an alternative source of income, farmers have found difficulties in purchasing imported foodstuffs however cheap they may be, hence exacerbating poverty, food insecurity and malnutrition in Kenya.'*

### Further research

The Independent September 10 to 16 2003 – various articles on the WTO meeting in Cancun

The Economist Global Agenda September 11<sup>th</sup> 2003 – The Mexican marathon

Christian Aid News, Autumn 2003 Issue 22 – “Reaping a bitter harvest in Senegal”

Christian Aid - “Making global trade rules work for the poor.”  
International Institute for Environment and Development - “Mining, Minerals and Sustainable Development.” (This report is available on line at [www.ied.org/mmsd](http://www.ied.org/mmsd))

### Useful websites

[www.cafod.org.uk](http://www.cafod.org.uk) - useful briefing papers on topics like “The rough guide to the WTO” as well as information about development projects funded by CAFOD

[www.traidcraft.co.uk](http://www.traidcraft.co.uk) - information available on many development projects involving small and medium sized producers in a variety of LEDCs and LDCs

[www.christianaid.org.uk](http://www.christianaid.org.uk) - information on projects run by Christian Aid partners. Also reports on the attitude of NGOs to WTO talks

[www.worldbank.org](http://www.worldbank.org) - useful source of statistical information