

THE MISSING LINK

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Debt and Trade



“Debt and trade are inextricably linked. Unfair trade rules left Africa in debt and debt has allowed creditors to impose further unfair trade rules on Africa.” Charles Abugre, Third World Network.

As campaigners in the North we often separate issues into ‘debt’ or ‘trade’ but for activists in the South the two issues are inextricably linked. If industrialised countries had not stacked the terms of trade so heavily in their own favour, Southern countries would not have fallen so deeply into debt. Instead of rectifying this imbalance to allow countries to pay off their debts, Northern governments insisted debtor nations integrate even further into the unequal global market, leaving them even deeper in debt.

For Southern activists, the ‘free market’ simply transfers resources from the South to the North, whether it’s through debt or through trade, through the International Monetary Fund or the World Trade Organisation.

DEBT ROOTED IN UNFAIR TRADE

“Since the mid-1970s, commodity prices have been on a declining trend. Non-fuel prices reached depression level lows in 1992 and 1993 having halved since 1980.” Financial Times, 8 June 1998.

Debt campaigners have long been aware that the collapse in commodity prices contributed to the start and continuation of the debt crisis. The money earned from goods Southern countries exported was just not enough to pay for the goods they needed to import. Twice during the 1970s, oil prices rocketed sky high. To pay their fuel bills, developing countries borrowed money in the hope that commodity prices would rise, or at least stabilise.

They were then hit by a double whammy – soaring interest rates on their debts, and plummeting prices for their exports. To make things worse, industrialised countries put high taxes on many agricultural imports – leaving Third World farmers without a market for their produce.

By the early 1980s many countries were borrowing money just to pay the interest on their debts. Enough was enough. In 1982 Mexico just couldn't pay its debts and the debt crisis was born.

FREE TRADE FORCED ON DEBTORS

“There is a perverse and cruel irony in any debt relief scheme that depends on governments implementing policies that push people even deeper into poverty”.
Opa Kapijimpanga, AFRODAD.

The World Bank and the International Monetary Fund (IMF) – dominated by Northern countries – agreed to lend debtors more money, so that they could repay their debts, on the condition they adopted a series of strict economic reform policies.

These policies were enshrined in Structural Adjustment Programmes (SAPs) which had a one-size-fits-all approach to economics – the free market. The effect of these free market policies on the poor has been well-documented. A recent World Bank report shows that between 1981 and 1997 human misery increased in 28 countries implementing World Bank and IMF SAPs.

A key element of SAPs – renamed Poverty Reduction Strategy Papers, but the same old policies – was the promotion of exports and removal of any barriers to imports. Debtor countries were expected to dive head first into the international trading system. The theory was that they would therefore be able to earn enough dollars to repay their debts.

But the theory was wrong. Many countries exporting the same agricultural products pushed the prices down, so they all earned less. When Mozambique tried to increase its earnings by developing a processing industry

for its raw cashew nuts, it was actually thwarted by the World Bank.

Mozambique – is the World Bank nuts?

In 1995, the Mozambique Government decided to support the cashew processing industry, which was getting back on its feet after the 16-year civil war. To ensure a ready supply of raw cashews for the industry, the Government imposed an export tax on raw nuts, and left processed nuts untaxed.

The World Bank demanded that export duties be removed and the free market left to reign. They claimed rural producers could earn more money by selling raw cashews to India than to local processing plants. But the World Bank failed to recognise the potential of the industry for creating jobs in the future and in providing a guaranteed market for producers in the long term.

A battle ensued but the World Bank played its trump card – a free market in cashew exports became central to Mozambique's SAP. The government's refusal would mean an end to aid and debt relief. In the subsequent struggle the industry was decimated - 9,000 potential jobs were lost.

ONE TRACK MINDS – IMF/WORLD BANK/WORLD TRADE ORGANISATION

“Zambia is not ready to integrate yet. If you have nothing to offer you don't benefit from free trade.” Rueben Lifka, Zambia Association for Research and Development

Not satisfied with pushing the free market and economic liberalisation through the IMF and the World Bank, industrialised nations continue to force their philosophy through the World Trade Organisation (WTO).

Entering the global trading market means entering a labyrinth of WTO rules, which are firmly stacked against the poorest and in the favour of rich countries and their multinationals.

- **Africa is losing £1.8 billion a year because of current trade rules**

The WTO has failed to address the core concern of the poorest countries – the continuing collapse in the price of commodities (like coffee and sugar) which are their main exports. It has also failed to prevent industrialised countries from putting up barriers to exports from developing countries. At the same time, the WTO has insisted that developing countries open up their economies to foreign imports.

