Trade Agreements and Developing Countries

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Arriving at trade agreements is part and parcel of the current trade processes between countries, regions and globally. Trade instruments include tariffs, non-tariffs, free trade zones, trade quotas, bilateral agreements and multilateral agreements. There are regional and global agreements to facilitate trade such as those negotiated within the World Trade Organization (WTO), the Asia Pacific Economic Cooperation (APEC), Organization of Economic Corporation and Development (OECD), and South Asian Association for Regional Cooperation (SAARC). The objective of trade agreements is to integrate all countries into a system in order to sustain each other and so that national governments can ensure the free flow of goods, services, labour, capital and technology transfer.

Despite all these different trade agreements, the World Trade Organization plays a key role in global trade. From the inception to the collapse of the Doha Round of Talks in 2006, the Least Developed Countries opposed the imposition of trade rules and in turn Developed Countries undermined suggestions from the third world. This is symptomatic of what usually happens with trade agreements: there are those that lose and those that gain in this system, usually with Developed Countries as winners in the equation and the third world, including Sri Lanka, as the losers.

The objective of this article is to discuss how regional and global trade agreements cause unemployment, trade monopolies of multinationals, budget deficits, collapse of local industries and how it leads to an increase in poverty levels. The factors that contribute to the destabilisation of the system can be discussed under the following headings: Agriculture, Foreign Direct Investment, Labour Mobility, Privatization, and the Open Market Policy.

Agriculture provides a livelihood to a major portion of the world's population and, in the case of Sri Lanka, this is so for 30% of the labour force. In the Lankan context, despite this fact, except for the tea, rubber and coconut industries, other agricultural products are as yet mostly at the subsistence level. The World Trade Organization and other trade organizations however pressurise the governments of Developing Countries to move away from intervening in agriculture by providing subsidies etc. Ironically, the Developed World subsidises their agriculture producers while advising countries like Sri Lanka (through global trade organisations) to reduce subsidies. Further, under the schemes of subsidisation in the countries mentioned above, farmers are given all inputs to agriculture including fertilizer, seeds, interest free loans and insurance.

This has a direct impact on farmers in Developing Countries for, what happens when trade agreements are implemented in these countries is that agricultural products from the whole world flow into them.

The question then is how can small producers in developing nations compete with large scale subsidised producers? Lankan farmers are not given low interest agricultural loans and 40% of agricultural loans are obtained from illegal sources for more than 70% interest per year, making the production cost higher than that of other countries.

Moreover, although the country had a good agricultural extension service since 1948 to the mid 1980s, the programme of reducing government intervention to agriculture has had a negative impact on extension services. Therefore, farmers are not able to obtain new knowledge, technology about farming systems or high yielding seeds and fertilizer; nor are they made aware of even the few subsidies available to them like fertilizer and seeds at concessionary prices.

The agreement of Trade Related aspects of Intellectual Properties (TRIPS) permits patenting of seeds and so we are not able to produce seeds locally and have instead to buy seeds from multinational companies for high prices. In the 1970 s we had seed farms in Palwehara and Meepelimana and had good harvests so that we were able to reduce production costs. Within the present scenario however, it is imperative that measures be taken to protect the livelihood of local farmers, perhaps following the example of India and Japan who protect their farmers through imposing laws.

Foreign Direct Investment is one of the main pillars of trade agreements. The main objective in seeking foreign investments is to reduce unemployment, get good prices for domestic primary products, increase foreign exchange and domestic value addition. In the last three decades, however, Sri Lanka has lost more than she has gained. In the early 1950s we were able to carry out development projects (Gal Oya) without seeking foreign investments or loans. This has long become an impossibility.

We now allow foreign investors to use local labour, domestic materials and tax holidays without barriers; all investments fall into the labour-intensive category like garment and shoe factories where local addition is very low and all materials are imported, defeating our objective. We permit investors to take away our little foreign exchange. Countries like India make demands on foreign investors but, in a situation where close monitoring is lacking, controversial investors can come into a country. A good example is the case of *Vanaspati* in Sri Lanka. It is of significance that since 1977 we have not been able to increase our foreign exchange over imports.

