

---

# THE TRADING GAME

**This summary charts major developments in the world trading system since World War Two (WW2). It provides a background to the process of increasing globalisation of the world economy and the role of transnational corporations (TNCs).**

This period began with the reconstruction of war-torn economies in Europe and gradual **decolonisation**. Improvements in health and education provision were achieved in many newly-independent countries in the 'South' (Africa, Asia, the Caribbean, South and Central America). In the mid-1970s governments were encouraged to take out large loans at low interest rates by Western banks.

In the late 1970s oil prices and **interest rates** increased at a time when **commodity prices** were falling. Many countries were unable to meet their interest repayments. In 1982 the **World Bank** (WB) and **International Monetary Fund** (IMF) tried to solve this '**Debt Crisis**' by imposing **Structural Adjustment Programmes** (SAPs) on indebted countries. SAPs forced debtor nations to cut spending on health and education, privatise state-owned industries, '**liberalise**' their economies by removing regulations which limited foreign imports, and encourage export industries.

In 1994 Finance Ministers from 117 countries signed the **Final Act of the Uruguay Round** and set up the **World Trade Organisation** (WTO). This agreement gives TNCs, mainly based in the '**North**' (North America, Europe, Japan), access to almost every area of international commerce, from tourism to seeds and water supplies.

These policies have brought about an expansion of world trade and '**globalisation**' of the world economy, as TNCs have been free to set up wherever labour is cheap or environmental standards are low. A few countries (eg China, Mexico) have enjoyed rapid economic growth, but at the expense of greater social inequality and serious environmental destruction. Many countries, particularly in sub-Saharan Africa, are caught in a '**debt trap**', unable to repay their debts because of their dependence on a few commodities.

For the winners, the global market has meant increased wealth and power, but the losers, in both North and South, face reduced security, unemployment and poverty.

*Economists often explain the benefits of growth through the familiar parable of the boat, insisting that all vessels rise on a rising tide. The problem is that we are not all in the same boat. Some boats, containing perhaps  $\frac{4}{5}$ ths of the population in the industrialised world, around  $\frac{2}{3}$ rds of the populations in the more successful East Asian countries, and the richest tenth of the populations in Africa, Latin America and other parts of Asia, are floating steadily. Drinks are being served on the main deck. In the water around them, other boats, containing the majority of the world's people, are either sinking or barely afloat. Some have already sunk, with their occupants floating in the water clutching flotsam for their survival. The challenge for governments is to create a fleet capable of carrying all of the world's people on a rising tide of shared prosperity and stability into the next millennium.*

Kevin Watkins, Oxfam Policy Unit, 1995



WTO OMC

Logos of key institutions affecting global trade; from left: World Bank, IMF, World Trade Organisation

---

# 1 Independence & reconstruction

## The colonial legacy

- ◆ By the end of the 19th century most of the world was divided into empires consisting of a colonial 'mother' country (eg Britain, France, Japan, Portugal, US) whose industries consumed cheap raw materials from its colonies.
- ◆ Colonialism provided the framework for the present global trading and economic system. Many colonies became dependent on exporting one or two low-value primary commodities (eg tea, copper) and importing high-value manufactured goods (eg cloth, machinery). For the poorest countries, this dependency remains (eg copper accounts for 80% of Zambia's export earnings, yet it imports electrical wire) and makes countries and communities vulnerable to fluctuations in the unstable world commodity markets.

## Independence

- ◆ After WW2 a slow process of de-colonisation began as a result of nationalist movements demanding freedom, and pressure from the US, which wanted access to markets.
- ◆ Although these countries became independent, their former colonial masters maintained considerable economic power and political influence. The largest company in Kenya is British-owned Lonhro, whose interests include agribusiness, vehicle distribution and tourism.

## Twin sisters of Bretton Woods

- ◆ In 1944 the WB and IMF were set up at a conference in Bretton Woods, US. They are based in Washington DC.
- ◆ The WB was established to provide loans for the reconstruction of war-torn Europe, and later to improve infrastructure (ie roads, dams) in what US President Truman, in 1949, labelled 'developing countries'.
- ◆ The IMF was meant to create world economic stability – a mechanism to stabilise exchange rates and give credit to countries with a balance of payments problem (ie shortage of foreign exchange). Its role has now changed to promoting 'trade liberalisation'.
- ◆ Voting power in both organisations is in direct proportion to the funds contributed by member countries. Europe, US and Japan donate most money and so determine policy. The largest donor, the US, has an effective veto.



Picking tea on Brooke Bond-owned estate, Kericho, Kenya; *photo*: Dave Richards/RISC

---

## ITO becomes GATT

- ◆ In 1947 the International Trade Organisation (ITO) was set up by the United Nations (UN) to prevent a repeat of 1930s protectionism (which led to global recession) by promoting world trade. It also aimed to close the wealth gap between rich and poor countries by ensuring that rights outlined in the UN's Universal Declaration of Human Rights were respected, including food security and full employment. It even had the power to regulate TNCs to make sure they served these social ends.
- ◆ However, the ITO was killed off because the US wanted to build a very different post-war world economy – one with fewer regulations, giving its own TNCs access to world markets. In 1947 it was replaced by the General Agreement on Tariffs and Trade (GATT) which had a more limited brief – increasing world trade by reducing tariffs (customs duties on imports). Over a series of eight negotiating rounds tariffs were reduced from an average of 44% to 4%. However, the North continues to impose non-tariff barriers to protect their own industries (eg import quotas, agricultural subsidies).
- ◆ For example, in 1974 Northern countries introduced the Multi-Fibre Agreement to protect their own textile industries. Producer countries in the South (eg Bangladesh, Sri Lanka) have limits imposed on how much they are allowed to export to individual countries in the North. However, there are no such quotas for Northern countries.

## Transnational corporations (TNCs)

- ◆ After WW2 the US experienced a huge expansion of its economic power through its TNCs. These businesses integrate production, sales, research, marketing and finance on a world scale, maximising profits by sourcing the cheapest raw materials and labour. This model was adopted in other countries.
- ◆ 500 TNCs rule the world. Together they produce 30% of the planet's output, account for 70% of global trade and 80% of international investment. Most are based in the North. Fifteen companies control the market for 20 of the world's key commodities. They have 90% of the wheat, timber, iron-ore, cotton and tobacco trades, 80% of the tea, coffee, and copper trades, and 70% of the rice trade. There has never been such a concentration of power – so great that it threatens the sovereignty of governments.

