



**APPG for the Trade Out of Poverty Inquiry**  
***Can the Commonwealth help developing countries trade out of poverty?***

**Summary of evidence**

- Global trade and investment rules have widespread implications for poverty reduction efforts across the Commonwealth, and for the realisation of the Sustainable Development Goals.
- It is imperative that the links between existing trade and investment deals and global poverty and inequality are interrogated and that international efforts to reduce poverty are underpinned by evidence-based policy.
- This inquiry must look beyond its focus on how developing countries can use trade and investment as a tool to reduce poverty and strengthen transformative growth to reflect on what policy interventions are effective in reducing poverty.
- The current international trade system locks-in market liberalisation, deregulation and privatisation. These policies create employment insecurity, increase the cost of public services, increase food insecurity and increase inequality.
- Modern trade deals increasingly impinge on developing countries policy space, preventing them from making the policy decisions required to reduce poverty, including diversifying their economies, providing effective publicly managed social services, and building a strong industrial policy that creates decent and dignified employment.
- The global trading system must be reformed so that global trade rules do not lock-in policy that undermines developing countries poverty reduction and development agendas; or prevent Governments from making public policy that is in the interest of its citizens.
- If trade rules were appropriately reformed they could support developing countries to establish sound industrial policy, create decent jobs and stimulate and strengthen their economies. To do this, trade and investment agreements must be restricted to the regulation of trade in goods; permit developing countries to use tariffs, subsidies and other forms of trade protection to shield nascent industries as they develop; grant human rights, labour rights and environmental standards supremacy over trade rules; support regional trade and enable developing countries to transition to value-added production; protect public services; and exclude investment courts.

**Evidence**

**About the Trade Justice Movement**

The Trade Justice Movement (TJM) appreciates the opportunity to respond to the inquiry *Can the Commonwealth help developing countries trade out of poverty?* TJM is a UK coalition of nearly seventy civil society organisations calling for trade rules that work for people and planet. Our members include trade unions, aid agencies, environment, social justice and human rights campaigns, Fair Trade organisations and consumer groups.

TJM considers that international trade must be judged in relation to its ability to meet the global challenges facing us – poverty, inequality, social injustice, climate change and environmental degradation. Trade is not an automatic good or end in itself, but a tool to enable people to live in dignity, advancing living standards, wages, and rights and accelerating the transition to an economy that does not destroy the resources and natural support systems on which all of us depend. Trade policy must be subject to environmental standards, human rights, climate rules, workers rights and other public policy goals, and must not undermine or override them.

### **Free trade – what is it and how is it linked to global poverty and inequality?**

Trade is widely presented as a tool to stimulate economic growth and reduce global poverty and inequality. The focus of this inquiry on how trade can best be used to promote poverty reduction demonstrates the extent to which trade is perceived to be a positive policy tool that, if employed correctly, will reduce poverty and inequality. However, while there is a clear link between international trade and poverty and inequality, the evidence actually demonstrates that current global trade rules undermine development strategies rather than facilitate poverty reduction.<sup>1</sup> Given this, trade should not be perceived as an automatic good or as an end in itself. Rather, the impact of trade rules on global poverty and inequality should be scrutinised, and international trade agreements should only include rules that are proven to support international social and environmental goals.

Since the end of the Second World War the international trade system has been used to spread free market capitalism by institutionalising the ‘free trade’ principles of liberalisation, deregulation, and privatisation.<sup>2</sup> Global trade rules have built on the IMF and World Bank’s structural adjustment programmes from the 1980s, forcing developing countries to:

- open up their markets to privatisation and foreign investment;
- reduce trade tariffs, which pushes nascent industries into direct competition with more established industries in developed countries; and
- remove ‘trade-distorting’ barriers such as regulations and subsidies.

