Oxfam Briefing Paper

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The Rural Poverty Trap

Why agricultural trade rules need to change and what UNCTAD XI could do about it

Many developing countries are stagnating or growing poorer, including their farmers, who comprise two-thirds of the world's poor. Many of the reasons for this lie in systems of agricultural trade, including the rules of the WTO, the unfair trade policies of rich countries, and falling prices on international commodity markets. Oxfam recommends policy reforms to overcome these difficulties. At the time of UNCTAD XI in São Paulo we also call for increased political support for UNCTAD's broad mandate to examine and find solutions to the problems of economic development.

Oxfam International

MAKE TRADE FAIR

Summary

In June 2004 the UN Conference on Trade and Development (UNCTAD) assembles for its 40th anniversary meeting in São Paulo, Brazil, against a gloomy background for international trade. It is less than a year since world trade talks fell apart in Cancún, Mexico, while in recent years international prices for many agricultural commodities have collapsed, posing a severe threat to rural people who depend on them for survival.

As trade has been liberalised and the world has moved towards a global economy, the results have become clear: the richest countries continue to prosper but most of the poorest are worse off than they were 20 years ago, when the policies of globalisation started in earnest. In rural areas of the developing world, close to 900 million people live on less than US$1 a day.

The situation of poor farmers and their dependants is intricately linked to agricultural trade rules, policies and practices. Since the late 1980s, most developing countries have been obliged under loan conditions from the international financial institutions to open their markets to imports and concentrate their development efforts on things they can sell abroad. But far from improving their export position, this policy has flooded many international markets with supplies and caused prices to fall. Under current trading arrangements, poor farmers are faced with falling crop prices, a falling share of the retail price of produce they sell, competing goods from rich countries dumped on their markets at subsidised prices, and a lack of meaningful access to those countries' markets for their own produce. These problems are often matched by inadequate national policies and decreasing finance for rural development.

Radical reforms are needed to help poor farmers break out of the international poverty trap, and UNCTAD has a critical role to play in proposing policy alternatives to achieve that goal. It is essential that an invigorated UNCTAD emerges from the UNCTAD XI conference in São Paulo and that any attempts to reduce its scope are firmly rejected. Independent research and policy formulation, calling in question the dominant economic model and proposing alternatives, are becoming ever more important. All countries should summon up the political will to ensure that UNCTAD continues to play a central role in this.

Oxfam's broader recommendations arise from six objectives for agricultural trade policies:

- Promote food and income security in developing countries.
- Ban all dumping of farm produce in export markets at prices below the cost of production.
- Increase developing countries' access to the agricultural markets of industrialised countries.
- Promote socially and environmentally sustainable rural sectors, both in developed and developing countries, through regulation and targeted subsidies that support social equity and environmental protection.

- Introduce reliable mechanisms to achieve stable and fair prices on commodity markets.
- Ensure socially and environmentally sustainable practices in the private sector.

To achieve these objectives, action is needed on many fronts, including:

The World Trade Organisation (WTO) 'Doha Round' negotiations must take account of the needs of developing countries, and the Agreement on Agriculture must be reformed to end dumping, to enshrine the right of developing countries to protect their domestic agricultural sectors on the grounds of food security and other development objectives, and to improve market access for exports from developing countries.

An international initiative is needed to tackle the commodities crisis and this must develop effective forms of market intervention, long-term supply management, and producer organisation to make the markets work more effectively for poor small-scale and family farmers. Trade rules should not inhibit interventions that will ensure fair prices for poor producers.

Developing countries' agricultural policies must improve. Developing country governments must devise and implement 'pro-poor' rural development strategies that empower farmers in the market and tackle the problems of malnutrition and low rural incomes. The World Bank and the IMF must drop their insistence that recipients of loans from them must liberalise their agricultural sectors.

Multinational food and agribusiness companies must meet their social and environmental responsibilities. They should pay remunerative prices that keep farmers out of poverty and commit to providing working conditions that comply with international standards and national laws. In this sense, the development of a global anti-trust mechanism would help to tackle the problems linked with the massive concentration of corporate power in the global economy.

