

## The impact of trade policy on HIV/AIDS

POLICY BRIEF NO.3

21 November 2006

### Trade Essential for Poverty Reduction

*“Trade has the potential to significantly reduce poverty. But that potential is not being realised because the rich countries are rigging international trade rules in their own national interest”* Oxfam International

There is an increasing body of development literature that clearly shows that international trade is vital for poverty reduction in all developing countries. However, the links between trade expansion and poverty reduction are in most cases neither simple nor automatic. In some instances these links are indirect rather than direct. It is further postulated by many trade economists that trade in general if conducted under the right environment and policy conditions can be an engine of economic growth and a powerful vehicle for poverty reduction. It has the potential to lift millions of people out of extreme poverty and thus create conditions necessary for sustainable development.

### An Uneven Playing Field

In Africa nearly 70 percent of the people directly depend on agriculture for their livelihood unlike in the developed countries where only 4-5 percent of the population depends on agriculture. However, the current trade policies characterised by a number of barriers in form of tariffs and tariff peaks, quotas, sanitary (hygiene standards) and phytosanitary (environmental or farm standards) measures are blocking African countries from realising their full potential. For instance, by employing tariff escalation measures on processed goods from poor countries the developed countries are retarding industrialisation in least developed countries. A number of current trade policies at both bilateral and multilateral levels are not sufficiently responding to the needs of poor countries especially in dealing with complex problems of poverty such as unemployment and the HIV/AIDS pandemic.

### SSA Is Regressing Due to HIV/AIDS

Human development in sub-Saharan Africa (SSA) has stagnated in recent years while progress in other parts of the world has accelerated, widening the gap between the world's richest and poorest countries states the 2006 United Nations Human Development Index (HDI) Report. The Report finds life expectancy in the region lower today than 30 years ago mainly because of HIV/AIDS. The HDI Report released in November 2006 shows that

after a setback in the human development in the first half of the 1990s, Central and Eastern Europe and the Commonwealth of Independent States recovered strongly, and progress since 1990 in East and South Asia continues to accelerate.

But regrettably the SSA which includes the Southern African Development Community (SADC) region shows no sign of improving. SSA has just over 10 percent of the world's population, but is home to more than 60 percent of all people living with HIV—28.5 million. In 2005, an estimated 3.2 million people in the region became newly infected, while 2.4 million adults and children died of AIDS. In 2005 the United Nations Secretary General Kofi Annan stated in his book, *'In Larger Freedom'*, that the HIV/AIDS pandemic now kills more than 3 million people each year and poses an unprecedented threat to human development and security. The disease is wrecking millions of families and leaving tens of millions of orphans. Almost 3 million African cases are children under the age of 15 years. It is estimated that more than 11 million children in Africa have already lost at least one parent to HIV/AIDS and the number is likely to reach 20 million by 2010.

The disease, moving like a ravaging Tsunami wave is attacking productive sectors such as agriculture (thus threatening food security in the region) and other key sectors that are crucial to economic recovery. The disease as noted by many analysts and development commentators threatens to decimate the entire populations, cripple national economies and reverse developmental gains so far recorded. It has overstretched national budgets by gobbling resources meant for investments that are essential to economic growth and development.

### Fair Trade Can Help But...

*“No single change could make a greater contribution to eliminating poverty than fully opening up the markets of prosperous countries to the goods produced by poor ones”* Kofi Annan, Secretary General of the United Nations.

As earlier stated, there is a link between trade and poverty reduction including the fight against HIV/AIDS. That is why, in our view, the Doha Development Round is important for African countries because it aims, inter alia, to give developing countries the opportunity to negotiate reductions in trade barriers, increase market access and improve other measures to help them reap the benefits of

The impact of  
trade policy on  
HIV/AIDS

Trade  
essentials

SSA

Fair trade

Social justice

international trade. Sadly, the talks on the Doha Round have stalled since July 2006 because major trading blocs—the European Union and United States of America were not willing to deal with agriculture subsidies decisively.