Labour mobility is beneficial to Developing Countries like Sri Lanka to decrease poverty levels. Presently, over 400,000 unskilled labourers work in the Middle East. The WTO always emphasises free flow of capital, labour and technology. The WTO allows developed countries to close their labour markets and so a free flow of labour from the Third World to the “developed” region is not permitted. The price of labour in developing countries is cheaper than in developed countries. If labour is allowed to flow freely, developing countries will be able to achieve competitive prices. Developed countries however use this cheap labour to merely increase their profits.

Developing countries are advised to reduce their public sector; however, although developed countries have private enterprise based economies, they maintain sizeable public sectors as well. Thus, government spending as a percentage of the GDP is 52% in Sweden, 50% in Denmark and France, between 40% and 50% in Japan, Belgium, Italy, Germany and the Netherlands.

The WTO pressurized third world countries to privatise essential service such as education, healthcare, energy, transport and reduce government expenditure. We are however not able to reach our goals by privatising all our essential services as we do not possess an empowered investing class capable of this kind of investment.

On other hand, more than 40% of the population live below the poverty line (two dollars per day). They are not able to buy essential services. Despite being a low income country, Sri Lanka has maintained health and educational standards due to government interventions. Thus, in spite of the presence of international fee-paying schools in Colombo, people try to send their children to government and semi-government schools.

The SL Government has privatized their own enterprises in the last three decades such as transport, insurance, Gas and oxygen. What, one may ask is the final result? After privatizing the gas industry, there is a monopoly between two companies; they increase prices alternatively, presenting their own reasons that must inevitably be accepted. Rural commuters still depend on government transport services. So privatization has not helped in the upliftment of the living standards and conditions of the poor in this country.

An Open Market is the most important component of trade agreements. The WTO pressurises all governments to open their markets to enable a free-flow of global goods and services. Under the open market system we can see Porsches, Jaguars, BMWs, and Benz cars on Sri Lankan roads; local shops sell international branded clothing and footwear, and fast food outlets common in Western countries have been opened. The problem is not the availability of these products to the Lankan consumer but that these products are very exclusive and are enjoyed by approximately 1% of the population. However, the final result is that we spend our hard-earned foreign exchange to import these items. Thus, for instatce, we spent more US$100 million to import non-essential foods in 2008.

Further, the Open Market has ruined the chances of successful local industries being operated. We had a good shoe industry and with a considerable labour investment but importing cheap foreign products has resulted in its demise. Thus, we import things we can produce; for instance, from 1960s to 1985 we had lorry body workshops in Moratuwa and a bus body manufacturing workshop in Werahera; we imported only chassis and our carpenters did a good job putting it all together and additionally did the repairs too. We were able to preserve foreign exchange by not importing things we can produce locally. Thus a fully Open market does not help Developing countries overcome poverty.

I have only discussed the negative repercussions of trade agreements. In a global world, clearly no country is able to survive if they totally ignore trade agreements. On the contrary, countries like China and India have profited and have even reduced their poverty levels through effectively managing trade agreements. Clearly then, we too have opportunities to benefit from trade agreements and foreign investments. We were accordingly able to increase our exports to the European Union annually under GSP+. Likewise, in bilateral agreements such as that with India, our total exports of US$58 million in 2000 were increased to $515million by 2007. Further, our infra structure system has gained much. In the 1990s we had to wait for many months to get telephone connections (and before that for many years!), we can now get a connection almost immediately.

Hence, Sri Lanka needs an apex body to strategically deal with the repercussions of trade agreements; we have to protect our farmers and their livelihood; we have to produce the things we can produce here and pressurise investors to use our materials and try to control our foreign exchange. Fulfilling these conditions will enable the reduction of the negative repercussions of trade agreements.