



**Friends of
the Earth
International**

The Citizens' Guide to Trade, Environment and Sustainability



Title page

The Citizens' Guide to Trade, Environment and Sustainability

Welcome to Friends of the Earth International's Citizens' Guide to Trade, Environment and Sustainability. These pages provide an easy-to-understand yet comprehensive guide to how the world trade system works and how it affects us all. We hope that these pages will help you understand why it is imperative that the world trade system is changed to encourage environmental protection and a fair share of the world's wealth for everyone.

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What is trade?

What is trade?

People have traded with each other for centuries in order to overcome local scarcity of goods. Other reasons for trade include:

- increased power and national influence;
- promoting foreign policy goals;
- cultural/social reasons;
- economic development.

Although largely between individuals or companies, governments have played a significant role in trade, often controlling it through either the use of force or the use of tariffs, subsidies or regulations. Policies to intervene in the trade system and support domestic industries are known as 'protectionism' while policies that deregulate trade and aim for non-intervention are known as trade liberalisation or 'free trade'.

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Why trade?

Few, if any countries in the world can produce all of the goods and services that their populations need or desire. Many goods require a range of raw materials that any one country will not be able to produce. Different natural resource endowments, different physical conditions (e.g. climate and geography) and different skills and knowledge, coupled with the desire for a greater range of products, are some of the main reasons why local areas or countries cannot satisfy the demands of their populations. Countries also trade because it may be economically more 'efficient' for them to do so; rather than produce it themselves, they purchase it from another trading partner and *vice versa* (the theory of [comparative advantage](#)). Thus, for centuries, people - both men and women - have traded locally, regionally, nationally and internationally to overcome the problems of local product/resource scarcity.

Scarcity is not, however, the only reason to engage in international trade. For example, trade is also seen as a route through which ideology can be disseminated. Some argue that a number of countries - for example, the USA - have used trade as a foreign policy tool. They encourage trade in order to foster economic links, encourage international security and promote their 'way of life'. Trade is also used to generate economic or political leverage.

There may also be psychological, cultural/traditional or social reasons for trade. For example, in some societies, trade may be a way of maintaining or reinforcing social bonds.

In more recent decades trade has been seen as a route to development. Many economists and politicians have promoted trade as a means to increase economic growth and wealth. Such a strategy has been adopted by the most influential international financial institutions - the World Bank and International Monetary Fund - effectively determining the economic policies of many developing and developed countries. Such '[export-led development](#)' can indeed help increase economic growth but, without adequate safeguards and regulations, it can also cause environmental degradation, increase inequality and lead to the kind of instability that preempted the recent Asian financial crisis.

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Trade and Control

Trade was, in the past, often controlled by governments through force. For example, in 1902, British, German and Italian gunboats blockaded Venezuelan ports over a trade dispute. Similarly, some might argue that recent military interventions (e.g. Iraq, the Falkland Islands) have been motivated just as much by trade or other economic interests as in the past.

However, more conventional ways to control trade include:

- Export taxes. For example, these have been imposed on raw logs (thus increasing their export price) to both try and reduce rates of logging and to increase the amount of domestic log processing;
- Import taxes. For example, these might be imposed to increase the price of an imported good that competes with a product produced domestically in order to protect that domestic industry.

Thus taxes (or tariffs) are imposed either to raise revenue for governments and/or to encourage or discourage particular activities. Further means to control trade include:

- Subsidies which are used to achieve similar ends as taxes (although they do not generate revenue) and;
- Regulations, again used for similar purposes, might include import/export bans, quotas or technical specifications.

Intervention in the trade system is generally motivated by the desire to support ('protect') domestic industries in, or maintain favourable trade conditions for, a country or group of countries. Some industries may be just starting out (i.e. 'young') so a country may decide to support the industry while it develops to a stage where it is competitive. Conversely, countries may support 'old' or ailing industries in order to 'protect' the industry from international competition in order to maintain employment. There may also be strategic

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reasons for supporting an industry, such as wanting to ensure food self-sufficiency (as in post-war Europe).