In the 1990s the scope of trade agreements expanded beyond the regulation of trade in goods to address so-called ‘non-tariff barriers’ to trade. The Global Agreement on Trade in Services introduced international rules that opened up service industries to privatisation.<sup>3</sup> Modern trade and investment agreements are even more expansive and include issues such as government procurement and investment. These agreements have been used to facilitate globalisation by establishing an international regulatory framework that increases global competition as countries vie for foreign investment, and that locks-in the power of global corporations and the capitalist elite. Globalisation has institutionalised labour competition and facilitated a global race to the bottom that has forced governments to tolerate serious human and labour rights abuses and environmental damage in order to attract trade and investment.<sup>4</sup>

Today trade and investment agreements have a huge impact on almost every sector of the economy, affecting most areas of public policy from agriculture and energy to health and public services. These agreements impinge on developing countries policy space, restricting governments’ ability to make the policy decisions that are needed to strengthen their economies, reduce poverty and meet their development objectives.<sup>5</sup> Most modern trade and investment agreements also include an investor to state dispute settlement mechanism (ISDS), which gives investors the power to sue governments in private tribunals over actions that threaten their profits. Over the last 15 years, non-OECD countries have faced an incredible \$415 billion in ISDS claims against them.<sup>6</sup> ISDS claims also result in ‘regulatory chill’ as government’s either wait for claims to be decided before making policy decisions that are in the best interests of their populations, or simply choose not to make these policy decisions at all.<sup>7</sup>

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<sup>1</sup> <http://repository.cmu.edu/cgi/viewcontent.cgi?article=1354&context=philosophy>

<sup>2</sup> <https://www.theguardian.com/books/2016/apr/15/neoliberalism-ideology-problem-george-monbiot>

<sup>3</sup> [https://www.wto.org/english/tratop\\_e/serv\\_e/gatsqa\\_e.htm](https://www.wto.org/english/tratop_e/serv_e/gatsqa_e.htm)

<sup>4</sup> <https://www.theguardian.com/commentisfree/2015/may/08/the-trans-pacific-partnership-will-lead-to-a-global-race-to-the-bottom>

<sup>5</sup> [http://www.rosalux.eu/fileadmin/user\\_upload/Publications/2017/1\\_21st\\_century\\_FTAs-web.pdf](http://www.rosalux.eu/fileadmin/user_upload/Publications/2017/1_21st_century_FTAs-web.pdf)

<sup>6</sup> <http://investmentpolicyhub.unctad.org/ISDS/FilterByAmounts>

<sup>7</sup> <https://www.tni.org/en/briefing/international-investment-agreements-under-scrutiny>

Proponents of market capitalism argue that free trade facilitates investment, creates jobs and stimulates economic growth, leading to poverty reduction and improvements in living standards. However, a 2013 report by the United Nations Economic Commission for Africa found that recent improvements in economic growth across the continent (after two decades of economic downturn, growth rose to 4.6 % in 2010 and more than 5.0 % in 2012) has not translated into “economic diversification, commensurate jobs or faster social development.”<sup>8</sup> This calls into question the assumption that all economic growth reduces poverty. Most African countries remain heavily dependent on extractive commodity production and export, an economic model that was established during the colonial period with the explicit aim of extracting cheap resources and labour. In the post-colonial period the international trade system has stifled developing countries’ attempts to reduce poverty and strengthen their economies by imposing economic policy that undermines economic stability.<sup>9</sup>

### **Historical revisionism? What actually works to support economic development and improve livelihoods?**

Current trade rules undermine labour, environment and human rights standards and prioritise corporate profit over social and environmental regulation. Free trade agreements drive labour competition, which pushes down salaries, increases employment insecurity and drives workers in developing country further and further into poverty.<sup>10</sup> These agreements have also actively undermined developing country farmers and business, destroying rather than improving livelihoods in some of the poorest communities in the world. Since the rise of free trade policy in the 1990s we have seen a sharp rise in global inequality<sup>11</sup> and an increasing concentration of wealth in the hands of a wealthy elite. A recent report by Oxfam international found that the world’s richest 8 men now have as much wealth as the poorest 50% of the population.<sup>12</sup>

