Catholic Bishops' Conference of England and Wales

Department of International Affairs

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A STATEMENT ON TRADE AND SOLIDARITY

A statement from the Catholic Bishops' Conference of England and Wales and the Catholic Bishops' Conference of Scotland.

Happy are they who hunger and thirst for what is right; They shall have their fill (Matthew 5: 6)

Summary

This publication forms a natural sequel to our statement on debt relief for developing countries, published in 1999(1). Countries cannot emerge from poverty on the basis of debt relief and international aid, in the absence of just trade relationships. Despite all the efforts made to transform the situation, the economic and trade relationships between the wealthy and the poor countries of the world remain deeply unjust.

We reflect on the status of international trade rules which, provided they are just, are essential to prevent the unchecked dominance of the most powerful countries. But any specific set of trade rules will be open to challenge, since the negotiations by which they are agreed never take place in isolation from the relationships of power between the negotiators. Substantive justice in part depends on procedural justice, and this is difficult to achieve.

We consider especially the destructive effect on the developing world of twin policies driven by the wealthy countries – enforced liberalisation and sustained protectionism – and go on to examine the obstacles faced by poor countries in challenging these practices. We pay particular attention to the functioning of the World Trade Organisation and the European Union's Common Agricultural Policy. Over against these formal structures, we consider the promise (and its limits) represented by the fair trade movement. Finally, we consider more explicitly the criteria enunciated in Catholic Social Teaching. The overarching concern of the document is the universal common good, to which Pope John Paul appealed once again in his message for Lent this year:

Faced with the tragic situation of persistent poverty which afflicts so many people in our world, how can we fail to see that the quest for profit at any cost and the lack of effective, responsible concern for the common good have concentrated immense resources in the hands of a few while the rest of humanity suffers in poverty and neglect? Our goal should not be the benefit of a privileged few, but rather the improvement of the living conditions of all.

I. Introduction

In 1999, in association with CAFOD and SCIAF, our two episcopal conferences published *Life, Debt and Jubilee*, a statement on poverty elimination and the remission of the international debt of the world's poorest countries. The campaign for debt remission, signalled in 1994 by Pope John Paul II's apostolic letter *Tertio Millenio Adveniente*, and supported by the Church along with many others, was the impulse for the Heavily Indebted Poor Countries (HIPC) initiative for debt reduction agreed by donor countries in 1999. That initiative remains a partial measure, however, and further debt cancellation is needed to lift the burden of unpayable debt from the poorest countries.

But the human and economic development of the poorest countries requires changes even more far-reaching than debt relief. Specifically, it requires that international trade should be ordered justly. Without a system of international trade that recognises the present position of weakness of the poorest countries, many of them are likely to fall back into unpayable arrears of debt from which they were partially rescued.

Our focus in this document is therefore the economics of trade, especially as it bears on developing countries, as a central element in international economic justice and integral human development. We have written it once again in association with the Bishops' Conferences' own development agencies, CAFOD and SCIAF, and in relation to the current Trade Justice Campaign.

These subjects are complex and are contested at almost every point. There are, for example, divergent theories of social justice itself, with different philosophical and theological foundations. In the case of development, widely differing opinions are held about the necessary elements of successful economic growth and social progress, and the relationship between these elements. They might include the role of the state in economic development, the process by which communities on the margins of economic and social life are enabled to develop their capacity to participate more fully in civil society, the proper role of international rules and institutions, the question of when and how national markets should be opened to international competition. However complex such an analysis becomes, our faith compels us to understand and respond to the fundamental structures that so deeply affect the lives of poor people.

Our purpose is to offer an account of current and crucially important thinking about trade justice from the perspective of the rich tradition of Catholic social thought. Some fundamental aspects of that tradition are the following:

- The fundamental dignity of every human person and community, each with rights that must not be foregone or denied, each with a responsibility to contribute to the common good
- The universal destination of the goods of Creation
- An economic system that serves the human person and promotes both freedom (the freedom of all, not only that of a social or national elite) and solidarity
- The active recognition that human fulfilment can only be attained in communities of justice
- The recognition that social justice cannot be attained by eroding human rights and freedoms, and that human dignity and freedom must be universal and cannot be achieved by denying the dignity and freedom of others

All these elements are grounded in the Christian belief that we are created for God and destined for God *as a people*, the Body of Christ, and that any conception of human life that reduces it to the status of an object or instrument must be rejected.

II. Social and economic context

We begin with the scandal of poverty. Half the world's population, some 3 billion people, live on two dollars or less a day. Of these 1.2 billion people, 20 per cent of the world's population, live in extreme poverty on less than one dollar a day. This poverty occurs in a world of plenty, in a global economy capable of satisfying all the demands of its richest consumers but seemingly and scandalously unable to meet the needs of vast numbers of the poorest, whose needs ought to be at the heart of public policy. That is why poverty is the proper starting point for all discussions about aid, debt cancellation and trade.

Poverty was also the starting point for Pope Paul VI, whose encyclical *Populorum Progressio* in 1967 called rich people and rich nations to acknowledge their responsibilities to poor people and poor nations. Writing of the post-colonial world, he warned of the danger of a widening division between rich and poor countries:

> *… it is only too clear that these structures are no match for the harsh economic realities of today. Unless the existing machinery is modified, the disparity between rich and poor nations will increase rather than diminish; the rich nations are progressing with rapid strides while the poor nations move forward at a slow pace. The imbalance grows with each passing day: while some nations produce a food surplus, other nations are in desperate need of food or are unsure of their export market. (2)*

The specific structures to which he referred have changed, but his description remains relevant. For economic and power relations between the rich countries of the North and the poor countries of the South are as uneven as ever. Only faltering progress is being made towards the United Nations Millennium Development Goal of halving the proportion of the world's population living on less than one dollar a day by 2015. Good progress towards the attainment of this particular goal is being made by some countries, most notably China which accounts for one fifth of the world's population, though China's progress in this respect is far from matched by a more general respect for human dignity and human rights. Many other countries, especially those of sub-Saharan Africa, are not on course to meet the objective. Some countries are actually becoming poorer: perhaps as a consequence of their own bad policies or of those forced on them by the international financial institutions; perhaps as a consequence of violent conflict, mismanaged globalisation, the impact of the HIV/AIDS pandemic, or environmental degradation.

