UNCTAD Study Guide:
Development through Fair Trade

> *"The advantages of established First World industries are still formidable. The only reason developing countries have been able to compete with those industries is their ability to offer employers cheap labor. Deny them that ability, and you might well deny them the prospect of continuing industrial growth, even reverse the growth that has been achieved."*
>
> Paul Krugman in Slate, March 1997

> *"After all, if it's okay to enrich ourselves by denying foreigners the right to earn a living, why not enrich ourselves by invading peaceful countries and seizing their assets? Most of us don't think that's a good idea, and not just because it might backfire. We don't think it's a good idea because we believe human beings have human rights, whatever their color and wherever they live. Stealing assets is wrong, and so is stealing the right to earn a living, no matter where the victim was born."*
>
> Steven E. Landsburg in Forbes, March 2005

I. UNCTAD Overview

The United Nations Conference on Trade and Development (UNCTAD) is the main United Nations (UN) body concerned with development and development-related fields and topics, especially international trade. Established in 1964, UNCTAD provides both an international platform for discussion of development issues, as well as conducting research and giving policy advice. It also offers direct technical assistance to developing countries and transition economies (http://unctad.org/).

UNCTAD holds ministerial-level conference meetings every four years (one of which we will be simulating). In between those, the Trade and Development Board manages its affairs. UNCTAD's two commissions (on 'Trade and Development' and 'Investment, Enterprise and Development', respectively) meet once per year, and also host expert meetings on various topics. UNCTAD is also responsible for organizing the UN Conference on Least Developed Countries (LDCs) and the biennial World Investment Forum. Beyond that, UNCTAD produces various reports, such as the Trade and Development Report, Least Developed Countries Report, World Investment Report and Trade and Environment Review, among many others (http://unctad.org/).

Dr. Mukhisa Kituyi, of Kenya, became UNCTAD's seventh Secretary-General on September 1, 2013. He has held important positions in both academia and politics, and has put a special emphasis on reaching UNCTAD's *Sustainable Development Goals* (SDGs) (Kituyi, 2014).