UNCTAD has a key part to play in all the above areas, and specifically in promoting an international trading system with development at its heart. UNCTAD was created precisely to fulfil this role and it is crucial that it retains this overarching mandate. Any efforts to reduce the scope of UNCTAD must be rejected in São Paulo. On the contrary, given the urgency and extent of the reforms needed in international agricultural trade, it is clear that UNCTAD's role should be strengthened.

Oxfam calls for UNCTAD's role to be strengthened and priority to be given to the following areas of work:

- UNCTAD should act as a forum for developing country governments to share ideas on 'pro-poor' economic development strategies, and to enforce political consensus and pro-development policies in other international institutions (in particular the WTO and International Financial Institutions);
- UNCTAD should carry out independent research on key economic issues from a development perspective to help countries achieve equitable and

sustainable growth. In this context, it could examine the appropriate balance between liberalisation and regulation, and the measures needed to ensure that more open economies generate positive outcomes for those living in poverty;

- UNCTAD should provide technical assistance and capacity-building services in the economic policy field for developing countries, particularly for the least developed. This should include enhancement of the negotiating capacity of poorer states in multilateral forums;
- UNCTAD should expand its work programme on transnational corporations (TNCs), given their enormous weight in world markets. UNCTAD has a unique role to play in monitoring the impact of TNCs, drawing up regulatory proposals from a development perspective, and helping developing countries in their dealings with companies;
- UNCTAD should lead the search for appropriate mechanisms to correct the market failures underlying the world commodities crisis. UNCTAD XI must address the price issue and focus work on the development and experimentation of multilateral mechanisms to regulate the commodities world market and establish fairer prices.

1 Introduction

'Cotton here is everything. It built our schools and our health clinics. We all depend on cotton. But if prices stay this low, we have no hope for the future.' – Cotton farmer, Logokourani village, Burkina Faso

An African farmer's complaints may seem far removed from the world of United Nations diplomacy and international conferences, but in the case of UNCTAD they are intimately linked. In June 2004 the UN Conference on Trade and Development assembles against a gloomy background for its 40th anniversary meeting in São Paulo, Brazil. It is less than a year since world trade talks fell apart for the second time in Cancún, Mexico, following the failure in Seattle four years earlier, while in recent years prices for many crops such as cotton have collapsed, posing a severe threat to rural people who depend on them for survival.

Villages like Logokourani are caught in a trap which forces their countries to export farm produce at ever lower prices in order to pay for badly needed imports of food. Some two-thirds of the world's poorest people live in rural areas and in many places their living standards have plummeted, for reasons which are directly related to world trade.

The rural economy is a preoccupation of roughly half of the world's people. Most of the world's poor rely on agriculture for a key part of their livelihoods. In rural areas of the developing world, close to 900 million people live on less than US$1 a day. [1] Poor farmers and their dependants are faced with falling crop prices, a falling share of the retail price of the produce they sell, competing goods from rich countries dumped on their markets at subsidised prices, and a lack of meaningful access to rich countries' markets for their own produce. This is often matched by inadequate national policies and decreasing finance for rural development. Yet in spite of all these adverse trends, overseas development aid to agriculture has fallen by half over the past 20 years, while these questions are routinely ignored at the world's summits and sidestepped at trade negotiations.

One organisation has always had precisely these issues at the centre of its mandate. That is UNCTAD. The rest of this paper will examine the crisis facing the world's poor farmers today, and look at the role of UNCTAD in resolving it.

2 The international poverty trap

In recent years the world's attention has been drawn to the injustices of international trade and the need to make its rules less damaging for poor rural people. There are many features of the trading system that help to keep people in poverty. Some 96 per cent of the world's farmers – approximately 1.3 billion people – live in developing countries, but in every aspect of agricultural trade they face handicaps when compared with people in the industrialised world.