This situation is not new. The plight of the poorest countries, and particularly the debt crisis affecting them, has been amply documented since the mid-1980s. It was then becoming clear that the new market-oriented policies dominating the thinking of donor and creditor countries and the international financial institutions would not enable the poorest countries to achieve the economic growth needed to lift them out of poverty. Since then, the share of global income, trade and wealth accruing to the poorest countries has diminished, not increased (3).

At the same time it is important to bear in mind that there are enormous differences between developing countries. At one extreme there are China and India, with a third of the world's population between them, and over half the world's extremely poor people (4), that are at the same time burgeoning industrial and trading powers. At the other there are extremely poor countries in sub-Saharan Africa that deteriorated economically in the 1980s and 1990s and will require special assistance over a number of years to enable them to engage profitably in world trade. In between there are countries regarded as success stories, such as Malaysia, Chile and Mauritius; countries that are making promising progress, albeit from a low starting point, such as Ghana and Mozambique; and a great number of countries that are just about holding their own. Finally there are a number of countries racked by conflict which blocks and reverses development. For them durable peace is an essential precondition for poverty reduction, economic growth and trade.

III. The global response to poverty

We do not suggest that the plight of the poor has been ignored, whether by governments, by the international financial institutions, or by civil society. On the contrary, the 1980s and 1990s saw vigorous and relatively successful campaigns in the UK for increased aid and debt cancellation, to which members of the Christian churches contributed out of all proportion to their numbers. This success reflected the campaigners' cogent analysis as well as their capacity to mobilise widespread public support, as they demonstrated convincingly that developing countries could not recover from the setbacks of the 1980s without significant additional aid and debt cancellation.

Official and institutional analyses of the poverty of developing countries have also changed since the 1980s. The International Monetary Fund (IMF), the World Bank and governments around the world (though, significantly, not yet the World Trade Organisation) have adopted the Millennium Development Goals (5). A measure of debt relief has been accorded to the poorest countries; modest increases in development assistance were promised at the United Nations 'Financing for Development' Conference held in Mexico in 2002; in late 2001 the agreement to launch a new round of trade negotiations was described by trade ministers as the 'Doha Development Agenda', and sought to place the needs of developing countries at the heart of the work programme; and, at the 'G8' meeting in Canada in June 2002, a substantial section of the Africa Action Plan was devoted to 'Fostering Trade, Investment, Economic Growth and Sustainable Development'.

IV. Trade and development

In 1999, in our joint statement *Life, Debt and Jubilee*, we endorsed the Jubilee 2000 campaign for debt cancellation.

In fulfilment of the Old Testament promises of Jubilee, Christ announced good news to the poor and the release of prisoners, and proclaimed 'the year of the Lords favour'. Today it falls to us, the peoples of the rich countries, and particularly to the governments acting in our name, to honour in some measure this majestic promise to the poor and the enslaved (6).

Now we turn our attention to trade and trade rules because these have even more serious consequences for the people of the developing world. In the 1960s, Pope Paul VI already saw that development aid would accomplish little in the absence of equitable trading relations. His concern has become all the more urgent as it is clear that world trading patterns have still further disadvantaged the poorest countries:

> *…all these efforts will prove to be vain and useless, if their results are nullified to a large extent by the unstable trade relations between rich and poor nations. The latter will have no grounds for hope or trust if they fear that what is being given them with one hand is being taken away with the other. (7)*

Trade is not inherently bad for development: it all depends how it is managed and conducted (8). Indeed, trade is essential for development because, as the United Nations 'Financing for Development' Conference concluded in 2002, trade is in many cases 'the single most important source of development financing', and because the income that a country and its people earn from trade, unlike aid or debt cancellation, does not depend on the good will of others. Trade develops people's capacity to meet their own needs, and builds mutual and sustainable economic relations between peoples.

Yet the current imbalances in world trade are dramatic. Africa, the poorest continent, with 10 per cent of the world's population, accounts for just one per cent of world trade, a proportion that has halved in the last twenty years. The majority of Africa's people, especially those south of the Sahara, live on less than a dollar day. Their overwhelming concern is sheer survival for themselves and their families. Most would not think of themselves as exporters or importers. Yet even the poorest Africans eat food made from imported grain and wear second-hand clothing from developed countries – collected, baled and shipped to Africa for sale in local street markets. The pills they take for everyday ailments, if they can afford them, are almost invariably imported. Some of them work on coffee and cocoa farms or tea plantations, exporting to the shops and cafés of the developed world. If trade is fundamentally important yet is marked by such dramatic disparities, the issue needs urgently to be addressed.

Of course we do not suggest that aid and debt relief can now be disregarded. In the short term some countries have no chance of simply trading themselves out of poverty. Advances in trade justice will need to be accompanied by debt remission and higher levels of aid (9). Trade justice on the one hand, and the adequate provision of aid and debt relief on the other, are mutually dependent conditions for development.

V. Trade and trade rules

Trade is more complex than debt. Trade is the continuous, year-after-year activity that countries and peoples must undertake to earn their keep in the world. It is affected by two forces: the capacity to produce and deliver goods competitively; and the existence of several intersecting sets of trade rules and agreements. Provided that they are equitably negotiated, such rules form the essential guarantee of an ordered commercial system, in which there is some protection against the untrammelled power of the wealthiest countries and corporations.