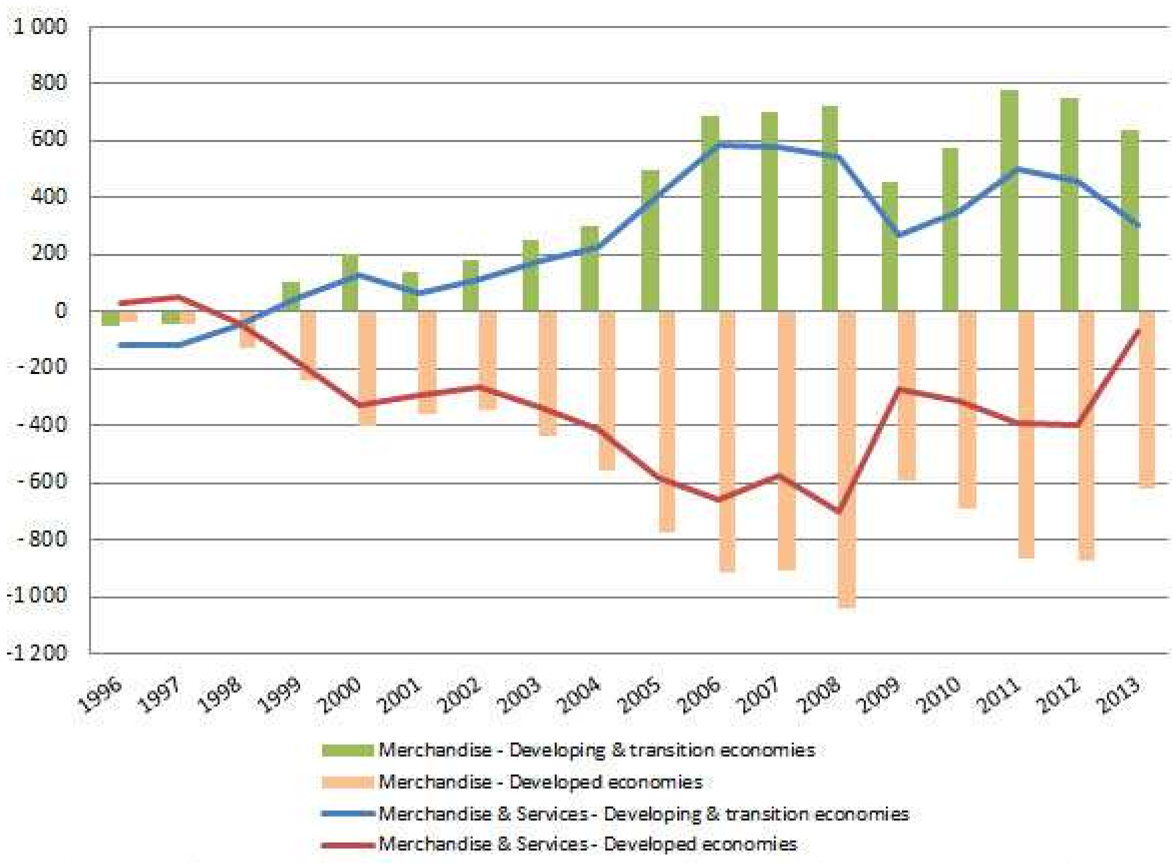
II. Topic Overview

A note of caution: whenever the words ‘developed economy’, ‘transition economy’ or ‘developing economy’ are used in this study guide, this is for ease of understanding only. It is not to suggest that, say, Western European Countries or the United States are not developing, since in a very profound sense, they are. Clearly, the US fifty years ago is very different from the US today, yet at no point during this period were the United States considered a ‘developing’ country. The designations this guide uses are in line with the United Nations classification scheme of countries as (for example) developed, developing or being in transition (UN, 2013; for a detailed, albeit critical, discussion of this classification scheme, see also Nielsen, 2011).

In 2013, developing and transition economies ran a combined *trade surplus* of $306.2 billion, while developed economies ran a combined *trade deficit* of $65.3 billion (UNCTAD, 2014). That is, overall, developing and transition economies were net exporters, while developed economies were net importers of goods and services. This implies that, overall, *the developing world consumed less than it produced, while developed countries consumed more than they produced*.

Figure 1: Merchandise and total trade balance 1996-2013

(Billion dollars and current prices)



Source: UNCTADStat (UNCTAD, 2014)

As Figure 1 shows, this is in line with a trend in international trade that emerged over roughly the last 20 years, namely a divergence between the *trade balances* of developed economies on the one, and developing and transition economies on the other hand. Notably, this divergence was much more pronounced looking at trade in merchandise (as opposed to trade in services) only. The magnitude of both total trade balances and their movements over the last two decades demonstrate the importance of international trade for the global economy, and therefore for the lives and well-being of people worldwide.

This begs the obvious question of what exactly the effects of international trade on people's lives in different parts of the world are. Beyond that, the question of the normative interpretation of these effects arises. That is, in how far is world trade as it is organized today, and its impact on people's lives, desirable (or not). Often, this is stylized as pitting *fair trade* against completely liberalized *free trade*.

Trade liberalization was a part of the *Washington Consensus*, a collection of ten supposedly agreed-upon principles of economic reform for developing countries. The term was originally coined in 1989 by the economist John Williamson, and other items on the list included fiscal discipline, deregulation and privatization. Supposedly, such policy measures would spur economic growth, and thus foster development for those countries that adopted them. While today, the Washington Consensus is often perceived as being a radically market-neoliberal approach to economic policy, a careful reading of Williamson's original summary shows that there was room for active state intervention[1] (Williamson, 1989). However, there was no explicit call for any kind of 'fair' trade. The Washington Consensus has been, and continues to be, an important part of the international debate about trade and development[2].

On the other hand, it has been claimed that developing countries do not benefit from free trade, insofar as that world market prices give an unfair advantage to developed countries. This is not exactly a new argument in itself. See, for example, Toye and Toye (2003) for a discussion of the *Prebisch-Singer Thesis*[3] (also called Prebisch-Singer Hypothesis), which claimed as early as the 1950s that the relative market position of developing economies vis-à-vis developed countries tends to worsen over time due to the kinds of products both groups produce. Specifically, the industrial-type manufactured goods and services that developed economies produce supposedly tend to rise in value over time, while the prices of primary goods that developing countries produce (agricultural goods and raw materials) tend to stagnate or decrease over time. This is known as a deterioration of developing countries' *terms of trade*[4].

More recently, companies such as Fairtrade International have expressed that Washington-Consensus-type 'free' trade is, in fact, not beneficial (and possibly quite harmful) for developing economies. A new, 'fair' approach to trade could potentially be an engine for development for those countries (http://fairtrade.net). Although this claim has been disputed ("Fair Trade", 2014), the demand for such products is growing in developed countries (Huet, 2013).

[1] This included, for example, the idea of *infant industry protection*. See Section IV (Further Research) for more information on this topic.
[2] See (for example) Williamson (2009) for a review of this discussion, or Stiglitz (1998) for a more critical summary.
[3] Incidentally, Raúl Prebisch was the first Secretary-General of UNCTAD (http://unctad.org/).
[4] See Harvey et al. (2010) for a recent (although rather technical) evaluation of the Prebisch-Singer Hypothesis.