## Resurgent Japan and a united Europe

- ◆ After 1945 Japan began reconstructing its economy with massive US aid.
- ◆ The government played a central role in directing resources to key areas of the economy, such as research and development. It also passed laws to protect Japanese industry and agriculture from outside competition.
- ◆ By the 1970s Japan was an economic powerhouse to rival the US and Europe, drawing raw materials from around the world to fuel its industries. It has a huge trade surplus with the rest of the world and is the world's largest overseas investor and aid donor.
- ◆ Meanwhile, in 1957 France, West Germany, Belgium, Luxembourg, the Netherlands and Italy formed the European Economic Community (EEC) to promote economic growth, reduce internal trade barriers and regenerate depressed regions in member states.
- ◆ It was enlarged in 1973 with the addition of Ireland, Denmark and Britain, followed by Spain, Portugal, Greece, Sweden, Finland and Austria. Re-christened in 1992, the European Union (EU) is a huge trade bloc, with a population of 371m (1996), rivalling the US and Japan.
- ◆ Today, 90% of world trade is within or between the EU, US and Japan.

## Asian tigers

- ◆ In the 1960s, South Korea, Taiwan, Singapore and Hong Kong began to develop a manufacturing sector. With active government intervention in economic policy, they have maintained high rates of economic growth by attracting foreign investment in export industries.
- ◆ Initially taking advantage of low labour costs, they have become the 'Asian Tigers', with a broad industrial base, ranging from hi-tech electronics to financial services. This has provided these nations with a high standard of living. According to the UN Human Development Index 2000 (eg life expectancy, health, education etc), Britain is 10th in world rankings, Singapore 24th, Hong Kong 26th, S Korea 31st.

---

## 2 The debt crisis

### OPEC flexes its muscles

- ◆ The 1973 Arab-Israeli War prompted the Organisation of Petroleum Exporting Countries (OPEC), a group of 12 Southern producers, to raise the price of oil.
- ◆ By December 1974 the price paid by oil consumers worldwide had risen five-fold. Payments from the industrialised countries to OPEC members rose from \$35bn a year in 1973 to \$140bn in 1978. Much of this sudden wealth was deposited in Northern banks.

### Spend, spend, spend

- ◆ From the mid-1970s, Northern banks were flush with 'petro-dollars' from OPEC countries. To make profits they needed to lend this money out to earn interest, and offered loans at low interest rates to 'developing' countries in the South.
- ◆ In 1978 US banks were owed \$110bn. By 1982 this had risen to \$450bn.
- ◆ Some loans helped countries pay the higher prices for oil imports, and improve health and education. However, inexperienced bank officials were lax in scrutinising projects, and many loans were wasted on imported luxury goods, arms or prestige projects (eg international airports) which did not generate income for repayments.
- ◆ Huge sums were also lost through poor financial management and corruption.

### Loans come home to roost

- ◆ In 1979 Ronald Reagan was elected President in the US and started an arms race with the Soviet Union. US government borrowing increased at a time of world-wide economic recession. The result was a 20% rise in international interest rates and an increase in the value of the US dollar.
- ◆ For many countries in the South this was the beginning of a nightmare. Higher interest repayments, which had to be paid in hard currency, coupled with falling income from commodities meant they became caught in the 'debt trap'. The WB identified Brazil, Argentina, Philippines and Mexico as having serious problems.

### Down Mexico way

- ◆ By 1982 Mexico had \$80bn of debt, but no cash to meet its interest repayments. Nine large US banks had 44% of their capital tied up in Mexican loans. Hundreds of others had also lent money. If Mexico defaulted on its repayments, bank stocks would crash, threatening a world-wide financial crisis.
- ◆ The IMF orchestrated a \$8bn rescue package which provided a model for other debtor countries – Structural Adjustment Programmes (SAPs) were born to solve the 'Debt Crisis'.

### SAPing the poor

- ◆ During the 1970s a new global economic model based on the principles of privatisation, 'free' trade and deregulation emerged – the so-called 'Washington Consensus'. The Debt Crisis and SAPs provided the opportunity to re-structure Southern economies according to these 'monetarist' or 'neo-liberal' theories. A similar process took place in the North with the 'free-market' policies advocated by Margaret Thatcher and Ronald Reagan.
- ◆ The WB and IMF give loans to indebted countries to help them repay interest, if they adopt 'trade liberalisation' policies:
  - privatise state enterprises to try to end inefficiency and attract foreign investment
  - open the economy to foreign investment and imports by removing regulations and subsidies which protect local industry and agriculture from foreign competition
  - raise hard currency by increasing exports and developing tourism
  - reduce government spending by cutting services, introducing charges for health and education, and sacking government employees
  - devalue local currency to make exports more attractive by reducing their price on the world market, and increase the price of imported goods
  - increase interest rates to encourage savings and reduce local spending.

- ◆ Debtor countries have no choice but to accept these conditions because commercial banks will only grant loans to countries with the IMF-WB seal of approval.
- ◆ The result has been the squeezing of the poor as subsidies on basic foodstuffs have been lifted and charges imposed on health and education. The greatest impact has been felt by women and children.
- ◆ For countries like Mozambique and Tanzania, interest repayments exceed the combined health and education budgets, resulting in poor human development indicators (eg 20% of children die before the age of five).
- ◆ In the desperate race to earn foreign exchange, countries have sacrificed their environment – cutting down forests, turning the best land over to cash crops, and allowing mining TNCs to scar and pollute the landscape.
- ◆ The Debt Crisis has furthered the economic interests of the North to the detriment of the South. TNCs are free to seek out greater profits by exploiting cheap labour and natural resources, without the costs of meeting strict environmental standards or safeguarding workers' rights. They have created a more global, interdependent economy.
- ◆ The Northern banks were saved and continue to make huge profits, but for the South the burden of debt remains. Despite repaying much more than they originally borrowed, they are deeper in debt. For many countries the prospects of escaping the debt trap are remote because they don't get fair prices for their commodities.

