



Why do people need to trade?

People have always traded. Can you imagine trying to grow or make all your own needs? People need to buy and import goods they can't produce themselves. In theory, international trade offers all people and countries advantages: greater variety of food and goods; new ideas, expertise and technologies; economies of scale that reduce prices; competition that encourages efficiency; specialisation that efficiently allocates resources; greater employment in the export/import sectors and associated services. Countries also need earnings from exports to pay for imports and other developments.

The global economy has expanded enormously in the last 50 years. World exports of goods and services tripled from 1970 to 1997¹. The world now has more wealth and technology than ever before, but the big question is, who benefits from this? The problem is not with trade itself, but some of the inequalities and hardships created by global trade structures.

What has gone wrong?

From the 16th century, European countries established colonies in Africa, Asia and South America for the purpose of extracting items not available in Europe – tea, coffee, spices, gold. After the industrial revolution, the colonised countries produced raw materials that went to the industrial countries to be processed. Land and labour in the colonies were used to produce crops for export. Indian cotton and Australian wool went to the mills of England.

Even after colonies gained political independence, mainly in the years following World War II, the new nations were still economically tied to an unequal trading system. With limited capital, technology and market access, most continued to export raw materials and did not share in the much greater profits gained from the processing of products (or 'value-adding').

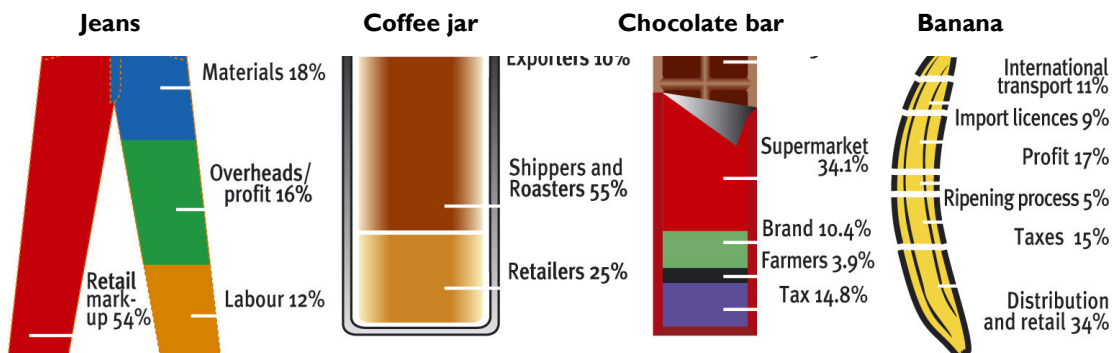
In practice, the world trade game is not played out on a level field, the teams are grossly mismatched, the more powerful make the rules, and not everyone gets a fair chance to be a winner.



People everywhere, including these people in an Ethiopian market, engage in trade, but smaller producers in developing countries struggle to compete for a share of global markets. Photo: Jan Warren.

Who gets what (proportion of final price)

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Only a fraction of the price paid by the consumer goes to the farmer who grew the crop.

Who makes the rules?

International trade takes place according to rules and institutions that have been developed since 1945. The General Agreement on Tariffs and Trade (GATT) was a loose trading arrangement that became effective in 1948. It provides a framework under which over 100 countries' governments negotiated rules and procedures to regulate trade. In eight rounds of GATT talks up to 1986 participating countries agreed to reduce tariffs on imported manufactured goods. Despite the aim to open up trade, and a general reduction in tariffs from an average of 60% to 5%, in practice the GATT largely protected the markets of developed countries from those of the developing world, by other barriers such as subsidies.

The final round of GATT talks began in 1986 in Uruguay. This 'Uruguay Round' lasted eight years and extended trade rules to new areas of the economy, including services, investments, intellectual property rights, agriculture and textiles. The World Trade Organisation was formed as a result of the Uruguay Round. The WTO with 136 members is one of the most powerful international organisations. Its rulings fundamentally affect our lives because it has 'teeth' – its rules, based on GATT agreements, are binding on its members. Countries breaking WTO rules can be punished by trade sanctions².



Eunice, a farmer in eastern Zambia, picks oranges from some of her and her husband's fruit trees. She and other local farmers have found a profitable local market for their produce after making use of training and credit provided by World Vision.

Who wins, who loses?

WTO deliberations are supposed to bring about a more open and transparent trading system, but, like the earlier GATT talks, they have resulted in a kind of 'managed' trade that favours the industrialised countries over the developing ones. The Agreement on Agriculture for example, unfortunately does not adequately address the food security needs of developing countries which depend heavily on food imports, or where most of the population is affected by prices paid for agricultural exports³.