The commodity crisis

'The impasse in international commodity policy… began just as the dominant feature of world commodity markets changed… from excessive short-term price volatility to a sharp downward trend in real commodity prices. If anything, commodity-exporting countries needed greater support, not less, from the international community during this period.' – Alfred Maizels, in a submission to UNCTAD X[2]

According to UNCTAD, between 1977 and 2001, real dollar prices fell for 41 out of 46 leading commodities, at an average rate of 2.8 per cent per year. [3] In 2001 coffee on the international market was worth just 16 per cent of what it was in 1980, after taking inflation into account; and cotton – on which Logokourani's villagers rely – was worth no more than 21 per cent of what it was in 1980. [4]

This commodity crisis has led many commodity-dependent countries into a poverty trap. Six of the ten poorest countries in the world are less prosperous than they were 20 years ago (see Box 1). These countries' economies all depend heavily on exporting primary commodities (food and raw materials) to pay for imports. Agriculture has had to carry a growing burden in several countries that traditionally depended on mining. For example, commodities provide Malawi with 93 per cent of its exports, with just three crops accounting for 70 per cent, and the Yemen with 99 per cent of its exports. In half of these countries, the biggest export product is coffee.

Box 1: Income and trade in the world's 10 poorest countries

Country	GDP per capita (US$, Power Purchasing Parity), 2001	When PPP GDP per capita was highest	Commodities as % of merchandise exports (latest year)	Leading export product	% of people under-nourished, 1998-2000
Sierra Leone	470	1982	58	Coffee	47
Tanzania	520	2001	84	Coffee	47
Malawi	570	1999	93	Tobacco	33
DR Congo	680	1975	–	Copper	73
Burundi	690	1999	96	Coffee	69
Zambia	780	1976	87	Copper	50
Yemen	790	2001	99	Oil	33
Ethiopia	810	1983	89	Coffee	44
Mali	810	1979	84	Cotton	20
Madagascar	830	1975	48	Coffee	40

Sources: UNDP, European Commission, Oxfam America

All ten of the very poorest countries, except the Yemen, are also classed as food-deficit countries, [5] which means they import food that has greater nutritional value than the food they export. In spite of these imports – or, some would say, because of this situation – they suffer from high levels of malnutrition. In the Democratic Republic of the Congo nearly three-quarters of the people are undernourished, in Burundi more than two-thirds are, and even in Mali, the best-fed of the ten countries, one person in five has too little to eat.[6] The UN Food and Agriculture Organisation has estimated that 777 million people in the world are malnourished.

Unfortunately, the commodities crisis has been enhanced by donor policies and unfair trade rules, which have prevented countries from diversifying into other sectors. Since the 1980s, most developing countries have been obliged by the World Bank to open up their markets to imports and concentrate development efforts on things they can sell abroad. But far from improving their export position, this has flooded many international markets with supplies and led to prices collapsing. The more open and free the market for a product, the more this has happened – and it is most serious for the tropical agricultural crops on which many of the poorest countries are dependent.

Unfair trade rules

WTO rules governing agricultural trade have failed to allow for developing countries to obtain a greater share of the world's market. On the contrary, while their share in agricultural exports has fallen since 1961, most countries have seen a boom in food imports.[7] Three problems plague the agricultural sectors of developing countries: dumping, import liberalisation, and lack of market access into developed countries.

Farm subsidies in industrialised countries, by leading to higher production and export dumping, force prices down across the globe. Most farmers from developing countries cannot compete with subsidised imports from highly capitalised foreign producers. Dumping has indirect adverse effects on the ability of developing countries to diversify out of surplus markets such as tropical crops.

In Mexico, for instance, tariffs on maize imported from the United States were sharply reduced in the mid-1990s and imports rose to three or four times their previous levels. But US producers benefit from $10bn per year in subsidies on maize. The result has been a fall of more than 70 per cent in real terms in Mexican maize prices, and a drastic deterioration in living conditions for the country's smallest producers.[8]

Subsidised produce does not even have to enter a developing country's market to have this negative effect on its farmers. The European Union's sugar policy creates a structural surplus in high-cost beet sugar. In order to dispose of the surplus on export markets, the EU gave six leading sugar-processing companies €819m in subsidies in 2003, according to Oxfam's estimates. Cane sugar is produced in some of the poorest countries in the world at less than half the cost of beet sugar, but subsidised EU exports undercut the more efficient developing country producers when they export to third markets. Moreover, EU sugar policies restrict access to the lucrative EU market for export from poor countries. As a result, in 2004 Malawi is expected to lose $32m in foreign exchange and Mozambique $38m.[9]