***I have four children. If I did not work, they would not eat. But even when I work sixteen hours a day, I make hardly enough to stay alive. I have no contract and no security. How can I build a future like this?***

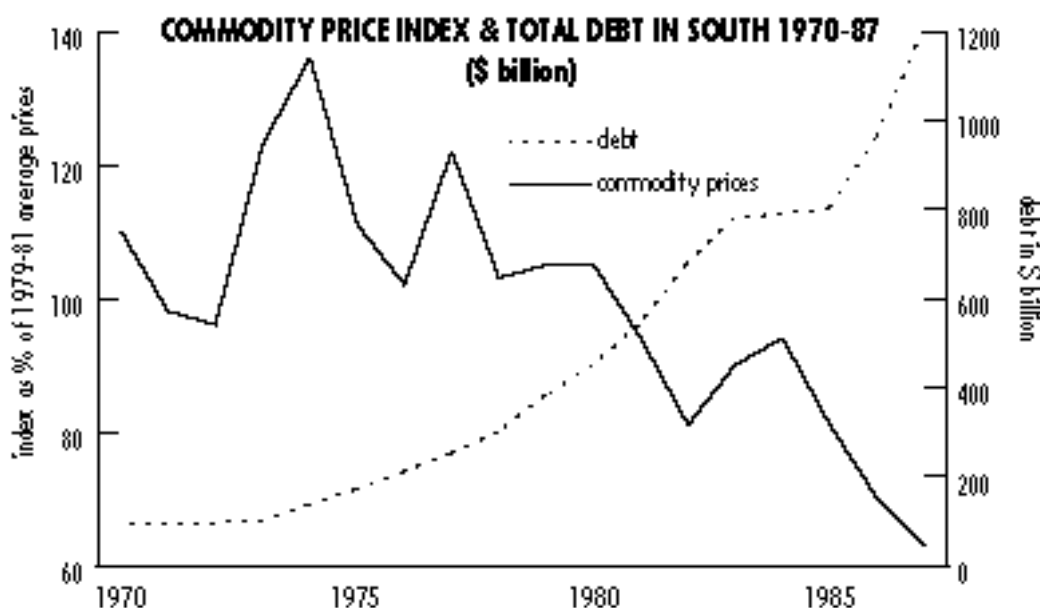
Woman textiles worker, Chile

***The health, the growth, the education and life of millions of children will be sacrificed on the altar of... economic adjustment programmes.***

Unicef, 1990

## Declining terms of trade

- ◆ The prices of many commodities produced in the South are fixed in the financial markets in the North (eg London Commodity Exchange: coffee, sugar, cocoa, oil).
- ◆ Since the 1970s the relative value of many commodities produced in the South has declined against the cost of manufactured goods (eg in 1975 the sale of 8 tonnes of African coffee could buy a tractor; by 1990 the same tractor required 40 tonnes).
- ◆ Commodity prices have fallen because of new technology (eg fibre optics replace copper wire) or over-production as countries try to increase export earnings.





## Uneven playing fields

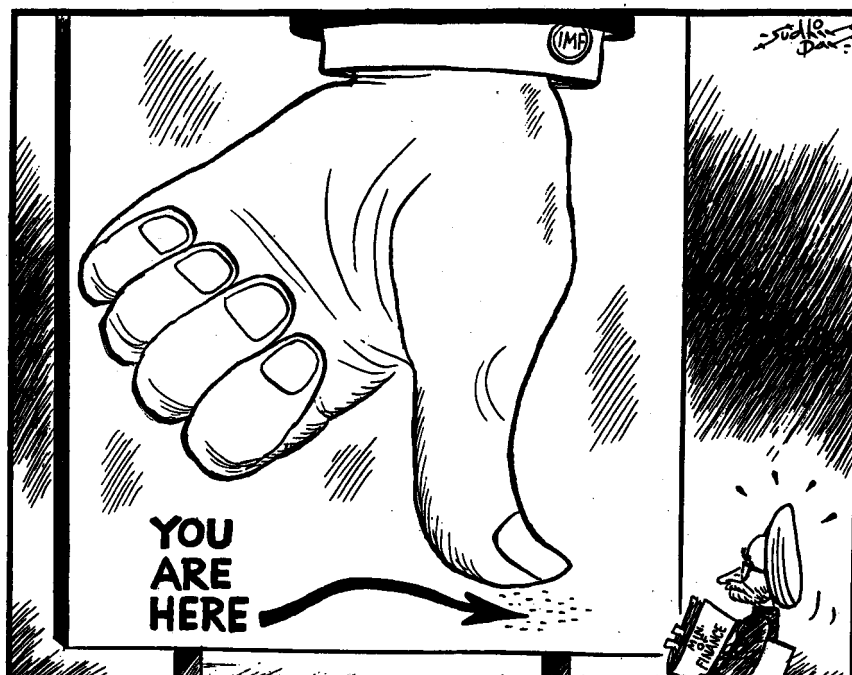
- ◆ Much of the profit from commodities comes from processing and retailing. Less than 20% of the income from tea sales stays in producer countries. The rest goes to the companies which transport, process and sell the product.
- ◆ For example, the breakdown for a box of supermarket own-label Ceylon tea bags is: plantation workers: 7%; plantation costs & profits: 9.5%; transport, warehousing & taxes: 1.5%; UK manufacturers' costs & profits: 45%; packaging: 7%; supermarket mark-up: 30%.
- ◆ It is difficult for poor countries to process their own commodities for export – they lack the technology and marketing power of TNCs, and industrialised countries impose high tariffs on processed commodities (eg the EU levies a 2% tariff on Malaysian imports of unrefined palm oil, but 25% if that oil is processed into margarine).

## ESAP

- ◆ When Zimbabwe introduced an Enhanced Structural Adjustment Programme (ESAP) in 1990, it had one of sub-Saharan Africa's best developed public health systems and had almost reached its goal of secondary education for all.
- ◆ Today, government cuts have led to higher infant mortality, a doubling in the number of women dying in childbirth, and falling primary and secondary school enrolment.
- ◆ Abolition of controls over prices and wages and the removal of trade barriers which protected local industries have increased prices for basic food stuffs (eg milk, maize meal) and increased unemployment to more than 50%. Higher malnutrition and inequality have been the result.
- ◆ Despite the bitter IMF medicine, inflation remains high, exports stagnate, real incomes have fallen by a third and investment has declined.