The WTO gives priority to economic concerns, not social or environmental ones. Under its rules, health, safety, labour and environmental standards of sovereign nations can be challenged as unfair barriers to trade. In the name of free trade, countries can, for example, be forced to import genetically modified food, or goods produced by low paid, even child labour.

Free trade or fair?

Concern about WTO powers helped to fuel angry protests against the WTO meetings in Seattle in 1999, Cancun in 2003, and Hong Kong in 2005. Many protesters argued that greater trade liberalisation allows multinational companies to move production to countries with the lowest wages and working conditions, and to degrade the environment and deplete resources. "What is needed," says writer David Ransom, "is a fearsome World Fair Trade Organisation run by the UN, and accountable to the majority of the world's people who need it, not to the corporations that can fend for themselves all too well."⁴

Cheap from China – but what's the real cost?

In May 2000, the United States granted China permanent trading relations, enabling China to become a member of the WTO. This followed China's agreement in 1999 to open up a wide range of its markets, in exchange for low tariff access to US markets. China will no longer have to undergo an annual human rights review in order to trade with the USA. Yet a report *Made in China* by US campaigners working with Chinese counterparts reported numerous cases of US companies and their contractors in China which employ young workers for excessive hours at very low wages⁵.

How are many developing countries disadvantaged?

While China with over a billion potential consumers is a very attractive trading partner, many developing countries face great disadvantages even in a freer international trade system.

Few commodities for export: Many developing countries depend on just a handful of commodities (e.g. sugar, coffee, bananas, cotton lint, cocoa beans) as their major exports. Forty-three developing countries and territories rely on a single primary commodity for at least 20% of their total export earnings, and for at least 50% of their total agricultural export revenue⁵. This makes them vulnerable to the market price fluctuations which are all too common

for agricultural exports. When many countries concentrate on the same commodities, that may help to drive the price down.

Access to markets. Industrialised countries including the United States and European Union members have used tariffs, quotas and subsidies to protect their own primary producers and manufacturers against competition from other exporters. It has been estimated that if rich nations opened their markets to developing countries, poor nations would gain US \$700 billion a year in export earnings⁶. In spite of the WTO rules which restrict protection of markets, industrialised countries were not required to eliminate their tariffs on textiles and clothing for instance, until 2005⁷. Some have not yet done so. New Zealand still imposes a 19 per cent tariff on clothing imports, which will reduce to 10 per cent in 2009⁸.



A cashew nut tree. World Vision is funding a cashew nut project in Honduras, helping small land tillers improve their crops and find better access to markets. Photo: Margaret Jephson.

Dominance of transnational corporations (TNCs):

Trans-national corporations based in the industrial countries dominate world markets. The top 500 corporations carry out nearly 70 per cent of world trade. This percentage has steadily increased over the last twenty years. Large corporations have sales totaling more than the GDP of many developing countries⁹.

While TNCs are influential in all economic sectors, their agriculture is of particular concern. More land is used to produce cash crops for export rather than food for local consumption. Countries like Thailand and India are food exporters, yet many of their people suffer malnutrition.

“Agribusiness” corporations can manipulate wholesale and retail prices of commodities. This can disadvantage both growers in poor countries and consumers in rich ones. The International Coffee Organisation’s composite price of coffee bean futures fell 57 per cent between 1999 and 2001, while average U.S. retail prices fell less than 10 per cent. Falling coffee prices forced some farmers into bankruptcy and poverty¹⁰.

Lack of bargaining power

What chance does a small poor country have against the power of a large country or TNC? Developing countries have less of a voice than the richer countries, because they do not have the resources and representatives to lobby and argue their case effectively. Developed countries bring large teams of lawyers and experts to ensure they can negotiate the best possible terms for themselves. Developing countries can afford far fewer delegates and occasionally none at all. At the Hong Kong Ministerial Meeting in 2005, the European Union had a team of 688, the U.S. 356, and Japan 229. Forty-six countries had fewer than 10 delegates, including Chad (8), Rwanda (7), Honduras (6), Burundi (3), Gambia (2), and the Central African Republic (0)¹¹. About two thirds of members are developing countries¹².

Why does World Vision care about trade?

Trade is a complex issue that affects poverty, human rights and the environment. Sustainable development that helps people out of poverty is World Vision’s goal. World Vision is working at community level to help farmers and small business operators to increase their productivity and gain access to credit and to markets. World Vision New Zealand is funding a cashew nut project in Honduras. Small land tillers are learning to improve their productivity. Their growers’ association is also learning ways to improve its access to markets.