A British government report estimated that the USA's subsidies to its cotton sector, worth $2.3bn in 2001-02, have depressed world cotton prices by around 20 per cent.[10] This forces cotton farmers in

Logokourani, and those in other poor West African countries, out of export markets.[11] Benin and Chad are supporting Brazil in a complaint at the WTO against the US's dumping of subsidised cotton in this way, and the preliminary decision recently went against the USA.[12]

While dumping has continued, developing countries have had to open up their markets because of the WTO's Agreement on Agriculture (AoA), regional agreements such as NAFTA, and structural adjustment programmes. As a direct result of donor policies, Bangladesh, for example, cut its average tariff from 102 per cent to 27 per cent between 1988 and 1996; Ghana, Kenya and Tanzania cut tariff rates by one-half or more during the 1990s; and Peru's average tariff in 1991 was one-third of its level in 1989.[13] This has not only allowed dumped products to penetrate the markets of developing countries more easily, but also to open fragile agricultural sectors up to very competitive producers. For instance, Thai rice has displaced thousands of farmers in poor countries like Senegal, in the absence of any safety nets or any support to create alternative livelihoods.

Finally, in spite of provisions for improving developing country access to markets in the North, it remains very difficult for farmers in developing countries to export produce to developed countries. Even for tropical crops such as tea, coffee, cocoa, and natural rubber, which cannot be cultivated in North America or Europe, barriers stand in the way of them being sold in processed forms. 'Tariff peaks' and 'tariff escalation' mean that the more highly processed an import is, the higher the tariff it will face. For this reason, cocoa imported into the UK from Ghana exclusively on 'Fair Trade' terms, with the aim of benefiting the farmers as much as possible, is actually made into chocolate at a factory in Germany.[14]

Unfair market structures

Most farmers involved in international commodity chains have received a steadily falling share of the final price of their crops over the past 20 years. One of the reasons for this has been the lack of state intervention and investment in the agricultural sector. Among 'liberalising' market reforms of the 1980s and 1990s pushed by IFIs, many countries abolished their commodity marketing boards, with the incidental consequences of weakening their national bargaining power on world markets and curtailing provision to their farmers of necessities such as extension advice, credit and physical inputs.

As farmers have been left without support, companies using their products – such as chocolate makers, coffee roasters, and supermarkets – have gradually merged, leaving production processes in fewer and fewer hands so that each new, larger group has more power over the market. When supplies become tighter, they push up their sale prices to match; but when oversupply returns and the purchase price falls back, they do not pass that on fully to their customers. Thus, at a cyclical low point in December 1993 the average retail price for coffee in the UK was 11 times the international price for semi-processed 'green' coffee; by the time of the next low, in February 2002, the differential had risen to 26 times.[15]

Marketing channels are becoming integrated under the control of trading, processing, or retailing companies based in the importing countries, while concerns about the safety of food and the conditions in which it is produced have created extra technical requirements. The standards of quality control or packaging required by modern supermarkets can be very hard for poorer countries to achieve, as they lack the technical skills or specialised equipment that are called for.

This is one of several factors that make it more difficult for farmers to sell even in their own countries. With the removal of constraints on foreign investment, multinational supermarket chains have increased their share of food retailing in the developing world. So far this mainly affects richer and larger countries such as Brazil, China and Thailand, but it is spreading rapidly. Thus, supermarkets command 75 per cent of food retail sales in Brazil and 55 per cent in South Africa, but just 5 per cent in India and Nigeria. The sector is overwhelmingly dominated by global chains such as Carrefour, Ahold and Wal-Mart, based in France, the Netherlands and the USA respectively. Their procurement requirements are equally demanding, whatever country they operate in.[16]

Inadequate agricultural policies

Despite the need for a dynamic agricultural sector in the developing world in terms of employment and food security, investment in the rural sector has been completely inadequate.