Rules are legitimate insofar as they are just to all: that is, provided that they do not systematically favour particular interest groups. But we know all too well that rules of any kind are rarely drawn up from scratch, and that they are not a pure reflection of an abstract 'fairness' that treats all strictly alike. Trade rules emerge from lengthy multilateral negotiations or trade treaties between countries: inevitably they largely reflect the balance of power between those countries. Negotiations are subject to energetic lobbying by corporate interest groups. Governments, too, are typically cautious and defensive in their approach to trade reform, often identifying the 'national interest' with the interests of their most powerful companies and economic sectors. It is not surprising that trade reforms designed to benefit poor people and poor countries have met fierce resistance.

We too believe that 'fairness' is not enough, and that it is not always just to treat all parties strictly alike. In our case, the Church's 'preferential option for the poor' leads us to believe that the rules governing global financial and economic systems, including trade, must be guided also by principles of solidarity and compassion. We therefore hold that the notion of 'trade justice' must embody measures to benefit the poorest, to counterbalance the enormous disadvantages that weigh them down from the start.

Changes to the rules under which trade is currently managed will have consequences far into the future and will impact variously on different groups of people. For example, they will affect farmers, north and south, whose livelihoods could for better or worse be drastically affected by changes to the European Union's 'Common Agriculture Policy', or by the USA's trade regulations, as well as those garment and textile workers in developed countries that face competition from East and South Asia. These are matters to which we shall return.

In this document we have focused particularly on the European Union and its role in international trade. This is because the European Commission – specifically its trade commissioner, currently Pascal Lamy – negotiates at the WTO on behalf of its 15 member states. The UK does not negotiate directly on its own behalf but has to come to a common position within the EU.

VI. Trade agreements and negotiations

The most important trade negotiating body is the World Trade Organisation, based in Geneva, currently with 146 member states and more queuing up to join. The WTO came into being after the completion in 1994 of the seven-year 'Uruguay Round' of trade negotiations. In addition there exist over two hundred regional trade agreements, such as the North American Free Trade Association (NAFTA) linking the USA, Canada and Mexico, which came into force in 1994. Negotiations are under way to create a Free Trade Area of the Americas, covering all countries except Cuba.

The standard belief underlying trade negotiations is that liberalisation, the progressive and reciprocal reduction of tariff barriers, will deliver benefits for all, rich and poor alike. The advocates of free trade point to the tit-for-tat imposition of tariffs in the 1930s that formed the economic backdrop to the Second World War, and argue that an integrated, mutually dependent world economy will reduce the threats of economic nationalism and beggar-thy-neighbour policies.

Indeed, the Uruguay Round and the WTO may well have brought benefits to some developing countries. The share of exports from developing countries in total world exports increased from 23 per cent in 1991 to 31 per cent in 1998 (10), creating employment for tens of thousands of workers. Aggregate statistics, however, should be treated with caution. Always there are winners and losers. In fact the gains have been concentrated in relatively few countries, while others have barely maintained their exports or have lost ground. Within countries, too, some have gained, some lost. In fact, it is often the poorest who have lost from trade liberalisation, for they may lack the experience and capacity to contribute to the new export-orientated industries, and so have little to offer the global market. It is clear that to achieve poverty reduction on the scale envisaged by the Millennium Development Goals, the poorest countries will need to integrate with the global economy rather than marginalise themselves from it. The central question, however, is the terms on which integration takes place. If trade rules are to take account of the needs of the poorest and most vulnerable sectors of society, the process of liberalisation must not override such primary development goals as poverty reduction, health and education.

The manner in which trade liberalisation is being driven forward today gives rise to additional problems. The rich countries of the north resist reducing the support they give to many of their own industries: for instance, they continue to subsidise agriculture and have not yet fulfilled their commitment to dismantle barriers protecting their textile industries. Even advocates of trade liberalisation acknowledge that the protection given to agriculture by the European Union, Japan and the United States contradicts their demand that developing countries should continue to reduce their tariffs on imported goods. The powerful countries seem sometimes to adopt an almost crude approach: 'You liberalise, we subsidise'.

To speak positively, we note that the European Union maintains a web of preferential trade agreements, giving some of the poorest countries (mainly former colonies in Africa, the Caribbean and the Pacific) access to European markets while levying higher tariffs on food imported from others. In September 2001, the European Union moved to widen this preferential access, proposing its 'Everything but Arms' initiative to remove tariffs on imports, on all products except arms, from the 48 Least Developed Countries. Even in this case, however, concerted lobbying by European producers resulted in a substantial dilution of the proposals for sugar, rice and bananas – precisely those products in which developing countries enjoy a significant competitive advantage.

VII. Trade, agriculture, and the lives of the poor

Despite its positive aspects, the Uruguay Round continues to be a source of recrimination between developing and developed countries because it permitted the industrialised countries to continue to protect and subsidise agriculture and their textile industries – precisely those areas in which developing countries enjoy comparative advantages that would allow them to benefit from trade. In industrialised countries agricultural subsidies and support are now worth approximately £200 billion a year. As a consequence European exporters are able to sell food to developing countries for even less than the cost of production. Agricultural subsidies were introduced originally in the 1950s to enable the European Union to become self-sufficient in food, but they now no longer seem an appropriate way to achieve the necessary aim of supporting the numerically small and economically vulnerable rural communities in Europe (11).

This matter is so important because of agriculture's crucial place in developing countries. Whereas agriculture provides employment for 1 per cent of the labour force in the United Kingdom and the United States, and no more than 4 per cent in the European Union as a whole, in some African countries up to 80 per cent of the population depend wholly or partly on agriculture for their livelihood, so that a prosperous agricultural sector is a key step on the road to development (12). Farmers in developing countries who earn a surplus provide a market for the production and distribution of other locally-made goods such as farm implements, household utensils, agricultural chemicals, and perhaps even a radio or television. Artificially cheap imports destructively undercut the prices local farmers must charge to survive, and therefore blight local economies.