UNCTAD will have to weigh the arguments in favor of both free and fair trade, and determine what the connection is between those two and development. As pointed out in the introductory quotations, views differ on these issues, even (and perhaps especially) within the academic community. UNCTAD should therefore focus mainly on following two points, although any argument and any topic that benefit the committee's discussion are welcome to be brought up.

III. Points of Discussion

A. Workers' Rights and Child Labor

The first issue that UNCTAD should place a special emphasis on is the question of workers' rights, and especially *child labor*[5]. One of the promises of Fairtrade (the company), as well as fair trade (the movement) is that it focuses on stopping child labor practices. For example, children below the age of 15 may not be employed by producers using the Fair Trade certificate. Even older children may only engage in work that is age-appropriate, and may only do so outside school hours or during holidays. They may not engage in work that "jeopardises schooling or the social, moral or physical development of the person". The same is true for children helping out on family farms (Fairtrade International, 2011). This is in line with the ILO's definition of child labor (ILO, n.d.).

There are many ways in which Western countries and their citizens could try to influence child labor practices in the developing countries they trade with. Boycotting products that were produced by children is one option, since they obviously make it quite unattractive to continue employing children. It is not quite clear whether this necessarily benefits the kids in question, because the alternative to working may not always be preferable either; bluntly speaking, the alternative to working children might be starving children (Edmonds, 2003). Also, given that there are a number of countries where child labor is prevalent despite being outlawed, developing countries may find it hard to comply with a 'zero tolerance' policy (C.W., 2014). Still, Western countries might find child labor so ethically wrong and appalling that they find it impossible to import goods that were produced with its help.

Besides boycotts, there is always the possibility of demanding that developing countries introduce certain policies if they want to continue to have free access to developed economies' markets. For example, instead of asking for an immediate stop to all child labor practices, Western countries might ask for the introduction of policies that reduce (or perhaps even bring an end to) child labor in the long run. One example of such a policy are cash transfers, where poor families are paid money to send their children to school, which – hopefully – reduces the number of kids in factories, and increases the number of kids in school. All the evidence available so far seems to point to the effectiveness of such policies (C.W., 2014; see de Hoop and Rosati, 2014, for the original paper the article is referring to).

[5] Note here that 'child labor' in this sense refers to children working (or being forced to work) hazardous, physically strenuous jobs that interfere with their education, as opposed to delivering papers or frying burgers for pocket money. Such activities do of course, in a strict sense, also constitute child labor, but are rarely seen as morally deplorable in Western societies. Bhagwati (1995) also makes this point. See Section IV (Further Research) for the original International Labour Organization's (ILO) conventions concerning child labor.

A.1 (Possible) Committee positions:

It is not clear who would pay the bill for this kind of policy. If Western countries demand that child labor be made a thing of the past, why should the developing world bear all the cost? Even a ban is a costly policy, if it is supposed to put a *de facto* end to child labor, instead of just ending it *de jure*. A ban has to be enforced, producers have to be policed, and children who are found to be working have to be taken care of. If child labor is so morally appalling to Western citizens, why should they not pay to help eradicate it? While developed countries will have a strong moral argument on their side – defending child labor on moral grounds is not impossible, but certainly not easy – developing countries should try to get the developed world to bear as much of the cost of whichever policy they commit to (if any) as possible.

UNCTAD should also consider the issue of workers' rights more generally, since several of the issues regarding child labor – especially the question of developing countries' competitiveness – arise here as well.

B. US and EU Subsidies for Agricultural Products

International trade negotiations during the last decade have encountered many obstacles, but none as pernicious and (seemingly) impossible to overcome than the issue of agricultural subsidies in developed economies. The World Trade Organization's (WTO) Doha Round of negotiations, which commenced in Doha, Qatar, in 2001, has not produced any substantial progress yet[6], largely also due to disagreements about this issue ("The Doha Round", 2008).

The European Union (EU) is set to spend 37.8% (€408.31 billion) of its 2014 – 2020 budget (the 'Multiannual Financial Framework') on agricultural subsidies as part of the Common Agricultural Policy (CAP). Officially, the aim of this is to tackle key economic, environmental and territorial issues. Among the latter two, there are sub-topics such as biodiversity, soil and water quality, and rural flight, i.e. depopulation of rural areas and the reallocation of businesses to more urban settings. Among the economic issues, food security, price volatility and increasing input prices are prominent, among others (European Commission, 2013). Overall, the CAP represents a substantial transfer to European farmers.

The United States also spends a significant amount of money on the Farm Bill (legally the Agricultural Act of 2014), also with the official aim to promote food security, rural employment, and environmental conservation efforts (United States Department of Agriculture, 2014). $956 billion will be spend over the next ten years, which is a 49% increase compared to the 2008 Farm Bill ("A Trillion in the Trough", 2014). It has to be noted here that about 80% of the Farm Bill are actually concerned not with farming directly, but with government efforts such as the Food Stamp Program. Nonetheless, the Farm Bill constitutes a significant transfer to US farmers, like the CAP does for the EU.