National government policies in the developing world have not always been helpful. The phenomenon of 'urban bias' was identified more than a quarter of a century ago,[17] but in many countries people in rural areas are still neglected when it comes to national policy. Cheap food – often imported – is seen as a necessity to assist poor *urban* people, even where poverty is worse in rural, agriculture-dependent areas, where commodity prices are not sufficient to support people living in them.

Moreover, many developing countries have failed to introduce policies and regulations that would bring about a more equitable sharing of farming resources and better working conditions for rural labourers. This is why there has not necessarily been any substantial reduction in levels of rural poverty, even in those sectors where developing country exports have grown. This is the case of Brazil, for instance. Whereas the growth of agricultural exports has benefited the country as a whole through increased export earnings, rural poverty remains pervasive due to the inequitable conditions under which most production takes place.

Worse, overseas development aid to agriculture has fallen by half over the past 20 years. This has happened in a context of developing countries facing enormous pain due to structural adjustment policies that have required agricultural import liberalisation and the dismantling of existing market structures, such as marketing boards.

3 What can be done?

It is vital to make rural poverty a political priority, not only within developing countries but at the highest levels of international policy. The growth of rural destitution in the poorest parts of the world, along with widespread economic excesses elsewhere, constitutes a scandal of global proportions that demands urgent attention.

Oxfam is aware of the difficulties involved in tackling these problems. To take one aspect alone, the rules affecting international trade in agriculture are extremely complicated and notoriously difficult for non-specialists to understand. There are many different parties, including strong vested interests, involved in formulating agricultural policy, while the orthodox rules and assumptions of economics can make its practitioners blind to the human effects of the policies they advocate.

However, a more sustained and serious attempt to address the situation of the poorest rural people needs urgently to be made. Box 2 explains the objectives of Oxfam's own proposals in this field. To achieve these objectives, many policies and practices require radical reform, as outlined below.

Box 2: Oxfam's objectives for trade and agriculture policies

Oxfam looks for policies on trade and agriculture to satisfy six broad objectives, as listed below:

1. Promote food and income security in developing countries by allowing them to use border measures in order to achieve food security and other development objectives.

2. End export dumping by introducing WTO rules that prohibit exports below cost of production and subsidies that facilitate such exports.

3. Ensure reasonable levels of market access to industrialised countries for developing country agricultural exports, by reducing remaining trade barriers and addressing supply constraints in the poorest developing countries.

4. Promote a socially and environmentally sustainable rural sector, both in developed and developing countries, by promoting social equity and environmental protection through regulations and targeted subsidies.

5. Guarantee fair and stable prices for primary commodities through the introduction of adequate mechanisms and regulations in national and international markets.

6. Ensure socially and environmentally sustainable practices in the agri-business sector.

WTO negotiations

After the failure of Cancun, negotiations for a new Agreement on Agriculture (AoA) at the WTO are reaching a critical stage where ground principles will be established. At this juncture, the overriding importance of agriculture in most developing countries' economies and societies needs to be properly recognised. It is generally agreed that the key to success in the WTO 'Doha Round' of trade negotiations lies in making the AoA's rules more appropriate to the needs of developing countries. The lack of significant concessions to those needs by the EU and the US was one of the main reasons why the talks collapsed at Cancún in September 2003.

A binding timetable should be introduced to eliminate all export subsidies, including any subsidy component of export credits. Guidelines on food-aid programmes should be tightened to avoid them being misused as a way of disposing of surplus food production. Subsidies in developed countries should be available only where products are not exported. They should be targeted primarily to family and small-scale farmers, and should be conditional on meeting environmental and rural development criteria. The use of supply control measures should be a requirement, in order to avoid overproduction. Until trade-distorting support is eliminated, developing countries should have the right to levy additional duties equivalent to the dumping level of the imported products.

Special measures are needed to assist developing countries in every facet of the AoA, for the sake of domestic food security and the fight against poverty. Developing countries should be allowed greater latitude in regulating access to their own markets. In the modern world this is the most powerful agricultural trade policy instrument at their disposal. Least developed countries (LDCs) in particular should be free of all requirements to reduce their agricultural tariffs and market supports. Other developing countries should be able to exempt basic food crops from tariff reductions and renegotiate any tariffs on staple foods that were set too low when the WTO was established ten years ago. The rules should be changed to ensure they can take effective action against sudden surges of agricultural imports. Special provisions agreed in the WTO should not be undermined by regional and bilateral trade agreements.