The protection and subsidies provided to the dairy industry in the EU, for instance, amounts to two dollars a day per European dairy cow the income level of half the world's population. Over-production inevitably results, and surpluses are exported to – dumped in – developing countries where farmers, producing without subsidy, cannot compete. In Jamaica and South Africa the export of milk powder from the European Union has driven small dairy farmers out of business.

NAFTA, the trade treaty linking the US, Canada and Mexico, offers another example of the dangers of combining trade liberalisation between unequal partners with the preservation of subsidies by the wealthy. The livelihoods of tens of thousands of small family farms have collapsed because Mexico was pressed to reduce tariffs on imported maize, even though United States farmers continued to receive generous subsidies from their government.

VIII. The challenge poor countries face in trying to change the rules

How has all this come about? For a start, developing countries lacked capacity to negotiate effectively in the Uruguay Round. Even now, after the establishment of the WTO, 24 developing countries are without a representative there, so learn only at second-hand what is being negotiated. Other countries may often have only two or three delegates who must strive to follow parallel negotiations, involving multiple meetings on different subjects on the same day. The rich nations of the north, by contrast, maintain large permanent delegations in Geneva and can fly in expert trade lawyers for key negotiations. Their governments and delegations are constantly lobbied by multinational corporations seeking to safeguard their existing operations and to exploit new opportunities. In such ways, the capacity and skill of developed countries in using WTO rules to their own advantage puts developing countries at a severe disadvantage (13).

Trade negotiations do not take place in a world insulated from other commercial and political pressures. Developing countries might be induced to adopt positions by the offer of preferential bilateral relations with powerful northern countries, by defence deals, or by the threat of reducing aid. Such negotiations will rarely produce just results. Indeed, no human institution can be sealed off from the realities and the stark inequalities of power and wealth. In his encyclical letter *Populorum Progressio*, Pope Paul VI stressed this point forcefully:

> *When two parties are in very unequal positions, their mutual consent alone does not guarantee a fair contract; the rule of free consent remains subservient to the demands of the natural law. … trade relations can no longer be based solely on the principle of free, unchecked competition, for it very often creates an economic dictatorship. Free trade can be called just only when it conforms to the demands of social justice.(14)*

Nevertheless, in this area too, some commendable steps have been taken to right the imbalance. Developing countries are beginning to work in groups, sharing information and expertise, so that each member state knows its interests are being considered without necessarily being separately represented. In this way they can become more of a counterweight to the longer-established regional blocs. This organisation and determination played an important part, for example, in determining the outcome of the Doha meeting of the WTO. Developing countries have also made a forceful case for special flexibility in protecting their small farmers from the dumping of staple food crops, a case which has been to some extent accepted by the European Union and other developed countries in the negotiations.

IX. The WTO and intellectual property

The Uruguay Round gave the WTO responsibility for the establishment and oversight of a global system of intellectual property rules, known as TRIPs (Trade-Related Intellectual Property Rights). It is intended that every country will ultimately enshrine the rules of the TRIPs agreement in national legislation. The agreement gives patent holders a monopoly over their patented products for a period of 20 years. During this period they may decide to manufacture the product themselves or may license their patent to other companies which will pay royalties. The purpose of patent regimes is to reward (and therefore stimulate) the effort and investment required to bring new products to market.

Currently developed countries hold 97 per cent of patents worldwide, and over 96 per cent of research and development is conducted there. They compete fiercely among themselves, and the rules are designed to regulate that competition. Thus the dominant perspective of the TRIPs agreement is that of highly developed economies. In 2002 the Commission on Intellectual Property, set up by the UK Government's Department for International Development concluded:

> *Too often, the interests of the 'producer' dominate in the evolution of intellectual property rights policy, and those of the ultimate consumer are either not heard or not heeded. In discussions of intellectual property rights between developed and developing countries, a similar imbalance exists. Developing countries negotiate from a position of relative weakness. The difficulty is that they are second-comers in a world that has been shaped by the first-comers. (15)*

The Commission therefore concluded that intellectual property rules were too often skewed in favour of commercial interests based in developed countries. Conversely, developing countries, especially the poorest, had little to gain from a stringent international patent system.

This imbalance may be illustrated by the current dispute about patents and the drugs needed to treat HIV/AIDS and its symptoms. HIV/AIDS is first and foremost a human tragedy of almost unimaginable proportions, devastating families and whole communities. But it is also an economic disaster: in robbing countries of millions of workers in the most productive years of their lives, it has also crippled the economies of sub-Saharan Africa. Other diseases, particularly malaria and tuberculosis, also cause millions of deaths in developing countries, in large part because effective drugs are beyond the financial reach of all but their richest citizens.

Health and development organisations are calling for the drugs needed to treat these diseases to be made readily available on the basis of need. However, the pharmaceutical companies that develop the drugs, and some governments of developed countries, insist that the patent system and the companies' control over the price of drugs are necessary to protect the research that will lead to new medical discoveries. These battles are being fought out in WTO committees. It is governments that negotiate at the WTO, but they are heavily lobbied and influenced by their pharmaceutical companies, which fear that concessions might erode profits and future research capacity. Only a tiny percentage of drug sales and profits are generated in the poorer developing countries, however, and the marginal cost of producing drugs, once the research and clinical trials have been completed, is very small. For these reasons, at least in the short term, pharmaceutical companies would lose little if their drugs were sold more cheaply, or were manufactured by low-cost producers in countries such as India, South Africa or Brazil.

The Church values the contribution that private enterprise can make to development, yet also insists that the principle of private property must always be weighed against the social welfare and the basic needs of poor people. As the 1997 document The Common Good expressed this principle, ownership is governed by a 'social mortgage'. 'Past abuses of the ownership of wealth have led Catholic Social Teaching to accept significant restrictions on the rights of property owners'. In fact, individual and company gain can never be made absolute over and against the common good.