One agreement, protecting the right of multinational companies to patent their products, prevents developing countries from producing their own cheap substitutes so ensuring that their import bill, for example for pharmaceuticals, remains high.

The WTO also sets out rules affecting a country's internal economy, many of which look remarkably like the rules under SAPs. For example, developing countries cannot protect their infant industries from fierce competition from well-developed multinationals. Attempts by the Indian Government to protect jobs in its car industry are under threat from WTO rules. India's laws require foreign car companies to establish 'joint ventures' with Indian partners and state that locally produced parts form at least half of the final car. The US - home to the world's largest motor-multinationals such as Ford and General Motors - argues that India's motor policy is in violation of the WTO's Agreement on Trade-Related Investment Measures (TRIMs).

The repatriation of profits exacerbates the foreign exchange problem still further. ***“South African firms like Shoprite have set up in Zambia but they don't sell local produce. Instead they import products from South Africa and repatriate their profits, both of which makes the foreign exchange situation worse.”*** Chrispin Mphuka, Jubilee 2000 - Zambia.

The latest project under the WTO is to push the boundaries of 'free trade' even further to include privatising services, such as health, education and water supplies. In developing countries, with few domestic private companies, foreign multinationals would take over these essential services. Any country

which escaped privatisation under SAPs will feel a left hook coming in from the WTO.

Bolivia

The adverse effect of privatising basic services under SAPs is already well known.

In 1999 water privatisation was part of a package of reforms required by the World Bank so that Bolivia could receive debt relief. In Cochabamba the sale – to UK company International Waters Ltd – led to charges so crippling they sparked mass protest. Water suddenly cost more than food. Those on the minimum wage saw nearly half their budget devoured by the water bill. Even collecting rainwater in rooftop tanks on a farm became illegal without a permit. In April the people of Cochabamba had had enough. Hundreds of thousands took to the streets to protest, which ended in clashes with the police, and the death of six protestors.

In Bolivia this demonstration of people power was successful - International Waters was kicked out of Bolivia and the industry renationalised. But if current negotiations in the WTO are successful, governments will be forced to privatise services and the sale will be irreversible. This is particularly ironic as the World Bank and IMF seem finally to be more open to negotiation. Horst Kohler, the new managing Director of the IMF, (at meeting with NGOs in September 2000) has commented that privatisation should no longer be viewed as an ideology by IMF staff, perhaps because he knew WTO rules would do the job just as well.

Blocked from selling to Northern markets, unable to diversify by protecting developing industries, and forced to keep markets open to expensive imports, developing countries have had to pay more for their imports than they can earn from their exports, taking them even further into debt.

- **Rich countries' protectionist agricultural policies cost the poorest countries £13.5 billion – equivalent to the external debt of the world's six poorest countries**

WHOSE RULES?

“The WTO should be more transparent. The voice of the Zambian Government can only be heard through Tanzanian and Bangladeshi representatives. It should be able to speak for itself.” Rueben Lifka, Zambia Association for Research and Development.

Both the debt and trade campaigns share another common concern - a lack of democracy. Through the IMF and the World Bank industrialised countries have been allowed to dictate the domestic economic policy of debtor nations. And the WTO may go even further if the free marketeers have their way in the service sector.

Decision-making within these organisations is also undemocratic. In the World Bank and IMF the inequality is blatant - votes are allocated according to the shares each country owns, which depend on its income. So the richest countries get the most votes. This is reflected on the Boards of both institutions. The US and UK each have their own Executive Director while 46 African countries share two Directors between them. The power relationship is

explicit. Some countries are lenders others borrowers. The latter must abide by the former's rules.

Inequality within the WTO is more subtle. Theoretically each country has one vote and decisions are taken by consensus. In practice it is usually stitched up by the Quad countries (the US, European Union, Canada and Japan). Moreover some countries are in a much better position to enforce trade sanctions than others if they win a dispute over trade rules.

DEBT AND TRADE – CHAINED BY THE FREE MARKET

“Ignoring trade is like giving with one hand and taking away with the other.” Paulo Cuinica, Oxfam Mozambique.

Taking the lead from our Southern partner organisations, in 2001 WDM will be integrating its debt and trade campaigns. Both campaigns are fighting against the liberalisation evangelists – we must join forces to stop their one-dimensional view of economics and open their minds to new ways of thinking.

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TAKE ACTION

Contact WDM to order our latest trade/WTO action card.

WDM, 25 Beehive Place, London, SW9 7QR
020 7737 6215 www.wdm.org.uk wdm@wdm.org.uk