Finally, all exports from LDCs and other low-income countries should be allowed to enter developed countries without tariff or quota restrictions, while tariff escalation on exports from developing countries should be eliminated. Technical regulations affecting imported produce need to be simplified where they limit the ability of poor countries to take advantage of market opportunities.

Oxfam calls on all WTO members, and especially developed countries, to ensure that the following principles are included in the upcoming framework on agriculture to be negotiated at the general council of the WTO at the end of July:

- **confirming an end date for all forms of export subsidies.** Oxfam believes that complete elimination of subsidies should take place within five years of the beginning of the implementation period.
- **introducing strong disciplines on domestic subsidies that have an effect on production and international trade.** As a rule, subsidised products should not be exported, unless subsidies are minimally trade-distorting. Moreover, blue box subsidies should only be available for non-exported products. Other priorities in this area include:
    - opposing a change to the definition of the blue box. Having no supply control commitments would be a step back from the previous texts which envisioned a capping of the blue box;
    - tightening criteria of the green box and exploring possibilities of capping;
    - no renewal of the 'Peace Clause'.
- **establishing a more balanced market access formula**, which ensures the reduction of the tariff peaks and tariff escalation that still protect many sectors in developed countries, and which truly provides for less than reciprocal market access commitments for developing countries.
- introducing operational special products and special safeguards:
    - special products should be exempt from reduction commitments. Each developing country should self-declare what products are special with respect to a general criteria related to food security, rural development and livelihood security. Such flexibility could be limited to a percentage of

the total number of domestically produced agricultural products, based on the tariff lines in a member's schedule.

- a special safeguard mechanism for developing countries should be available for all agricultural products, with the ability to be triggered on the basis of simple development indicators.

- **agreeing to a specific solution to the cotton issue**, moving towards the elimination of all trade-distorting domestic support, including some programmes currently classified as green box, with a faster implementation period than for the rest of the agricultural package.

Resolving the commodity crisis

Another essential requirement is to resolve the commodity crisis. The international community should use the opportunity of UNCTAD XI to agree on a concrete plan of action to address the commodity crisis.

The commodity sector's near-disappearance from the global development agenda owes much to the doctrinal view that only freely functioning markets can lead to development. To tackle the problem, UNCTAD should work with other international organisations to review appropriate interventions to correct the market failures that lie at the heart of the commodities crisis.

As a result, effective forms of market intervention, long-term supply management, and producer organisation (including state trading enterprises) should be developed, to make the markets work more effectively for poor small-scale and family farmers. Trade rules should not inhibit these or any other price interventions when they are the best way to ensure fair prices for poor producers.

Additional measures are needed to ensure agricultural diversification and increased value-added in exporting countries, and the promotion of regional market integration to overcome an excessive reliance on rich-country markets. Adequate funding is required to deliver these measures, while sufficient compensation should be restored to those developing countries that suffer from severe reverses to their balance of payments as a result of fluctuations in commodity prices.

Changing agricultural policies

Agricultural policies of developing countries need to improve. The interests of rural producers and the urban poor need to be better balanced than in the past to allow both for a decrease in malnutrition and an increase in rural income. Agricultural policies must also ensure a wider distribution of benefits linked with trade. In countries with high levels of rural inequality, the redistribution of assets is essential if trade is to benefit the poor. Redistribution of land is a starting point.

Beyond the need for the redistribution of land, rural poverty reduction strategies need to place far more emphasis on investment in infrastructure used by the poor and increased rural productivity in order to take advantage of economies of scale. Investment in irrigation and roads tends to be heavily concentrated in areas dedicated to commercial farming, rather than in areas characterised by high concentrations of poverty. Extension services and research priorities should be geared towards crops produced by smallholders and should focus on marginal areas. Access to rural investment and credit institutions must also be addressed. Finally, developing countries should fully implement ILO conventions to help improve working conditions for rural labourers.