All too often, the fruits of scientific progress, rather than being placed at the service of the entire human community, are distributed in such a way that unjust inequalities are actually increased or even rendered permanent. The Catholic Church … has consistently taught that there is a 'social mortgage' on all private property, a concept which today must also be applied to 'intellectual property' and to 'knowledge'. The law of profit alone cannot be applied to that which is essential for the fight against hunger, disease and poverty. (17)

X. Commodities and the terms of trade

The issues for those developing countries that depend on the export of such commodities as coffee, tea, cocoa and sugar, are different again – and are still more complex. Although frosts, blights and droughts in one region may raise short-term prices elsewhere, the trend of commodity prices has been relentlessly downwards. For there is a limit to the market for primary products: after all, as people's income increases, they do not drink more and more coffee or tea. Yet many developing countries, still operating within the economic role first assigned to them by colonial powers, depend overwhelmingly on exports of raw materials to pay for such essential imports as medicines, buses, oil, communications equipment and agricultural machinery and chemicals – of which the prices have risen inexorably. This continuing shift in the terms of trade, when linked with the declining value of many small countries' currencies, and the control of supply chains by the major transnational companies, is a critical obstacle to economic growth and development.

Even those countries that have diversified away from primary commodities face a hard struggle. The second step on the development ladder for many countries has been the establishment of a clothing industry dependent on plentiful cheap labour (usually, overwhelmingly female), willing to accept low wages for long hours of fast and accurate sewing. So many countries have taken this route, however, that fierce competition has driven prices down, so that the terms of trade are moving against them too. Massive exports of used clothing from industrialised countries further undermine clothing and textile industries in developing countries. It is estimated, for example, that imported used clothing accounts for up to 60 per cent of the entire clothing consumption of Ghana (18).

While there are no easy solutions to these problems, UNCTAD suggests that middle income countries, such as Mexico or Thailand, could 'make space' for less developed countries by moving out of the more labour-intensive industries like textiles and electronics, which use large numbers of relatively unskilled workers in repetitive tasks. To achieve this they would need to invest more in the skills of their workers so that they could undertake more technically challenging work, such as design, and add more value to their products. Such countries would need also to rely less on exports to the markets of rich countries and seek to develop their own internal markets (19). This in turn would entail adopting tax and policy measures to distribute income more evenly among the population (20).

For many countries there are further and more fundamental problems: that they would be unable to take advantage of reforms designed to benefit poor countries. Many do not have the capacity to produce goods of sufficient quality to sell in the world market and lack the organisation and entrepreneurial capacity to take advantage of the opportunities for trade that do present themselves. In parallel with the need to make trade rules more favourable to poor countries, international institutions and donor countries should be helping developing countries to build up their capacity to trade.

XI. Equitable participation

The alternative to a relentless drive towards trade liberalisation is the agreement of trade rules that acknowledge more explicitly the chasm in economic strength and trading capacity between rich and poor countries. *The restoration of the 'level playing field' advocated in so many discussions of trade will not of itself balance a system that is so seriously distorted.* An *affirmative* approach would allow developing countries both to protect their industries and to provide subsidies, within agreed limits. Such protection could be graduated, to be reduced as countries progressed economically, using indicators such as income per head. Such an agreement would in some measure restore policy-making on trade to individual countries rather than locating it entirely in a set of rules administered through the WTO. The agreed rules could still function to avoid the dangers of economic nationalism to which we referred earlier (21).

A counter-argument has been made, that such freedom could be used, for example, to protect inefficient local monopolies that survived only by enjoying political patronage. This danger would be reduced by the integration of trade policy into the consultations on poverty reduction that the seventy poorest countries must undertake to qualify for debt relief and assistance from donor nations and the World Bank. We are slowly moving towards a situation where transparency regarding all international economic relations, including trade, is becoming the norm. This trend emerged from the concern that resources released by debt cancellation ought not to be squandered in luxury spending or prestige projects, but need to be invested in education, health and infrastructure. In order to qualify for debt relief, debtor governments undertook to consult with civil society in drawing up Poverty Reduction Strategy Papers (PRSPs) that were designed to set out priorities for poverty reduction.

While experience with PRSPs to date has been mixed, the best offer an encouraging way forward for countries to create a consensus around poverty reduction and development priorities. Being such an essential element of poverty reduction, trade could usefully be included in poverty reduction consultations alongside debt relief and aid. For the freedom of choice offered by the PRSP process to be genuine, consultation must not be limited to discussions of *how* to deregulate and liberalise trade, as mandated by the international financial institutions, but must extend to the question of *whether* and *when* to liberalise trade. This is not to say that trade policy ought to be determined *solely* by the demands of poverty reduction. A comprehensive approach, however, - to include also such matters as sustainable development strategies and conflict management – would reflect the Church's concept of integral human development (22).

XII. The fair trade movement

The advancement of the poor through trade, however, requires more than action to change the structures of international trade. We have emphasised what governments, especially the governments of developed countries, can do by injecting into trade negotiations a proper concern for development. At another level, there is a heartening trend for major companies to commit themselves to ethical trading policies. Further, individual consumers in affluent societies will have to bear some of the cost of a system of trade and trade rules that ensures that producers, whether farmers or workers in garment and electronics factories, can aspire to the 'decent work' – which includes a living wage – advocated by the International Labour Organisation, and by the social teaching of the Church:

> *…the criterion for these pacts and agreements must more and more be the criterion of human work considered as a fundamental right of all human beings, work which gives similar rights to all those who work, in such a way that the living standard of the workers in the different societies will less and less show those disturbing differences which are unjust and are apt to provoke even violent reactions. (23)*