Developing fairer, more transparent trade relationships is also essential if producers are to receive adequate reward for their hard work. Both unjust trade practices and official and private corruption make life even more difficult for the poor. World Vision has prepared submissions to government and United Nations bodies calling for trading arrangements which will benefit the poor as well as the rich, and has supported the Jubilee 2000 campaign calling for cancellation of unpayable debts of the poorest countries.

Towards fairer trade

Currently global economic growth and trade favour rich over poor people, developed over developing nations and TNCs over sovereign states. Yet trade rules are human-made and can be changed. The WTO could be made more democratic so that all citizens, not just government bureaucrats and economists, can influence decisions. Human rights and environmental concerns should be given serious consideration alongside strict financial measures, when trade regulations are devised. The challenge is to find a better balance, so that trade will work for the sustainable well-being of all people.

Action you can take

- **Check** the sources of items in your pantry and wardrobe. Be aware of the part you play in global trade.
- **Choose** carefully as a consumer – buy from companies who are doing the right thing by their workers and the environment, e.g. Fair Trade groups like the World Development Tea Co-op.
- **Contact** your member of parliament to insist on adequate, accurate labelling of goods so that consumers can make informed buying choices.
- **Reflect** on what is meant by 'fair trade'. Read the message that the prophet Amos gave to the Hebrew people about their trade practices and treatment of the poor in the Old Testament (Amos 8:4-10). Do you think it is relevant today? Why or why not?
- **Use your vote** as a citizen or a shareholder to insist on more responsible trading practices, locally and internationally.

World Vision resources on related issues include

Parris, Brett. *Trade for development: making the WTO work for the poor*. 78-page World Vision discussion paper (1999).

https://worldvision.org.nz/reports/trade_for_development.pdf

Parris, Brett. *Risky development: export concentration, foreign investment and policy conditionality*. 2003.

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Make their poverty history: make history: a call to action for the leaders of the G8. [http://www.global-poverty.org/PolicyAdvocacy/pahome2.5.nsf/alleports/60377A30E573E30E88257028000F689A/\\$file/Make%20Their%20Poverty%20History.pdf](http://www.global-poverty.org/PolicyAdvocacy/pahome2.5.nsf/alleports/60377A30E573E30E88257028000F689A/$file/Make%20Their%20Poverty%20History.pdf)

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Endnotes

¹ United Nations Human Development Report. 1999. Chapter 1. Oxford University Press. www.undp.org/hdr

² The Australia Institute. *Making the trade system fairer*. www.tai.org.au/publications/free.trade.html

³ Parris, Brett. 1999. *Trade for development: making the W.T.O. work for the poor*. World Vision Discussion paper.

⁴ The Australian. 4-5 December 1999.

⁵ National Labor Committee. *Made in China: the role of US companies in denying human and workers' rights*. New York: 2000 www.nlcnet.org/report000.

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⁶ World Development Movement. 2001. *Briefing from Doha*, citing Prof. Alan Winters, *Trade Liberalisation and Poverty*, DFID 1999. <http://www.wdm.org.uk/news/presrel/current/myths.htm>. [Accessed 1 May 2006]

⁷ Source: World Trade Organisation. Agreement on Textiles and Clothing (ACT). http://www.wto.org/english/tratop_e/texti_e/texti_e.htm [Accessed 1 May 2006]

⁸ Source: Chan, Karen. China rapidly turning into the factory of the world. *NZ Herald* 27 July 2005. Economics Division. Ministry of Foreign Affairs and Trade. October 2005. *Trade and the New Zealand economy: New Zealand's tariffs*.

<http://www.mfat.govt.nz/about/posts/pdf/paris-nztariffs.pdf>

⁹ Source: Forbes Magazine, cited in UN Human Development Report 1999 p 32

¹⁰ Source: Yamamouchi, Kelly. Coffee prices roasting growers. *Chicago Tribune* April 9, 2002, quoted by The Vanilla Company www.vanilla.com/html/aware-coffeeroast.html [Accessed 5 May 2006].

¹¹ World Development Movement. Press Release 14 December 2005

<http://www.wdm.org.uk/news/presrel/current/hkdelegates.htm> [Accessed 24 May 2006].

¹² World Trade Organization. *Understanding the WTO: Developing Countries*.

http://www.wto.org/English/thewto_e/whatis_e/tif_e/dev_e.htm [Accessed 24 May 2006].