***ESAP has meant that we can only eat two meals a day. We can no longer afford meat, because prices are too high. Everything costs more. I cannot afford to pay the school fees for my son and daughter since they started charging... We can't even go to the clinic when the children are sick because we can't afford the medicines.***

Zimbabwean woman



## Narco Inc

- ◆ In some countries increased rural poverty resulting from falling commodity prices and cuts in government services encourages peasants to grow illegal drugs – coca, opium and marijuana.
- ◆ In 1992 the Peruvian government opened the country to food imports, including Brazilian maize, as part of a SAP. Local farmers were undercut and turned to coca which is easy to grow. Coca is now the most profitable export cash crop in Peru, accounting for 60% of the coca leaves processed into cocaine for the international market. It earns \$1bn and employs 15% of the active workforce.
- ◆ Narcotraffic – the production, transportation and selling of illegal drugs – is one of the world's largest industries. The UN Drug Control Programme guesstimates that annual turnover was worth \$400bn in 1996 – 8% of international trade!



Squatter community surviving by recycling waste, Baguio, Philippines; *photo*: Dave Richards/RISC

---

## 3 Liberalisation

### SAPs on your shelf

- ◆ To increase export earnings many countries have diversified into new cash crops. The evidence is clearly seen on our supermarket shelves (eg baby corn from Thailand, cut-flowers from Kenya).
- ◆ However, it's a buyers' market. Competition for contracts is intense, and supermarkets' only loyalty is to their profit margin, so producers' incomes are unreliable. A worker picking a 150gm packet of Zimbabwean mangetout peas retailing for 99p, only earns 1p – the farmer takes 44p to cover other costs and profit, the UK agent pockets 23p and the supermarket 31p (1997).

***Before being packed, the bananas are washed in chemically-treated water and weighed for packing in 12kg boxes. Each woman works the whole process. They get wet through every day from the chemically-treated spray which covers both bananas and pac kers... Pregnant women have miscarried...***

***Most of the employees were farmers before. Some were ejected from their homes to make way for the plantations, and they then became workers in the plantations .***

***Malnutrition is rampant among the children, and there are many skin diseases due to the chemical sprays.***

Maya, social worker, Mindanao, Philippines

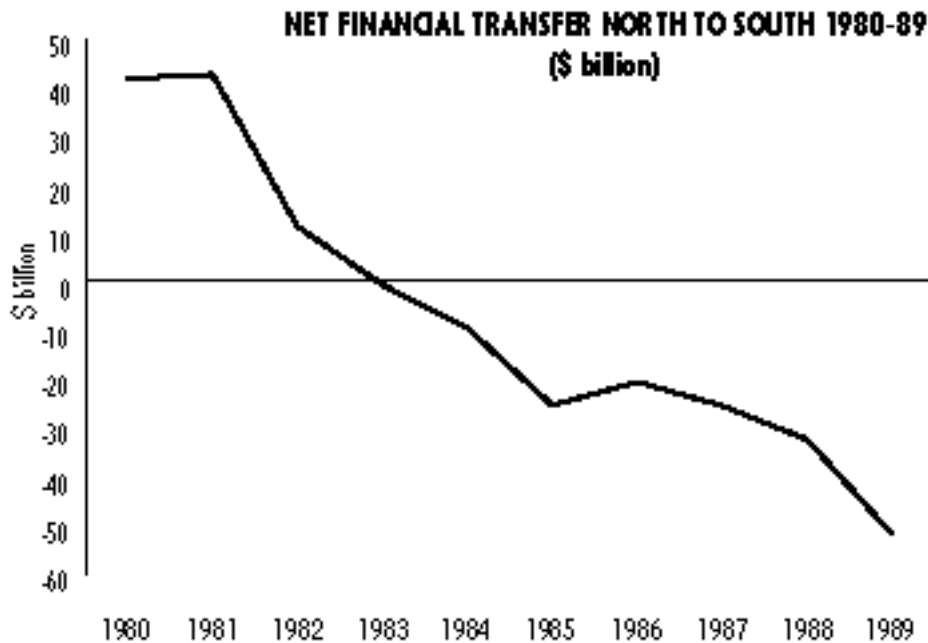
### Mining the future

- ◆ The pressure of meeting debt interest repayments has resulted in the over-exploitation of natural resources. The best land is turned over to cash crops.
- ◆ Intensive agriculture requires expensive, imported hybrid seeds which are dependent on imported pesticides, fertilisers and herbicides. These pollute water supplies and can cause severe health problems. Soil erosion means agribusiness is not sustainable.
- ◆ Delicate ecosystems are destroyed to squeeze the maximum profit to satisfy foreign bankers. Countries cutting down tropical rain forests at the fastest rates are among the largest debtor countries. Your fashionable hardwood front door or toilet seat is a symptom of the 'Debt Crisis'.
- ◆ Many tropical countries are turning coastal mangrove forests and farmland into ponds to raise shrimps for export. This 'blue revolution' is reducing food security for locals.



Logging tropical hardwood, Mindanao, Philippines; photo: Dave Richards/RISC





***In the old days, there were enough fish to support all of our villages. Today, there are fewer and fewer fish. There are giant ships from Japan which come to our shores and take too many fish. We can't survive if it goes on like this.***

Fisherman, Philippines

***I've always thought under-populated countries in Africa are vastly under-polluted. Shouldn't the World Bank be encouraging more migration of the dirty industries (to such countries)? I think the economic logic behind dumping toxic waste in the lowest-wage countries is impeccable.***

Lawrence Summers, World Bank Chief Economist, in a leaked internal memo, 1992

### Sun, sea, sand and SAPs

- ◆ The WB and World Tourism Organisation see tourism as a major source of foreign exchange for indebted nations. In 1992 tourism generated \$55bn for the South.
- ◆ Although many countries are competing with each other to sell their culture and landscape, the benefits of longhaul tourism are overstated. The tourist industry is controlled by 13 TNCs in the North. Most of the money spent on holidays stays in the North – with travel agents, airlines, insurance companies, hoteliers etc.
- ◆ Tourism development can also cause ecological damage, threaten local culture and deprive people of their traditional livelihoods.