One striking sign of hope in recent years has been the progress made by the 'fair trade movement'. This movement is also a an exercise of solidarity and personal responsibility, and has encouraged individual buyers to bear in mind the global impact of their purchases, thus emphasising that our choices matter, as a personal contribution to a fairer system. As people become more conscious of what they buy, they also become more aware of the political and structural realities, and are better placed to advocate for change. This awareness also helps prevent the dangerously facile assumption that the world's injustice can be remedied by some adjustment of 'the system', without our personal commitment to allow our own lives to change. As the Catholic Bishops' Conference of Scotland wrote in a pastoral letter on development, in 1995:

> *The poor and the hungry, the sick and the persecuted are still with us, not because it was unavoidable, but as a result of economic and political decisions. These decisions are made consciously by governments and multinational companies. They are also sustained by our way of life and unconscious consumer habits - the things we buy to eat, drink, wear and use - which can have a devastating effect on the economics of faraway countries.(24)*

No system, however universal and complex, functions without the element of human choice. It is part of Christian witness in this matter to insist that personal lifestyle and the global economy are not separable realms of reality.

Fair trade purchases come, literally, at a price: consumers pay more for their product. Those who are supporters of fair trade do so voluntarily. They are presently a relatively small minority, though their number and influence are rising. For instance, many supermarket chains, major economic actors, have over the last few years been pressed into offering such products. The fact that relatively affluent consumers will make some personal gesture of sacrifice and solidarity is highly significant.

The fair trade movement has helped influence corporate conduct too, such as the codes of practice by which large retailers in the UK undertake to ensure that certain health, environmental and labour standards are observed in the factories that supply them.

Naturally we cannot rely on voluntary codes and individual (or even collective) expressions of concern to change a system that is biased against the poor. The principle of subsidiarity requires that decisions be taken as close as possible to the people and communities who will be affected by them, and is frequently deployed as an argument against excessive centralisation: but it can also rightly be invoked to justify regulation at a national or international level, when local or individual action would be insufficient. The regulation of global markets is such a case. As we have argued throughout, just international agreements and standards are necessary to regulate markets that are so heavily weighted against the poor.

Now that commerce and communications are no longer bound by borders, it is the universal common good which demands that control mechanisms should accompany the inherent logic of the market. This is essential in order to avoid reducing all social relations to economic factors, and in order to protect those caught in new forms of exclusion or marginalisation. (25)

XIII. Policies of protection and support in the wealthy countries

In the light of Catholic Social Teaching, we believe that the wealthy countries of the north must implement reforms in their own domain if globalisation is to be made to work for the poor. In particular, negotiations are under way to reform the Common Agricultural Policy (CAP) of the European Union but progress is glacially slow. The CAP currently accounts for 45 per cent of the entire European Union budget, yet it hardly serves the well-being of smaller European farmers, for even with the subsidies and protection provided by the CAP small farmers in Europe are hard pressed to earn a living wage. Meanwhile, the CAP undermines the livelihoods of millions of farmers overseas. Already it is recognised that the CAP is unsustainable and cannot survive in its present form once Poland and the other nine 'accession countries' qualify for equal treatment in 2012. But nine years is a long time to wait for developing countries that are mired in poverty (26).

The most damaging form of protection in the European Union is export subsidies, which reward over-production and encourage the dumping of surplus products in export markets. We believe these should be phased out as soon as possible. Secondly, both the European Union and the United States should reduce the subsidies paid directly to farmers. It is increasingly being argued that the least damaging form of subsidy is to pay farmers to preserve biodiversity and to maintain the countryside by making environmental investments, such as planting and preserving hedgerows and moving to less chemical-dependent forms of agriculture. Accordingly, some experts are speaking of the shift from a 'Common Agricultural Policy' to a 'Common Rural Policy' that will include livelihoods dependent on the environment and recreation as well as production, and will accept that farmers are not the only sector of society with a vital interest in the countryside. This approach seems highly promising, so long as farmers are not unjustly penalised.

Following this approach, the European Commission has proposed certain significant changes to the CAP as part of its 'mid-term review' (2000-06). Subsidies might be decoupled from production and exports, and directed more towards supporting rural development and environmental protection (27).

Meanwhile, it has been agreed to limit the budget for CAP at roughly its current £30 billion *per annum*. When the new member states join in 2004, the same amount will begin to be spread more thinly. By the time they qualify for equal treatment in 2012, everyone will be receiving less than they do now.

It is evident that the European Commission is making genuine attempts at reform, and these need to be acknowledged and encouraged. Such reforms will be difficult to achieve, and indeed they are being fiercely resisted by some member states. One ought to remember, however, that throughout the 1980s and 1990s, heavily indebted countries were forced to undertake painful and far-reaching reforms to liberalise their economies and open them up to market forces. Across the developing world hundreds of thousands of workers in state-run enterprises and government offices lost their jobs and received scant compensation. Farmers who had received subsidised fertiliser and pesticides were suddenly obliged to pay the full market price. Factories closed and laid off workers when they were forced to compete with imported products on which import duties had been scrapped. These measures were together known as 'structural adjustment'. The resources available to Europe and the United States to cushion the shock of reform, and to promote training and assistance for those adversely affected, are incomparably greater than those that were made available to developing countries for their structural reforms. It is vital that the costs of reform are not borne by the poorest and most vulnerable members of our own society: yet it can still be argued that the implementation of such reforms would constitute the necessary 'down payment' on the part of developed countries, so globalisation can work for the poor (28).

In discussing reforms that should be made by industrialised countries, we should not ignore what developing countries can do for their own development. As has been noted, some countries have progressed in the face of an international system seemingly loaded against them. Governments in developing countries have their own responsibility to strengthen the judiciary, tackle corruption where necessary, promoting administrative transparency, and nurture democratic politics, as well as to work directly for poverty reduction. These goals are collectively termed 'good governance', and we know this cannot be taken for granted anywhere in the world. But trade and investment will come only if the conditions to sustain it are present; and experience suggests that good governance does more to encourage foreign and domestic investment, trade and enterprise than any number of externally negotiated agreements.