Intervention in the trade system through tariffs, quotas, regulations etc in order to support domestic industries is known as 'protectionism'; deregulated trade with no tariffs, quotas or regulations is known as 'free trade'. The past couple of centuries have seen a vociferous debate between those that support 'free trade', those that support forms of 'protectionism' and those advocating a mixture of the two.

However, in today's more globalised world, three things have become increasingly clear:

- Globalisation is having a negative impact on the [environment and on people](#).
- Increasing globalisation is associated with increasing [inequality](#) between nations and between the rich and poor.
- Government's pursuing 'free trade' objectives still do so to promote their domestic interests, particularly those of their own [transnational corporations](#).

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The world trade system

The World Trade System

The world trade system is a complex web of relationships between governments, organisations, companies, products and trade rules. This system is dominated by a handful of powerful governments, a small number of influential institutions and a relatively small number of giant transnational corporations (TNCs). It is also dominated by an ideology - 'free trade' - and governed by a set of rules, both of which tend to place trade and market access above all other considerations.

The world trade system comprises a web of relationships between governments, institutions like the International Monetary Fund (IMF) and the World Trade Organisation (WTO), and companies like Shell and General Motors.

The trade system is dominated by the governments of Europe, the USA, Canada and Japan which together account for the majority of world trade. The will of these countries is imposed through their power to influence the multilateral agendas and policies of organisations like the IMF, World Bank and the WTO (ie, those organisations that are responsible for regulating world economic policies); and it is also imposed through their often very strong bilateral trade relations, especially with weaker nations.

The following pages look at how the world trade system works and also at the ideology that underpins the system.

- [Trading Nations, Products and Trade Flows](#)
- [International Investment](#)
- [Globalisation](#)
- [Regional Trade Agreements \(RTAs\)](#)
- [Trade Institutions and Rules](#)
- [Free Trade History, Theory and Ideology](#)
- [The Role of Transnational Corporations \(TNCs\)](#)

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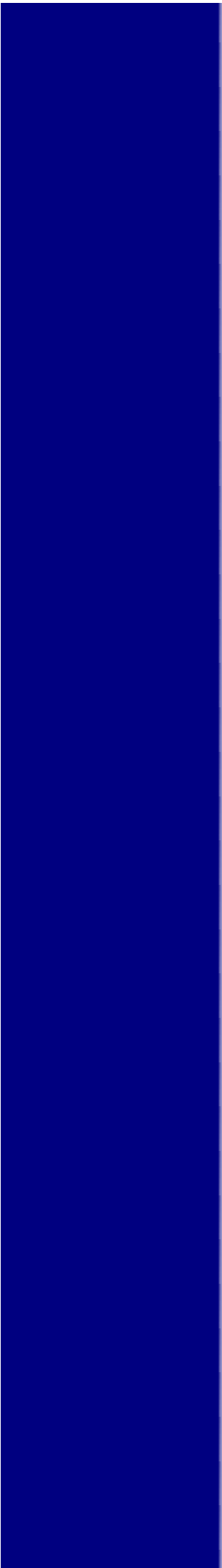
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What's wrong with the world trade system?

What's Wrong With The World Trade System?

The current world trade system is inequitable, undemocratic and environmentally damaging. Through looking both at a range of trade issues and the impacts of the products that we buy everyday we can see how the trade system can act to reduce peoples' quality of life all around the world rather than making it better.

Although, on the face of it, the idea of free trade seems to make sense and should lead to a fairer system, in reality the deregulation of trade can have massive adverse impacts on people and the environment.

The current world trade system is characterised by the pursuit of free market policies, such as deregulated trade and investment, privatisation and deregulated currency markets. Such policies have put corporate rights ahead of citizens' rights, improving conditions for business but not necessarily for people. The past 50 years of trade liberalisation has also seen a massive increase in inequality across the world, continued environmental degradation, the feminisation of poverty and unskilled labour and the erosion of peoples control over their lives and resources.