***Most of the hotels in the Sinquerim – Baga belt were constructed with our drinking water. The irresponsible and criminal pumping of water lowers the water table of the whole area. This causes the other drinking water wells to dry up, and irrigation wells in the fields have to be dug deeper each year. So while Hotel Ronil provides foreign charter tourists with the luxury of swimming in Saligao's drinking water, the people, cattle and fields of Donvaddo suffer from thirst and drought.***

Saligao Citizens' Action Committee, Goa, India

***For the tourist, tiger prawns are cheap. For us, what was once common place or even a necessity has now become a luxury that is quite out of our reach. The standard of living has gone down and the cost of living has gone up.***

Caroline Colaso, Goa



Traditional livelihoods are threatened by luxury tourism developments in Goa, India; photo: Dave Richards/RISC

***The foreigners all smoke ganja (marijuana) but my teenage sons don't copy them. Without the tourists we wouldn't get our daily bread. There's no money in farming and the young men can't find jobs.***

Joe De Souza, mechanic who rents rooms to tourists, Goa

***We are fighting because we badly need the coconut trees. If we don't have fields we face problems feeding ourselves. Once the hotel comes, we poor people will be treated like dirt. They will not employ us. They'll get people in from outside. We have great fears of drugs and AIDS. Our children will get ruined by it. This hotel is a great thing for politicians and businessmen. We actually just want what we already have... our own place. We are fighting for that through the courts. We will not leave the battle until we die.***

Celso Fernandes, toddy tapper, Agonda, Goa

## **NICs**

- ◆ From the late 1980s a second wave of East Asian countries is trying to achieve Newly Industrialising Country (NIC) status, adopting the 'trade liberalisation' development strategies promoted by the WB and IMF.
- ◆ As production costs have risen in the 'Asian Tigers', so investment by TNCs has moved to India, Bangladesh, Thailand, Philippines, Indonesia, China, Malaysia and Vietnam.
- ◆ High levels of economic growth have been achieved, but at the expense of poor wages and working conditions and widespread environmental destruction. Many NICs have poor human rights records.
- ◆ Countries compete with each other to attract foreign investment and increase export earnings, to repay massive loans taken to develop the industrial infrastructure. They are reluctant to improve working conditions or environmental standards because they fear TNCs will transfer operations to lower-cost countries.
- ◆ However, few of these 'second generation' NICs have developed fully integrated industries which require a whole range of skills and technologies. For example, TNCs use Malaysia to assemble and re-export imported parts (eg electronics). But local firms are not building the domestic research or technological capacity which enabled Taiwan and South Korea to compete with the US or Japan, and create long-term prosperity.



Workers at an Indonesian factory producing trainers for Nike; photo: Clean Clothes Campaign

***My friend Lilis lost a hand when it got caught in a presser machine. Sri had four fingers chopped off her right hand, also in a press. When Lily lost one finger she was fired without compensation.***

Ida, sports shoe factory worker, Indonesia

### Trade & aid

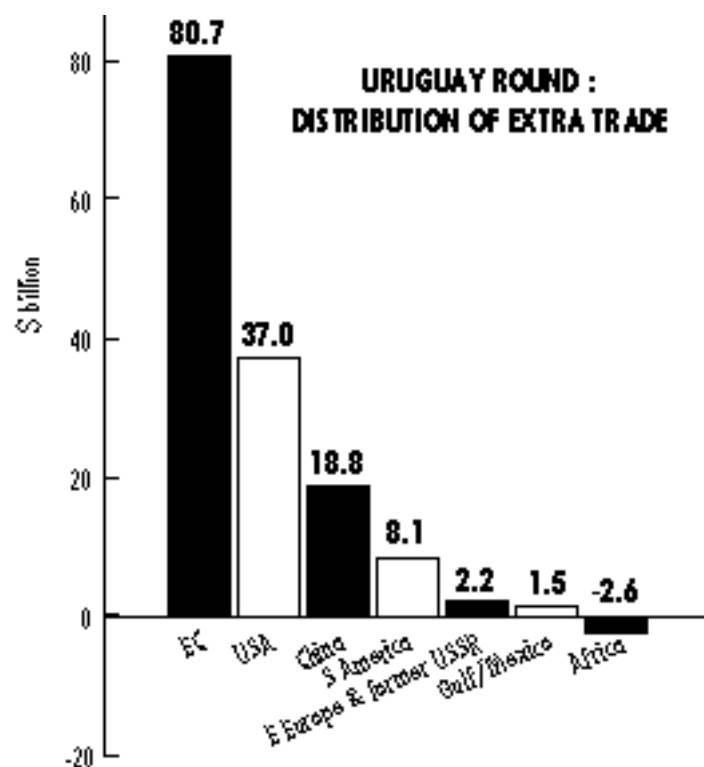
- ◆ In 1994 the South owed \$1,900bn. It paid \$169bn annually to service this debt while receiving \$57bn in aid. Increasingly, aid is being diverted to pay off debts. For every \$3 of WB loans, \$2 goes straight back to repay debts.
- ◆ Most of the remainder is 'tied' aid (ie spent in donor countries), and used to further commercial and strategic self interest. Over 70% of Britain's \$2.9bn annual aid budget (1996) is spent on British 'expertise' and equipment, grants for foreign students etc.
- ◆ Half US aid is given to Israel and Egypt in return for their support of US foreign policy.
- ◆ In 1991 the World Development Movement (WDM) took the British government to the High Court for using development funds for the Pergau dam in Malaysia as a 'sweetener' for a large arms deal. In 1994 judges found this unlawful and payments were stopped.