At international level, the World Bank and the International Monetary Fund should stop insisting that loan recipients liberalise their trade in all circumstances. It is also essential for national poverty reduction strategies to be based on comprehensive poverty assessments, and the links between trade and poverty should be a main item in them. Finally, donor assistance to rural development needs to increase, both in terms of quantity and quality.

Corporate social responsibility in international commodity chains

Multinational companies involved in the agricultural and food sector should recognise their social and environmental responsibilities. They should pay remunerative prices that keep farmers out of poverty. They should commit themselves to providing terms of employment and working conditions that comply with international standards and national laws. Through their business practice and their advocacy, they should also actively promote sustainable development, social equity, and improved working conditions in agricultural production and trade.

In the specific case of coffee, Oxfam calls on roaster companies such as Nestlé, Kraft, Procter & Gamble, and Sara Lee to support supply managements schemes on coffee and purchase better quality coffee to help rebalance the coffee market. They also need to reform their supply chain practices to guarantee that growers receive a decent price.

Finally, the development of a global anti-trust mechanism would help to tackle the problems linked with the massive concentration of corporate power in the global economy.

4 UNCTAD's vital role

The current global economic governance system is seriously unbalanced. It is over-reliant on the WTO because of the insistence of some developed countries that the WTO should be the only body that is allowed to make trade rules. This gives the WTO an ever growing mandate, due to the very extensive interpretation of what is trade-related. As a result, trade liberalisation is becoming the only organising principle of multilateral economic rules. This is hardly sustainable. Other institutions in the UN system which have a clear mandate on issues related to development must be heard and accorded the same level of importance as the WTO, the IMF and the World Bank, so that sustainable development, health, environment, and labour are properly taken into account as elements of global economic governance. This would allow for a more balanced and higher-quality set of rules and approaches.

At this critical juncture, UNCTAD has a key role to play. It is essential that an invigorated UNCTAD emerges from the UNCTAD XI conference in São Paulo, and all attempts to reduce the scope of its activities should be firmly rejected. UNCTAD's role in promoting new approaches to trade and development that favour poorer people and countries has to be strengthened. It needs to retain an overarching mandate in the face of sustained efforts by some of the most powerful developed countries to weaken it.

All major decisions regarding UNCTAD are ultimately political and result from international negotiations. What has been lacking is a serious recognition of the depth of the crisis of development and the failure of the means chosen over the past 20 years to address it. Many rhetorical gestures have been made towards the policy needs of the poorest countries, but they have led to little of substance. The international community as a whole, including the richest and most powerful nations, needs to grasp this nettle firmly; the alternative might be yet more of the poorest nations turning into failed states, blighted by endemic conflict. The gravity of the crisis has to be fully recognised if the political will that is required on all sides is to be found.

Once that will is found, it will lead to action on many fronts, including the international financial institutions and the WTO. One of the most important of these institutions, partly because of its identification with the countries that are most in need, is UNCTAD.

It needs to be reinforced and given a more active role – as was originally intended for it – in supervising trade arrangements. This applies especially – but not exclusively – to the commodities field. For this, UNCTAD needs an appropriate mandate and financial resources to match. Equally important is its leadership, right up to the level of Secretary-General. It must fully understand the crisis of rural development and be committed to an unbiased search for the best ways to overcome it.

Given the depth of the commodities crisis, even in fully liberalised markets such as that for coffee, it is well past the time to abandon the presumption that only the market can provide solutions to economic problems. UNCTAD has extensive expertise on these questions and is in a good position to lead the search for appropriate mechanisms to correct the market failures underlying the world commodities crisis. Developing countries, and particularly the LDCs, have called for a reinforcement of UNCTAD's work on remunerative prices and stability in commodity markets, and better funding for it. Northern governments should respond to this request and support UNCTAD's work in this area. UNCTAD XI should address the prices issue and work on the development of appropriate mechanisms to regulate commodity markets and establish fairer prices.

