

Trade Justice Movement

Trade and the Tsunami

Background Trade Justice Movement Briefing for MPH

The Asian tsunami has caused massive damage to many Asian countries, already suffering from high levels of poverty and vulnerability. It is vitally important that the high profile relief efforts are accompanied by measures to address the long-term problems created by the Tsunami, or which now threaten to increase the vulnerability of the poorest groups within affected countries.

Tsunami affected countries, as well as other poor countries, will need a fairer deal on trade if they are to recover from the disaster over the longer term. Certain sectors are of particular importance to Tsunami affected countries. These include the sectors that have been disproportionately impacted by the disaster (for example fisherfolk). They also include those sectors that provide the vital economic growth and employment that will be needed to help affected countries recover.

The Tsunami and Clothing

The European Union and the USA should help disaster-struck countries by immediately improving access to their markets for exports that are vital to the region's economies. Increased exports of textiles and clothing, for example, could generate tens of thousands of jobs, raise incomes, and generate the foreign exchange that affected countries need for essential imports and the enormous challenge of post-tsunami reconstruction. In Sri Lanka, the clothing sector accounts for more than half of the country's total export income and provides 350,000 jobs, mainly for women.

It is now time for the USA and EU to end the punitive duties that affect the tsunami-hit countries. In 2003, the US and EU treasuries collected nearly US\$1 billion in taxes solely on Sri Lankan and Indonesian exports of clothing and textiles. These sums may well come close to the amount of aid they disburse.¹

Six days after the tsunami hit, on 1 January, the Multi-Fibre Arrangement came to an end. China and India will gain from the abolition of quotas but the former group of countries will lose out. Sri Lanka, for example, could lose 100,000 jobs as a result of the increased competition. Some analysts believe that Indonesia could lose even more. For these countries, the disaster could not have come at a worse time.

The EU and USA should immediately remove tariff barriers to imports of textiles and clothing from tsunami-affected countries. To avoid unintended discrimination, such zero tariffs should be extended to other poor countries that are highly dependent on textile and clothing exports.

The EU should also immediately simplify its 'rules of origin' affecting the Maldives and other Least Developed Countries, to improve their access to European markets. As one of the world's poorest countries, the Maldives should be entitled to supply clothes for the European market without paying import taxes, but the EU insists that both the fabric and the clothing must be made in the Maldives in order for goods to qualify – a condition that the Maldives, along with other poor exporting countries such as Bangladesh and Cambodia, cannot meet. As a result, the Maldives has to pay duty on three-quarters of its sales. Sri Lanka, a non-LDC, faces a similar problem: if it imports fabric from the cheapest source – China, for example – it pays higher duty in the EU. If it sources more expensive fabric from the region, it loses competitiveness. The rules of origin should be simplified for Sri Lanka and the few other non-LDCs highly dependent on clothing exports.

Transnational clothing and footwear companies have a responsibility to defer any decision to shift production out of tsunami-affected countries. Companies, such as GAP, Victoria's Secret, ASDA, Marks and Spencers, and NIKE, source goods from Sri Lanka and Indonesia. Some might have been

considering shifting their production from tsunami-affected countries to their cheaper competitors, such as China. Any relocation decision should be deferred. If and when production does move, it should be gradual, with full respect for labour rights, such as redundancy payments.

The Tsunami and Fisherfolk

Fisherfolk are amongst the poorest people in the region. They are also one of the most negatively affected communities, particularly in Tamil Nadu, India but also in Thailand, Indonesia, Sri Lanka, Somalia and the Andaman Islands.

Fisherfolk and their families have suffered tremendous loss of life and also devastation to their livelihoods, homes as well as their fishing gear and boats. The aquatic diversity of the region has also been devastated by the tsunami. Coral reefs have been destroyed by the force of the waves and are now choked with silt. Mangrove swamps and coastal breeding grounds for fish and other aquatic organisms have been severely damaged.

The impact of the tsunami has aggravated the problems already faced by fisherfolk of increasing pressures on the coastal environment from increased tourism and industrialised forms of fishing.

It is important that relief efforts channel support to fisherfolk's own existing local and regional groups and aim to support the artisanal fishing sector. This should be accompanied by a change in approach from the current marginalisation of fisherfolk communities in government and donor policies.

There is a concern in Sri Lanka, India and elsewhere, voiced by organisations of small-scale fisherfolk that relief efforts should focus on re-establishing the artisanal fisheries sector as a priority. In Sri Lanka, for example, an estimated 8000 small fishing boats, out-rigger *orus*, need to be replaced. The industrial fishery sector, which although an important foreign exchange earner in Sri Lanka was over-capacity and donations from the EU of decommissioned industrial fishing boats would make the situation worse. **We call on the UK government to direct its relief aid towards protecting the livelihoods, environment and markets of small-scale fisherfolk and rebuilding their boatyards, boats and fishing gear, as has been recognised as a priority by British fishing crews in their Fish and Ships initiative, and for HMG to resist pressures to send decommissioned boats as part of the UK/EU relief effort.**

It remains critical that any trade negotiations – for example on agriculture, fisheries and tourism - should not compromise the ability of communities affected by the tsunami to rebuild their livelihoods. Negotiations on Non Agricultural Market Access (NAMA), including fisheries and the General Agreement on Trade in Services (GATS) including tourism, should not compromise the ability of fishing and other coastal communities to rebuild their livelihoods. Particular attention should be given by WTO members to the right of countries to protect affected sectors – negotiations are currently underway.

The Tsunami, Aid, Debt Relief and Conditionality

Previously fragile local markets in many of the affected countries, made even more so by the tsunami, must not be forced open by economic conditions attached to aid and any subsequent debt cancellation.

Any aid and debt relief provided should not come with conditions related to trade liberalisation. Indonesia in particular has suffered from trade liberalisation conditionality attached to previous IMF programmes and this should not be repeated. Rural services and rural poverty, and therefore vulnerability, in Sri Lanka have also been detrimentally impacted from reductions in support to farmers and increasing charges on basic services.

Infrastructure and the provision of public utilities will have been devastated by the tsunami. Priority should be given to tackling these (supply-side) constraints to facilitate the trade of products and services onto local, national and international markets, where appropriate.

ⁱ In 2003, the USA collected US\$ 244 million from Sri Lanka's sales of textiles and clothing and US\$426 million from Indonesia's. The figures for the EU are US\$77 million and US\$180 million respectively (Oxfam estimates).