# 4 Globalisation

## Uruguay Round

- ◆ In April 1994, trade ministers from 117 governments met in Marrakech, Morocco, to sign the *Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations*. This was the culmination of over seven years negotiations under the General Agreement on Tariffs and Trade (GATT), and extends strict and legally binding trade rules to almost every area of international commerce.
- ◆ The agenda reflected the interests of TNCs. Trade-Related Investment Measures (TRIMs) and Trade-Related Intellectual Property Rights (TRIPS) were agreed, despite initial opposition from the South. However, important issues for the South (eg regulation of commodity prices) were excluded from the negotiations.
- ◆ The 'Final Act' dictates how governments frame and implement their domestic laws relating to trade. It opens up their markets in agricultural products, air and sea transport, telecommunications and financial services, and protects the TRIPs (ie patents) of TNCs.
- ◆ Trade liberalisation results in the loss of decision-making powers by governments, particularly in the South, because TNCs are free to penetrate every part of the economy. Inequality underpins the new global economy which rewards those with power.
- ◆ The Uruguay Round is estimated to increase world trade by an extra \$146bn by 2002. However, the gains will not be shared equally. The North is estimated to earn an extra \$100bn compared with \$46bn for the South. Sub-Saharan Africa will lose \$2.6bn.



## World Trade Organisation

- ◆ The WTO, based in Geneva, Switzerland, replaced GATT in January 1995. It implements the provisions of the Uruguay Round and settles disputes through secret panels of 'experts' and lawyers. If a panel orders sanctions, the decision can only be overturned by a unanimous vote of all members. The opposite was true under GATT – every member had to agree to sanctions. The panels almost invariably find in favour of corporate interests.
- ◆ Under the rules no account can be taken of the 'processes and methods of production'. The State of Massachusetts was forced to repeal its sanctions against Burma which it had imposed because of its human rights abuses. The US government also withdrew its ban of tuna caught by methods which killed dolphins.

- ◆ The WTO is sweeping aside many environmental, social and public health safeguards. It dispenses with the 'precautionary principle'. Anyone wanting to ban imports of a product because it may be hazardous, must provide scientific proof. The responsibility is shifted away from the TNC which makes it – Monsanto has the right to export GMOs and bovine growth hormone to the EU because the case against is not proven.
- ◆ There is an international campaign to include social and environmental clauses within the regulations of the WTO. These would make trade and access to markets conditional on exporting countries guaranteeing workers' rights and environmental standards. Such regulation is being resisted by business organisations such as the International Chamber of Commerce, even though they advocate comprehensive legally binding international trade rules, enforced by punitive sanctions on countries which fall foul of the rules.

***When Nigeria tried to become self-sufficient in food by increasing domestic production, and reducing imports from the grain giant Cargill, the US retaliated with threats to block Nigeria's textile trade and to use the counter-retaliation clause of GATT.***

Vandana Shiva, India

### Intellectual piracy

- ◆ For thousands of years Indian farmers and doctors have used the neem tree as a medicine, contraceptive, cosmetic, pesticide, fertiliser, fuel and animal feed. Access to these products of the 'blessed tree' has been free or cheap because trees were plentiful, and processing used local technology.
- ◆ In the last 70 years Indian researchers have investigated these properties and produced neem-based commercial products. But they do not have proprietary rights over their work because, under Indian law, medicinal and agricultural products are not patentable.
- ◆ However, US TNC, WR Grace, has pirated this indigenous knowledge and scientific research, and patented neem-based extracts. They have set up factories in India to process the seeds for export. This has increased prices to local users. Neem has been turned from a communal resource to a commodity traded for the benefit of TNCs and their customers.
- ◆ Under the WTO, this type of exploitation will become commonplace. A Texas-based company, RiceTec Inc, now owns a patent on basmati rice in the US. Their 'basmati' is derived from seeds that farmers in India and Pakistan have developed over generations.
- ◆ TRIPs will force governments to abandon their own laws, which protect domestic innovation, and adopt the stringent patent laws of the North where the maximisation of profit is the cornerstone of culture.
- ◆ In India a large popular movement has emerged to challenge the WTO – 10m farmers in the State of Karnataka have organised to prevent Cargill, the US agribusiness giant, from taking over the seed and fertiliser market.



15 years ago there were 30,000 varieties of rice grown in India, soon this will be reduced to 15 varieties; *photo: Dave Richards/RISC*

---

***The investment made by WR Grace, Larson or any other patent holder is nothing compared to the investments made by our culture in generating knowledge about the properties of the neem, knowledge which has been available to the poorest and most marginal individual in our society...***

***The campaign against the patenting of the neem represents the Third World's demand for protection against the North's piracy of Third World indigenous 'intellectual property'.***

Vandana Shiva, India

### **What's good for the goose...**

- ◆ Although the North preaches 'free' trade it violates these principles when it suits, and has the power to get away with bending the rules.
- ◆ Under deregulation, governments are forced to remove subsidies which guarantee prices to small farmers and protect them from cheap imports of US maize or EU wheat. Yet, American farmers receive about \$40bn a year in subsidies, and the EU subsidises its farmers through the Common Agricultural Policy – £27bn in 1994.
- ◆ In Mexico, an estimated 2.4m peasant farmers and their families have been forced off the land because, without access to credit and technical assistance, they cannot compete. They have joined the exodus of rural unemployed, in search of work in the cities.

***They say free trade is good for our country. They say it will bring new opportunities and more wealth. But where is the opportunity? We cannot compete with this American maize. How can they produce it so cheap? What are we to do? This free trade will be the end of us. Our only opportunity is to leave our land and move to the city.***

Smallholder maize farmer, Mexico

### **With the click of a mouse**

- ◆ The Uruguay Round completed the process of financial globalisation.
- ◆ Managers of pension funds, banks and investment houses seek short-term gains by speculating in shifting markets in currency, stocks and commodities. They make profits from small differences in prices around the world. Armed only with a PC, an investment manager can make deals involving billions across the globe.
- ◆ In this fluid situation businesses actually involved in producing things are forced to structure their operations to make high, short-term returns so their stocks are attractive in the global stock market. TNCs cut costs by moving production to countries with poor wages and conditions and low environmental standards.
- ◆ Governments in both South and North are forced to adopt economic policies which appease speculators, or risk destabilisation of their currency.
- ◆ Up to \$2000bn changes hands every day on world currency markets. 95% is unproductive speculation which has devastated the economies of countries that lose the confidence of speculators – most recently in Thailand, Indonesia and Brazil, where the value of savings was wiped away, and unemployment and poverty have increased dramatically.