XIV. Catholic Social Teaching and trade

The economy is not to be taken as the ultimate determinant of human life. Pope John Paul II has stressed that 'economic freedom is only one element of human freedom', and that 'the economy… is only one aspect and one dimension of the whole of human activity'(29). Without a sound economy and the capacity to participate in it, however, most people will be impeded from realising their full human potential. As we have argued, the governments of developing countries can themselves do much to improve the human and economic rights of their citizens without reference to external rules, and with comparatively little external help. Not least, trade is an internal civil activity before it becomes an international process.

However, the external economic environment does much to determine the scope for developing countries' advancement. If all their efforts to earn their way in the world and invest in poverty reduction are frustrated by falling commodity prices; if their rural livelihoods are undermined by the dumping of surplus food; if their exports are systematically blocked by trade barriers; then the developed world is colluding in a worldwide denial of economic and social rights. In arguing for more aid or for debt cancellation, it is easy to fall into the trap of regarding the people of the developing world as objects of philanthropy. We need a fuller concept of solidarity and partnership.

It will be necessary above all to abandon a mentality in which the poor - as individuals and as peoples - are considered a burden, as irksome intruders trying to consume what others have produced. The poor ask for the right to share in enjoying material goods and to make good use of their capacity for work, thus creating a world that is more just and prosperous for all. (30)

As we argued in the section on Fair Trade, rules can set limits to individual and corporate self-interest, for the common good. But the search for trade justice transcends any possible system of rules, since justice is a virtue, the fruit of the acts of free human persons: thus trade justice requires the active participation of consumers, producers and workers.

As we have seen, Catholic Social Teaching identifies the economy as fundamentally directed towards the well-being of persons and communities. We can therefore apply to trade the same criterion that Pope John Paul II applied to globalisation in May 2003, when he addressed the Pontifical Academy of Sciences:

> *There can be little doubt of the need for guidelines that will place globalisation firmly at the service of authentic human development - the development of every person and of the whole person - in full respect of the rights and dignity of all.(31)*

Trade, like globalisation, is not an end in itself: it is evaluated by its relationship to a more comprehensive human good. It is in this spirit that we would advocate that the World Trade Organisation, though principally a negotiating forum for trade and an arbiter of trade rules, could fruitfully adopt the Millennium Development Goals as the over-arching framework for its policies. This step would enable it to call negotiators and the governments they serve to look beyond narrow national advantage to the wider interests of humanity.

The Pope's criterion for a humanly acceptable globalisation has also been adopted in a document written in December 2000 the British Government's Department for International Development, a White Paper entitled, *Eliminating World Poverty: Making Globalisation Work for the Poor*.

Globalisation, a priori, is neither good nor bad. It will be what people make of it. No system is an end in itself, and it is necessary to insist that globalisation, like any other system, must be at the service of the human person; it must serve solidarity and the common good. (32)

All that we have said suggests that if globalisation is to enhance human welfare, rather than to embody the dominance of the wealthiest countries, the Church and other communities of faith as well as governments, international organisations, civil society organisations and individuals must all play their part.

The promotion of justice is at the heart of a true culture of solidarity. It is not just a question of 'giving one's surplus' to those in need but of helping entire peoples presently excluded and marginalised to enter the sphere of economic and human development. For this to happen, it is not enough to draw on the surplus goods which in fact our world abundantly produces; it requires above all a change of lifestyles, of models of production and consumption, and of the established structures of power which today govern societies. (33)

It is governments that negotiate the ground rules of trade in the WTO and elsewhere. But it is the function and duty of governments to act in the name of and with the mandate of their peoples. As the Jubilee 2000 campaign for debt remission showed, ordinary people acting together can deeply affect government policy. Many of those who campaigned on debt are now aware that trade rules must be changed in order to prevent the countries that have benefited from debt cancellation – inadequate though it may be – from falling back into unpayable debt. Such campaigning is solidarity in practice. Such collective action expresses the Christian conviction that the 'market', properly understood, can allow for a balancing of freedom with responsibility and of prosperity with solidarity. A *global* market calls for *global* solidarity.

A global world is essentially a world of solidarity! (34)