The problems of the current world trade system can be broadly split into the following four categories (although there are inevitably cross-links and relationships between all of them):

- [Free trade ideology, growth and development](#)
- [Environmental and social impacts](#)
- [WTO transparency, democracy and power](#)
- [Equality and fairness](#) (ie, distributional aspects of wealth)

One of the most obvious ways that we interact with the trade system is through the products we buy. Through an [International Shopping Basket](#), Friends of the Earth helps explain some of the most important issues concerning trade and the environment. From the environmental and social impacts of everyday products like chocolate and bananas to the problems the trade system creates for products like paper and clothing, the international shopping basket brings home the wide range of trade issues facing all of us.

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How could the trade system be improved?

How Could the World Trade System be Improved?

Summary

There is a pressing need to change the rules governing international trade and investment to ensure that they properly reflect society's basic requirements and democratic procedures. Trade and foreign investment are not and cannot be goals in themselves. Rather they are parts of a greater system, which, in order to be effective needs also to be equitable, secure, sustainable and transparent. In the long-term, we need to develop sustainable economies: in the short-term we need to adopt 'first aid' measures to reduce some of the international trade system's worst social and environmental impacts.

Towards Sustainable Economies

[Neoliberal economic theory](#) - the world's dominant economic model - is based on several false assumptions. As a result it is unsustainable. Worse it promotes a win-lose scenario - rather than the win-win one claimed by its supporters - leaving many millions of people suffering from real negative impacts. Consequently, many millions are already suffering real negative impacts - hence the unprecedented demonstrations in Seattle, Washington and Prague during 1999 and 2000 - and many more are set to suffer.

We live in a world in which [inequality](#) is on the increase and many millions are unable to meet even their most basic needs. Forests are being clear-cut, minerals strip-mined and fossil fuels exploited at completely [unsustainable rates](#) to provide natural resources for the 'global economy'. Democracy is being eroded as power is concentrated in fewer and fewer hands. Biological and cultural diversity are dwindling at an alarming rate; and hard won social and environmental standards are threatened.

Friends of the Earth International believes that a different, democratic, equitable and sustainable future is within our grasp: we need to develop sustainable economies. A new publication from FOEI [Towards Sustainable Economies: challenging neoliberal economic globalisation](#) sets out principles and guidelines for developing fair and sustainable economies, calling for:

- [new economic goals](#), including the equitable and sustainable use of limited resources

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and recognition of the importance of economic diversity;

- new devolved, transparent and participatory [economic decision-making processes](#) based on the principle of economic subsidiarity;
- [stronger local and regional economies](#) that increase local control of resources;
- [investment in the 'real' productive economy](#);
- [effective corporate control](#), including corporate accountability and liability mechanisms and international anti-trust legislation; and
- [stronger multilateral governance](#) of *non-economic* concerns including equity and sustainability.

Towards Sustainable Economies is the result of a two-year dialogue involving over 30 FOEI member groups from countries with very different economic and political circumstances in the North, South, East and West. Unlike official negotiations, Southern and Eastern groups have been able to participate and contribute on their own terms. It is intended as a contribution to public debate.

WTO: Shrink or Sink!

It will take many years to negotiate and develop sustainable economies. In the meantime, there are several immediate steps that could be taken to reduce the worst impacts of the international trade and investment system. One set of suggestions, from an international coalition of organisations that includes Friends of the Earth International, is the [WTO: Shrink or Sink! Turnaround Agenda](#).

This recommends several first steps, including:

- ensuring that basic social services such as health, education, energy are not subject to free trade rules;
- removing the Trade Related Intellectual Property Rights Agreement (TRIPS) from the WTO;
- prohibiting the patenting of life forms in all national and international regimes;
- ensuring that measures taken to promote and protect food security and sovereignty, subsistence farming, humane farming practices and sustainable agriculture are exempt from international free trade rules.
- eliminating the WTO's Trade Related Investment Measures (TRIMS) Agreement
- recognising and expanding the special and differential rights for third world countries; and

- ensuring that actions taken to implement multilateral agreements dealing with the environment, health, development, human rights, safety, indigenous peoples' rights, food security, women's rights, workers' rights and animal welfare cannot be challenged at or undermined by the WTO.

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Introduction

Introduction

FOEI's Trade, Environment and Sustainability (TES) Programme was established in 1992. The TES Programme's aim is to address the impact of international trade and investment patterns and regulations on environmental protection and the development of equitable and sustainable societies. A major objective is to raise public awareness about trade-related issues and impacts; -and to encourage concerned individuals and organisations around the world to work together to campaign for a more sustainable global economic system.