### **MAI-not!**

- ◆ Economic globalisation has not only produced a huge expansion in international trade, it has also seen a similar growth in capital flows – investment in productive capacity, eg factories, infrastructure, currency and shares.
- ◆ In 1995, the Organisation for Economic Cooperation and Development (OECD), the Paris-based economic think-tank for the richest 29 countries, began talks to create a new single framework to regulate international investments – the Multilateral Agreement on Investment (MAI). This would replace the web of previous agreements between states.
- ◆ The MAI enshrined the right to own or acquire any asset and the freedom to transfer funds and capital. The stated intention was to provide a level playing field for all investors – no nation could treat foreign investors less favourably than its own, nor discriminate between foreign investors.

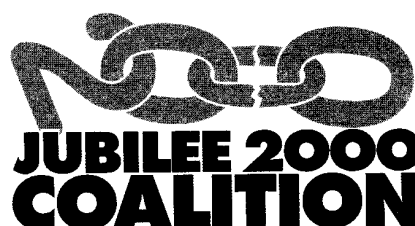
- ◆ Foreign investors could not be asked to fulfil conditions which many governments use to manage their economy and ensure greater economic benefits for its people, eg local employment and components used in production, transfer of technology to the host country. Apart from paying taxes and obeying the laws of the land TNCs would be free to act as they wish in pursuit of profits.
- ◆ For the first time a corporation would be able to take a government or local authority to legally binding arbitration by a secret disputes panel. It could also be awarded compensation for lost profits.
- ◆ The implications of the MAI can already be seen in North American Free Trade Agreement (NAFTA) – US, Canada, Mexico – which has similar investment rules to the MAI. In 1997 the Canadian government banned imports of the petrol additive MMT because its own environment agency considered it potentially toxic. The US manufacturer of MMT, Ethyl Corp, sued Canada for \$251 million because the ban affected the reputation and profits of its Canadian subsidiary. The Canadian government backed down and agreed to pay £13 million compensation plus legal costs.
- ◆ The MAI would give TNCs substantial rights, but not require them to operate responsibly. It would restrict the right of local government to manage local affairs that make economic and environmental sense.
- ◆ In late 1996 a draft of the Agreement was leaked and published on the internet. An international coalition of NGOs rapidly formed to prevent the agreement being signed. The weight of this opposition and differences within the OECD led to the collapse of the negotiations in 1998. However, a similar “constitution of a single global economy” remains high on the corporate agenda.

### Millenium Round-not!

- ◆ In December 1999 delegates to the ministerial conference of the WTO met in Seattle for another round of trade negotiations. They were joined by thousands of anti-globalisation demonstrators brought together by a well organised internet mobilisation. The talks were abandoned amid tear gas and a walk-out by official delegates from countries of the South.
- ◆ The failure of the ‘Millenium Round’ marked a watershed – the first time the Group of 77 (in fact, 133 Southern nations) refused to accept the intimidation and manipulation that is standard practice for the WTO. The real negotiations took place in meetings convened by the Quadilateral powers (US, Canada, EU, Japan), to which only a few representatives from the South were invited, depending on the issues being discussed. The concerns of the South were not even on the agenda.
- ◆ Didier Ratsiraka, President of Madagascar, summed up the anger at the lack of transparency and democracy when he described globalisation as a “totalitarian doctrine, based on tunnel thinking and imposed by the greatest power of the moment.”
- ◆ Trade negotiations are very complex. This creates problems for poor countries who lack the resources to maintain the large teams of negotiators and technical experts familiar with international trade law necessary to bargain on an equal footing with powerful countries.

***The TRIPS Agreement is very cleverly asking member states to grant legal monopolies over the very basics of food security: crop diversity.***

Dr Devinder Sharma, food and trade policy analyst, India



NGO campaign logos (left to right): Friends of the Earth, Jubilee 2000 Coalition, World Development Movement



---

## Stop the GATSastrophe

- ◆ Despite these victories for the opponents of the corporate agenda, meetings continue in Geneva on the 'built-in' agenda agreed in the 1994 Uruguay Round. This commits members of the WTO to progressively raise levels of liberalisation, and includes new negotiations on the General Agreement on Trade in Services (GATS), the Agreement on Agriculture and Trade Related Intellectual Property (TRIPs). Ministerial gatherings are not required to reach decisions on these issues.
- ◆ It is becoming clear that the GATS is the 'son-of-MAI'. It aims to remove government barriers to the privatisation of public services – everything from schools and hospitals to water and libraries – and imposes similar punitive sanctions on governments who attempt to reverse liberalisation. It could mean the end of not-for-profit public services.
- ◆ Much of the service sector around the world is still owned by governments who also regulate corporate activities and limit their profits. TNCs want irreversible rules which give unrestricted access to this huge 'market' in services. Industry lobby groups, such as the US Council of Services Industries (CSI) and the European Services Forum (ESF), have been the driving force behind the GATS.
- ◆ If TNCs seek to make a profit out of the provision of services, the poor are likely to lose out. A system built on people's ability to pay will not bring basic services to the world's poorest communities.
- ◆ In early 2000, International Waters Ltd, UK subsidiary of US giant Bechtel, took a major share in Bolivia's privatised public water system. It raised charges beyond the means of low-income families – water cost more than food. Even collecting rainwater became illegal without a permit. Mass protests resulted in the government putting control of water back in local hands. Under GATS it would be difficult for the Bolivian government to do this – it would be subject to sanctions and be forced to pay compensation to the TNC.
- ◆ The GATS is due to be ratified by the end of 2002, but an international campaign is trying to derail the negotiations because they fail to put the interests of the world's poor and democracy above the profits of TNCs.