For the majority of Africans whose economies have been ravaged by the HIV/AIDS pandemic, promotion of fair trade would mean creation of quality jobs which in turn means money in people's pockets to enable them buy life-saving anti-retroviral (ARVs) drugs for their infected ones, provide food for malnourished children, send their children to school and build shelter for their families. These are human imperatives that need quick action from world leaders.

The World Bank estimates that freeing merchandise trade and eliminating subsidies could boost global welfare by up to US\$290 billion in 2015—that is equivalent to adding almost one and a half times the national income of all least developed countries (LDCs) combined to global welfare. Almost 45 percent of these gains would flow to developing countries. On the part of LDCs it is extremely important to undertake prudent commitments and concessions within the World Trade Organisation (WTO) frameworks in line with their individual development, financial and trade needs. Pressures to over-liberalise LDCs' economies especially in sensitive sectors should be resisted if poverty is to systematically be brought down.

### Carrot and Stick Game!

Most poor countries with severe HIV/AIDS crises are dependent upon foreign aid from wealthy countries, but must adhere to loan conditions from the International Monetary Fund (IMF), the World Bank and other bilateral and international creditors and donors. Some of the policy conditionalities attached to loans and debt relief such as user fees in schools and hospitals, unilateral liberalisation of economies coupled with tight fiscal and monetary policies are hurting the poor in the LDCs.

For example, the IMF using the poverty reduction and growth facility (PRGF) as its soft lending window to poor countries pushes for low inflation targets of between 5-10 percent for all situations—the usual “one-size-fits-all” prescriptions. But there is usually a trade-off between increased public spending which is essential to fight HIV/AIDS and low inflation targets. How are these countries expected to combat HIV/AIDS if public spending is restricted to extremely low levels in the name of curbing inflation? If we may ask further: at what levels does inflation begin to compromise economic growth? In the absence of strong evidence on inflation and its consequences, we think that the IMF by insisting on low

inflation targets is trying to have an omelette without breaking eggs!

### Delayed Intervention Is Delayed Social Justice

The HIV epidemic in its trail of destruction has seriously affected the trade and export potential of many regions including the SADC by wiping out the small-scale farmers and exporters, the skilled labour force and other entrepreneurs who are critical to the development of the export sector. More than just a public health crisis, AIDS has been undermining economic and social stability, ravaging health, education, agriculture and social welfare systems. While placing an enormous drag on economic growth, it has also weakened governance and security structures, thus posing a further threat.

### Light on the Horizon

However, it is gratifying to note that since 2000, the world has begun to achieve some successes in the fight against AIDS. More Governments have made it a strategic priority and set up integrated administrative structures to lead and coordinate the struggle. The Global Fund to Fight AIDS, Tuberculosis and Malaria, which Kofi Annan called for in 2001, now plays a leading role in the global effort, while also focusing attention on and fighting other killer pandemics. An increasing number of people in the developing world are receiving antiretroviral treatment — a welcome development. This reflects the priority that the international community has now placed on rapidly expanding treatment, and shows that a real difference can be made in a very short time. But these gains need to go hand in hand with the reform of the international trade arena in order to allow Africa reap full benefits from its numerous commodities in world markets. There is need for a clear time table as to when all trade-distorting subsidies will be removed in western markets and thus promote a culture of fair trade between and among nations.

While the gains in the fight against HIV/AIDS are generally noted, a lot more remains to be done especially by governments in the SADC that have not yet tackled the disease and its stigma publicly, or are not sufficiently committed to the kind of frank discussion and action on gender equality that is needed. In particular, resources for AIDS remain far short of what is needed to mount a full inclusive response and this is where trade if conducted under the right conditions could act as a financial buffer by providing the necessary revenues required to fight HIV/AIDS. Finally, national Governments, as well as bilateral and multilateral donors, must now take steps to meet some of these costs.

**Southern African Regional Poverty Network (SARPN)** [www.sarpn.org](http://www.sarpn.org)

IMF

SADC

SSA

PRSP