These large-scale subsidies in developed countries introduce distortions into the world economy, and they are certainly not market-friendly policies, although they also have implications for domestic markets in the US and Europe. In the United States, for example, the consumption of

[6] There was, of course, an agreement dealing mostly with trade facilitation, i.e. removing excessive red tape and other 'soft' obstacles to international trade, in 2013 ("Doha Delivers", 2013). However, this was hardly the "major reform of the international trading system" the Doha Round was – and is – aiming for (WTO, n.d.).

High Fructose Corn Syrup (HFCS), an artificial sweetener derived from corn that can be used as a substitute for sugar in, for example, soft drinks, has increased by 1000% between 1970 and 1990 (Bray, Nielsen & Popkin, 2004). HFCS has replaced sugar as the main sweetener in numerous foodstuffs, likely due to the artificially low price of corn compared to sugar in the US due to the Farm Bill and its subsidies to corn producers (Beghin & Jensen, 2008)[7].

European and US-American subsidies also have impacts on world markets, since agricultural produce from both regions is much cheaper relative to developing countries' products than it would be without the subsidies. This can have dire implications not only for individual farmers from developing countries, who find themselves unable to compete with European producers, but also for the structure and development of whole agricultural industries, which in turn may make developing economies dependent on food imports from the EU or US (Beaubien, 2006; Hassett & Shapiro, 2003).

B.1 (Possible) Committee positions:

Of course, without subsidies, the EU and US might depend on agricultural imports from developing countries. At the same time, with the subsidies in place, the developing world is at a massive disadvantage. It is hardly credible to ask developing countries to liberalize, when at the same time large market distortions with global impact are allowed to persist in the US and Europe. Developing countries will have a very strong moral argument on their side in this debate, although developed countries could, if pressed to hard, resort to political pressure and bullying. Certainly, Western countries will be very reluctant to make concessions regarding this issue (as they have been during WTO negotiations).

IV. Further Research

General Overview

- It is highly recommended that you read at least the introduction to the UNCTAD Trade and Development Report 2014 (http://unctad.org/en/PublicationsLibrary/tdr2014_en.pdf).
- The references contain a number of newspaper and magazine articles, all of which are available online and give a good overview about both main points of discussion without being as technical (and extensive/bulky) as the academic papers also cited above.

A. Worker's Rights and Child Labor

- For a discussion of the topic, see for example the New York Times debate, 'Should Western child labor standards apply in developing countries?' (http://www.nytimes.com/roomfordebate/2014/07/16/what-standards-of-child-labor-should-apply-in-developing-countries).
- The ILO has two main conventions on child labor. *Convention 138* (1973) concerns the minimum acceptable working age, while *Convention 182* (1999) asks for an immediate end to the worst forms of child labor. Both may be found online.

[7] This is why Coca Cola tastes different in the US.

- ❖ Convention 138: http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO:12100:P12100_ILO_CODE:C138
- ❖ Convention 182: http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO:12100:P12100_ILO_CODE:C182

B. US and EU Subsidies for Agricultural Products

- For a summary of the agricultural negotiations (mostly concerned with US and EU subsidies), see the Congressional Research Service (CRS) reports on the Doha Round. There is a pretty comprehensive summary of the negotiations up to 2007 (CRS Report RL33144), as well as an evaluation of the implications of Doha for US agriculture (CRS Report RS22927), both of which are available online (amongst many others).
  - ❖ CRS Report RL33144: http://www.nationalaglawcenter.org/wp-content/uploads/assets/crs/RL33144.pdf
  - ❖ CRS Report RS22927: https://www.hsdl.org/?view&did=759014
- Even though developed countries account for the bulk of international agricultural (and other) subsidies, developing countries do engage in subsidization as well. It might seem logical to ask both to end all forms of trade-distorting subsidization. However, there are some arguments for allowing developing countries to protect certain nascent industries. Those might not, on their own, be immediately internationally competitive. But, the argument goes, if they were protected for a while (until they reach a certain size), they might become competitive and turn into engines for growth and development. This is known as *infant industry protection*, and especially delegates from developing countries may want to read up on it.
  - ❖ The 2001 Technical Report of the High-Level Panel on Financing for Development gives a good overview over international trade issues, as well as recommending "limited, time-bound protection of certain industries by countries in the early stages of industrialization": http://www.un.org/en/ga/search/view_doc.asp?symbol=A/55/1000
  - ❖ The introduction to Melitz (2004) gives a good overview over the history of the infant industry argument, although the paper quickly turns fairly technical after that (and the introduction is not completely non-technical either, to be honest): http://scholar.harvard.edu/files/melitz/files/infant_jie.pdf

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