## Time for change

- ◆ Critical voices have grown as SAPs and globalisation make the rich richer and the poor poorer. In both the South and North people have taken to the streets to protest against the actions of TNCs, increased poverty, unemployment and price increases.
- ◆ Many NGOs are raising awareness about the impact of SAPs and the inequality of the present world trading system. Some accept the need to increase world trade in order to eradicate poverty, and the need for international bodies to regulate trade, but want to reform the existing institutions – the WTO, IMF and WB – which give TNCs legal rights but no similarly binding responsibilities. Their demands include:
  - stop placing debt collection above the basic needs of the poor
  - ensure social and environmental sustainability of SAP provisions
  - reform the IMF and WB, democratise their decision-making to include NGOs, unions etc
  - use gold reserves to write off substantial amounts of debt
  - improve terms of trade for the South – higher and more stable prices for commodities
  - introduce social and environmental clauses into WTO regulations, making TNCs adopt and enforce guarantees for workers' rights and environmental protection
  - set up a WTO committee to assess impact of trade agreements on women
  - introduce the 'Tobin' tax on currency markets to discourage speculation
  - introduce measures to make TNCs more accountable
  - direct aid to improve lives of poorest sections of the community.
- ◆ Other groups completely reject the corporate agenda and want an end to globalisation. These want to see increased protection of local producers to encourage the development of local and regional economies which are more tuned to the needs of communities – 'localisation'. This would give countries the right to be self sufficient in food rather than dependent on imports.
- ◆ This coalition of human rights activists, greens, anarchists and socialists is behind many of the anti-globalisation protests – Seattle, Prague – which have forced the issue into the media.

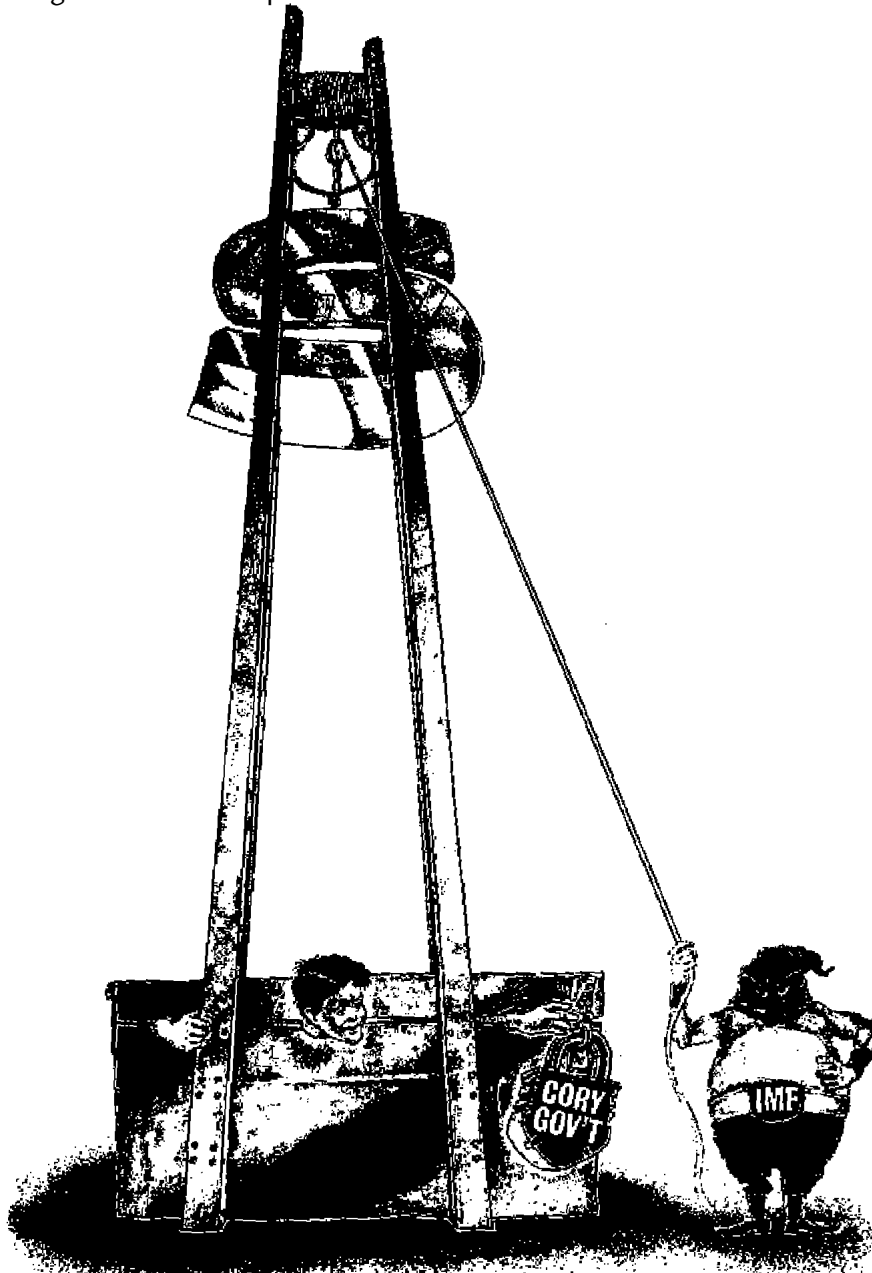


- ◆ The pressure for change will increase when China becomes a member of the WTO after many years of negotiation. Already one of the world's largest economies, China is planning to set up a united front of developing nations which will challenge some of the central provisions of the WTO, especially the universal application of its rules, regardless of the development needs of individual countries or regions.

## Make a difference

- ◆ Help to change the system of world trade, which increases inequality and destroys the environment, by joining one of the many campaigns demanding change to the structures which perpetuate poverty (eg World Development Movement, Oxfam, War on Want).
- ◆ Buy Fair Trade – ask your supermarket to stock foods with the Fair Trade Mark and ask about their policy towards the environment and workers' rights.
- ◆ Introduce Fair Trade tea and coffee to your school or workplace.
- ◆ Buy Fair Trade crafts through Traidcraft, Oxfam Trading Co or a Fair Trade shop.
- ◆ Change you bank or pension to institutions which have a commitment to ethical standards. Explain to your old bank why you have changed.
- ◆ Lobby your MP or MEP and tell them of your concerns about how our aid budget is supporting the destructive policies of the WB and IMF.

illustration: Freedom From Debt Coalition (Philippines)



Sources: Guy Arnold *The Third World Handbook* Cassell 1989; Roberto Bissio ed *The World Guide 2001-2002* New Internationalist 2001; Susan George *A Fate Worse Than Debt* Penguin 1989; Kevin Watkins *The Oxfam Poverty Report* Oxfam 1995