There has been excessive faith in economic liberalisation as the key to growth, and a presumption that growth will automatically provide jobs and incomes for people in poverty. This faith has been shaken by the emergence of international financial instability, and by the recognition that liberalisation produces winners as well as losers, showing that the one-size-fits-all model does not work. Developing countries argue that the scope and pace of their international obligations should reflect their development needs and priorities. This requires greater flexibility than is currently allowed by the financial institutions and the WTO. Independent research and policy formulation, calling in question the dominant economic model and proposing alternatives, are becoming ever more important. UNCTAD plays a critical role in this respect and its mandate in this area must be maintained.

Oxfam calls for UNCTAD's role to be strengthened and priority to be given to the following areas of work:

- UNCTAD should act as a forum for developing country governments to share ideas on 'pro-poor' economic development strategies, and to enforce political consensus and pro-development policies in other international institutions (in particular the WTO and IFIs);

- UNCTAD should carry out independent research on key economic issues from a development perspective to help countries achieve equitable and sustainable growth. In this context, it could examine the appropriate balance between liberalisation and regulation, and the measures needed to ensure that more open economies generate positive outcomes for those in poverty;
- UNCTAD should provide technical assistance and capacity-building services in the economic policy field for developing countries, particularly for the least developed. This should include enhancement of the negotiating capacity of poorer states in multilateral forums;
- UNCTAD should expand its work programme on transnational corporations (TNCs), given their enormous weight in world markets. One issue that UNCTAD could examine is how to establish an effective global anti-trust mechanism;
- UNCTAD should lead the search for appropriate mechanisms to correct the market failures underlying the world commodities crisis. UNCTAD XI must address the price issue and focus work on the development and experimentation of multilateral mechanisms to regulate the commodities world market and establish fairer prices.

Notes

[1] FAOSTAT 2000 on agricultural population and labour force.

[2] Alfred Maizels, 'Economic Dependence on Commodities,' paper prepared for High-level Round Table on Trade and Development: Directions for the Twenty-first Century at UNCTAD X, Bangkok, 2000 (UNCTAD document no. TD(X)/RT.1/6).

[3] Ibid.

[4] Peter Robbins (2003) *Stolen Fruit: The Tropical Commodities Disaster* (London: Zed Books), p.9, Table 1.2.

[5] By the UN Food and Agriculture Organisation.

[6] UNDP, op. cit., Table 7, pp.260-261.

[7] World Bank. 2004. Global economic Prospects.

[8] See Oxfam International (2003) *Dumping without Borders: How US Agricultural Policies are Destroying the Livelihoods of Mexican Corn Farmers* (Oxford).

[9] See Oxfam International (2004) *Dumping on the World: How EU Sugar Policies Hurt Poor Countries* (Oxford).

[10] Cited in Oxfam International (2004) *The Commodities Challenge: Towards an EU Action Plan* (Oxford), p.6.

[11] See Oxfam International, *Cultivating Poverty: The Impact of US Cotton Subsidies on Africa* (Oxford, 2002) and *'White Gold' Turns to Dust: Which Way Forward for Cotton in West Africa?* (Oxford, 2004).

[12] As reported in the *Financial Times* and the *Wall Street Journal*, 27 April 2004. The preliminary decision was not announced in public.

[13] Oxfam International (2002) *Rigged Rules and Double Standards: Trade, Globalisation and the Fight against Poverty* and *Boxing Match in Agricultural Trade: Will WTO Negotiations Knock out the World's Poorest Farmers?* (Oxford).

[14] Verbal information from representatives of the Divine chocolate company.

[15] According to data freely available on the International Coffee Organisation's website, www.ico.org.

[16] For discussions of this issue see: Thomas Reardon and others, 'The Rise of Supermarkets in Asia, Africa, and Latin America' in *American Journal of Agricultural Economics*, Vol. 85, No. 5, December 2003; Andrew Fearne and others (2004) 'Concepts of Collaboration: Supply Chain Management in a Global Food Industry' (London: Imperial College); and Bill Vorley (2003) *Food, Inc.: Corporate Concentration from Farm to Consumer*, (London: U.K. Food Group).

[17] Michael Lipton (1977) *Why Poor People Stay Poor: Urban Bias in World Development* (London: Temple Smith).

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