Beyond this, if we look at the policies that were used by rich countries such as the UK and the US to support industrialisation, economic development and poverty reduction, it is clear that claims that free trade policies enabled rich countries to develop their economies are not substantiated by evidence. The UK used a range of policy tools, including the use of tariffs, subsidies and other forms of trade protection, to shield its local industries from international competition in order to transition its economy from one reliant on the export of raw materials to one underpinned by manufacturing. Similar policies were employed by Japan and Korea to develop their economies after the end of the Second World War.<sup>13</sup>

The evidence demonstrates that rich countries like the UK used market intervention and trade protectionism to develop their economies and establish themselves as global economic powers. Yet the UK now uses the international trade system to force developing countries to adopt the opposite policy measures - liberalisation, deregulation and privatisation. This severely restricts developing countries policy space, undermines their ability to develop sound and effective industrial policy and prevents them from implementing effective poverty reduction strategies.<sup>14</sup>

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<sup>8</sup> <https://www.uneca.org/publications/economic-report-africa-2013>

<sup>9</sup> [http://www.rosalux.eu/fileadmin/user\\_upload/Publications/2017/11\\_Impact\\_of\\_FTAs\\_on\\_East\\_Africa-web.pdf](http://www.rosalux.eu/fileadmin/user_upload/Publications/2017/11_Impact_of_FTAs_on_East_Africa-web.pdf)

<sup>10</sup> <http://www.waronwant.org/sites/default/files/Stitched%20Up.pdf>

<sup>11</sup> <https://www.theguardian.com/global-development-professionals-network/2016/apr/08/global-inequality-may-be-much-worse-than-we-think>

<sup>12</sup> <http://policy-practice.oxfam.org.uk/publications/an-economy-for-the-99-its-time-to-build-a-human-economy-that-benefits-everyone-620170>

<sup>13</sup> [http://fpif.org/kicking\\_away\\_the\\_ladder\\_the\\_real\\_history\\_of\\_free\\_trade/](http://fpif.org/kicking_away_the_ladder_the_real_history_of_free_trade/)

<sup>14</sup> Chang, Ha-Joon., (2007) *Bad Samaritans: The Guilty Secrets of Rich Nations and the Threat to Global*, Random House, London.

Developing countries must be given the same opportunity as rich countries to use tariffs, subsidies and regulation to protect their economies as they develop. To do this we need to redirect our focus from how existing trade structures can be used to help developing countries to trade out of poverty, to look at how we can develop an international trade system that is actually compatible with developing countries industrial policy and poverty reduction strategies. This would require a move away from free trade rules and the development of an international trade system that enables developing countries to use the full suite of policy tools available to them to support their economic development.

In order to ensure international trade is compatible with economic development and poverty reduction strategies trade and investment agreements must:

- Be restricted to the regulation of trade in goods and not be used to establish a broader international regulatory framework that includes non-trade policy issues. Things such as patents, government buying standards, domestic regulation, migration, investment or data privacy should be excluded from trade agreements and any international rules should be set in the various intergovernmental organisations specialising in these issues.
- Enable developing countries to use tariffs, subsidies and other forms of trade protection to shield nascent industries as they develop.
- Comply with human rights, labour rights and environmental standards, and ensure that when trade rules are in conflict with these rights and standards, supremacy is given to social and environmental rights and commitments.
- Facilitate an increase in regional rather than international trade. By increasing regional trade with equal partners developing countries will be able to better align its trade policy with its industrial strategy.
- Support developing countries to diversify their economies and transitions to value-added production so that they move beyond a dependence on commodity exports and can develop an industrial policy that creates decent jobs and stimulates economic development.
- Protect public services by including strong, broad exclusion clauses, modelled on existing exclusions for security concerns.
- Exclude investor to state dispute settlement clauses that give foreign companies the right to sue governments in private tribunals over policy decisions that threaten their profits.