The aim of these web pages - part of FOEI's TES Programme - is to provide a comprehensive overview of the current world trade system, how it works, who is involved, what problems exist and what could be done about them. The intention is to challenge current political and economic thinking. The world trade system as currently devised is not serving the needs of people or protecting the environment. It is:

- inequitable and unfair (with the vast majority of benefits going to the already wealthy sections of both developed and developing countries);
- environmentally and socially destructive (with environmental damage and social deprivation exacerbated by the quest for international competitiveness);
- characterised by powerful yet frequently undemocratic and unaccountable institutions;
- potentially heading towards further government negotiated deregulation that will act to increase the already considerable power of transnational corporations.

These web pages have been published in the immediate aftermath of the World Trade Organisation's (WTO) [Seattle Ministerial Conference](#). The Conference was intended to set up a new round of trade liberalisation negotiations but collapsed when government's failed to agree an agenda for a proposed '[Millennium Round](#)'. Widespread protest and demonstrations against the proposed Round were the result, not of misunderstanding and false fears, but of informed and worldwide concern that further comprehensive trade liberalisation would be socially, environmentally and economically damaging.

There were four reasons for this comprehensive failure at Seattle; opposition from civil society; opposition from developing countries; disagreements between developed countries; and poor procedures (particularly by the US Administration who were hosting the

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Conference). If the past is anything to go by, some governments - particularly from the North - will continue to push for further deregulation of international trade and investment ('behind-the-scenes' discussions are continuing, particularly amongst the more powerful trading partners such as the EU and the US). This may ultimately take place within a (possibly more limited) 'Round' despite the outcome of Seattle.

The failure of the Seattle Ministerial should not be viewed as a disaster, but a positive opportunity for progressive countries to carry forward an agenda of 'review, repair and reform' of the trade system and its rules, with a view to promoting fair and sustainable trade (locally, nationally and internationally) in the interests of the people of both developing and developed countries. However, this would require recognition, amongst other issues, that the 'free market' economic ideology that is a central part of the world trade system is fundamentally flawed.

This guide does not wish to replace one ideology with another (although it does offer a number of recommendations as to how the trade system should be [reformed and improved](#)). There are no 'off the shelf' solutions to the problems posed by the world trade system. The most important priority at present is greater public participation and debate.

The guide covers a range of issues (see also the menu bar); it describes [how the trade system works](#) and the many institutions that shape and influence the development of international trade; and it provides an analysis as to [what is wrong with current trade system](#).

Given the many and varied topics covered, and the intention, where possible, to keep this guide brief and to the point, it has not been possible to cover all issues in as much detail as they might otherwise warrant. In such cases, references are provided for those wishing to delve deeper. There is also a great deal of information available on the internet and a number of links have been included.

The web site has also been constructed with simplicity in mind so a menu bar appears on the left of every page and the guide is almost exclusively text-based. A search engine and site map is also provided. We hope this will enable as many people as possible, using the variety of net-browser software that exists, to navigate around this guide quickly and easily. Happy surfing...

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World trade system | trading nations, products and trade flows

Trading Nations, Products and Trade Flows

International trade is currently dominated by Western Europe, Asia and North America. Western Europe in particular has a large share of total trade, although the USA is the single most powerful trading country in the world. In 1998 world trade amounted to some \$6,600 billion, about \$5,300 billion being merchandise and \$1,300 billion being services. The vast majority of the value of world merchandise trade (about 75 per cent) is accounted for by manufactured goods, especially transport machinery and electronic equipment. Minerals and agriculture - the 'staples' of the developing world - together constitute about 20 per cent of merchandise trade. International trade is also dominated by major transnational corporations, almost exclusively based in the industrialised world, with some 40 per cent of international trade taking place within these companies.

International trade is still dominated by the industrialised world. Although some developing countries in Asia, most notably China, have substantially increased exports and imports over the past few years. As can be seen from Table 1, the vast majority of world merchandise trade is accounted for by Western Europe, North America and Asia. Western Europe alone accounts for some 45 per cent of world trade.