1 June 2003

NOTES

(1) Life, Debt and Jubilee, 1999, published by the Catholic Bishops' Conference of England and Wales and the Catholic Bishops' Conference of Scotland, in association with CAFOD and SCIAF.
(2) Populorum Progessio, (Pope Paul VI), Vatican City, 1967; para 8
(3) 'World inequality has increased (using the same sample of countries) from a Gini of 62.5 in 1988 to 66.0 in 1993. This represents an increase of 0.6 Gini points per year. This is a very fast increase, faster than the increase experienced by the US and UK in the decade of the 1980's.' True world income distribution, 1988 and 1993:First calculation based on household surveys alone, Branko Milanovic, World Bank, Development Research Group.
'… in terms of purchasing power parity, the average income gap between poor and rich countries widened in the 1990s from 1:5.4 to 1.73.' Rigged Rules and Double Standards - trade, globalisation and the fight against poverty, Oxfam, 2002. page 67. These ratios are based on figures provided by the UNDP Human Development Reports for 1994 and 2001.
'Sub-Saharan Africa has suffered a catastrophic loss of market share, extending over three decades. During the 1990s the region lost another quarter of its world market. It now accounts for only 1.3 per cent of world trade.' Ibid. page 69
(4)People living on under one dollar a day - 450 million in India and 200 million in China. Source: World Development Report 2002, World Bank, Washington D.C. 2002
(5)The eight Millennium Development Goals are as follows:
1) to eradicate extreme poverty and hunger;
2) to achieve universal primary education;
3) to promote gender equality and empower women;
4) to reduce child mortality;
5) to improve maternal health;
6) to combat HIV/AIDS, malaria and other diseases;
7) to ensure environmental sustainability;
8) to develop a global partnership for development.
Life, Debt and Jubilee, Section 2
(7) *Populorum Progressio*, para 56
(8) As this document goes to press, Stephen Byers, till recently the Trade and Industry Secretary, wrote: 'No one should doubt the hugely significant role that international trade could play in ending poverty . In terms of income, trade has the potential to be far more important than aid of debt relief for developing countries. For example, an increase in Africa's share of world exports by just 1% could generate around £43m - five times the total amount of aid received by African countries'. *The Guardian*, 19 May 2003
(9) No doubt, also, the satisfactory development of some countries will require reform of their systems of governance. That is not the subject of this document, though it is mentioned briefly in Section 12.
(10) *Globalization and Human Development in South Asia* 2001, Mahbub ul Haq Human Development Centre http://origin.island.lk/2002/03/17/busine06.html)
(11) The World Bank's Global Development Finance report for 2003, released in April, calls on industrial countries to reduce agricultural subsidies and trade barriers that discriminate against exports from developing countries. Regarding the role of developed countries, the report said that they could support development most directly 'through coherent aid and trade policies that promote development.'
(12) We naturally acknowledge that in some European countries, such as Ireland, the agricultural sector remains highly significant.
(13) It is true that the WTO disputes carrying the heaviest financial penalties have been conducted between developed countries themselves.
(14) *Populorum Progressio*, para 59
(15) *Integrating Intellectual Property Rights and Development: Report of the Commission on Intellectual Property*, London, September 2002, Executive Summary
(16) *The Common Good and the Catholic Church's Social Teaching*, Catholic Bishops' Conference of England and Wales, 1996, Section 109.
(17) *Address to the Delegation of Jubilee 2000* by Pope John Paul II, Vatican City, 23 September 1999
(18) Research by the Swiss Academy for Development, quoted in *Issues related to the Implementation of the Agreement on Textiles and Clothing (ATC) and other WTO Agreements & Their Implications for Developing Countries*, paper by Xiaobing Tang, p.11 (60th Plenary Meeting of the ICAC - Cotton: An African Renaissance Victoria Falls, Zimbabwe, 16-21 September 2001
(19) *Trade and Development Report 2002*, (Chapter IV: 'Competition and the Fallacy of Competition'), UNCTAD, New York and Geneva, 2002
(20) In Mexico, a country with an average income per head of $5,080, the top 10 per cent of the population receive 41% of national income and over a third of the population live on an income of less than two dollars a day. *World Development Report 2002*, World Bank, Washington D.C., 2002.
(21) A similar point can be made about investment. Given the imbalances already present in the WTO system, the injustices that need to be corrected and the sheer complexity of the issues currently under negotiation, , it may seem surprising that the developed nations, including the European Union, wish to add to the WTO's negotiating mandate four new issues (investment, competition, transparency in government procurement and trade facilitation). The objective of the proposed negotiations is ultimately to oblige the governments of developing countries to treat foreign investors in precisely the same way as they treat companies based in their own countries. Developing countries would be prohibited from imposing special conditions on foreign companies: from compelling them, for instance, to transfer technology to local companies or from requiring a certain proportion of their inputs to be provided by local firms. The rationale for such an investment agreement is that developing countries urgently

need foreign investment and the benefits that it can bring; and that investors need to be reassured that they will be treated fairly before they make a sizeable commitment to a developing country. Yet it is not clear that an investment treaty would work in this way. Indeed, the substantial flows of direct foreign investment to countries like China and Indonesia in the 1990s were achieved without the need for any international treaty. The desire for a treaty that will ensure 'equal treatment' contrasts with the positive discrimination towards their own industries, shown in the past by governments of today's developed nations as a means of building up their competitive strength, technology and expertise.
(22) An interesting recent report written for the Commission of the Bishops' Conferences of the European Community (COMECE) proposed that trade issues could best be addressed in the context of wider development concerns such as environment, labour, and health. The instrument for this integrated approach would be a forum bringing together the directors of the international agencies responsible for these matters, together with a delegated group of world leaders which the report terms the '3G', the 'Global Governance Group, formed possibly by those governments that are represented on the boards of the World Bank and the IMF. See, *Global Governance: our responsibility to make globalisation an opportunity for all*, A report to the bishops of COMECE, 2001
(23) *Laborem Exercens*, (Pope John Paul II), Vatican City, 1981; para 18.3
(24) 'Towards a world of solidarity', Catholic Bishops' Conference of Scotland, 1995, a letter marking the 30th anniversary of SCIAF.
(25) *Address by Pope John Paul II to the Pontifical Academy of Social Sciences*, (27 April 2001)
(26) As Britain's trade relationships are conducted through the European Union, any critical note in these comments is not intended to reflect anti-European sentiment, but only our own responsibility from the perspective of Britain.
(27) It is true that this process is no more than a 'review', and that any fundamental reform must wait until the re-negotiation of the EU's financial perspective post-2006.
(28) This document focuses on trade justice, so we do not discuss the suggestion that there are many things wrong with the CAP besides its impact on developing countries. Catholic teaching on respect for Creation, for example, could also inform the Church's response to the impact of CAP on the environment and rural economy. This document is written from the perspective of England and Wales: so we simply note the longer-term task for the Church itself in European countries with agricultural sectors, such as Poland.
(29) *Centesimus Annus*, (Pope John Paul II), Vatican City, 1991; para 39
(30) *ibid*.; para 28
(31) Address by Pope John Paul II to the Pontifical Council of Social Sciences (2 May 2003)
(32) Address by Pope John Paul II to the Pontifical Academy of Social Sciences, (27 April 2001)
(33) *Centesimus Annus*, op. cit., para 58
(34) Statement by John Paul II to United States President George W. Bush, (23 July 2001)