In 1998, world trade amounted to some \$6,600 billion. \$5,300 billion of this was merchandise trade and \$1,300 billion was trade in services. Merchandise trade broadly encompasses agricultural products, minerals and manufactured goods. Services include, amongst other things, transportation services, travel services and financial services.

Overall, the bulk of world trade is accounted for by manufactured goods (see Table 1) which dwarfs the value of world trade in agricultural and mineral products. The big traders of manufactured goods are Western Europe and Asia.

Table 1: Trade in Goods - World Merchandise Trade 1995 (by products) and 1998 (all figures in \$ billions)

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Products	World ^a	North America	Latin America	Western Europe	Central and Eastern Europe	Africa	Middle East	Asia
Agricultural	579	112	60	250	21	20	6	109
Mining	512	55	1	133	46	46	102	80
Manufactures	3640	570	111	1730	83	28	32	1085
Total (1995b)	4890	777	224	2191	153	103	141	1301
Total (1998)	5270	897	276	2348	214	107	137	1293

a includes some destinations not accounted for elsewhere.

b includes some products not accounted for elsewhere.

Table 2: Trade in Services - World Services Trade 1994 and 1998 by selected region (all figures in \$ billions)

	World	North America	Latin America	Western Europe	Africa	Asia
1994	1035	195	40	510	20	220
1998	1320	270	53	636	27	317

Source for both Tables 1 and 2: WTO, 1999. World merchandise and commercial services trade. various WTO web pages; <http://www.wto.org>

Trade and TNCs

[Transnational corporations](#) are playing an increasing role in and [benefitting most](#) from the world trade system. The largest of these companies - almost all of which are based in industrialised countries - are more economically powerful than many governments.

In all the main trade sectors, TNCs are increasing their market share, often through [mergers and acquisitions](#). This trend is likely to continue, especially if further deregulation of trade and investment is achieved.

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World trade system | regional trade agreements

Regional Trade Agreements (RTAs)

The World Trade Agreement (WTA) is not the only international trade treaty. The past few decades have seen a proliferation of what are known as Regional Trade Agreements (RTAs). RTAs are deals struck between groups of trading nations that feel they have common interests or mutual goals. Such agreements include the North American Free Trade Agreement (NAFTA) and, like the WTA, have come under a great deal of criticism on social and environmental grounds.

The World Trade Organisation (WTO) itself disapproves of such agreements, not on environmental or social grounds, but because it believes RTAs can make trade more bureaucratic and less transparent. However, the WTO realises that it cannot stop such agreements being made and so must tolerate their existence.

Regional Trade Agreements (RTAs) are an attempt by countries with mutual interests, cultural ties or geographical links to create trading 'blocs'. Most RTAs are an attempt to increase inter-regional trade and make it 'smoother', through tariff negotiations, agreed trade rules and dispute settlement processes. Some, like the European Union, also provide a united, and thus more powerful voice for its members at WTO negotiations.

RTAs have also come under fire on environmental and social issues. When RTAs involve countries with significantly different levels of power, influence and development, there are often serious environmental and social impacts. For example, the North American Free Trade Agreement (NAFTA) has been roundly criticised for encouraging the relocation of polluting industries from the USA to Mexico, where environmental standards are lower. There is evidence that these industries are causing major health and environmental problems.

The WTO disapproves of RTAs because its goal is to make international trade subject to a single set of rules and tariff agreements. RTAs make trade more complex by providing different trade arrangements for different countries under the different agreements. This, according to the WTO, makes trade more bureaucratic and less transparent. The WTO has, however, been forced to tolerate RTAs and incorporate them into the world trade system.

The following links will allow you to analyse a number of RTAs in more depth. (In some cases the links are to the websites of FoE member groups):

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International**

The Citizens' Guide to Trade, Environment and Sustainability



World trade system | international investment

International Investment

International investment has long been regarded as one of the mainstays of economic development. With increasing foreign investment, the theory goes, a country's economy will grow and peoples' standard of living will improve. Many within institutions such as the IMF, World Bank and WTO think that deregulating international investment (i.e. removing government controls) will lead to more investment. This belief was behind the failed attempt at a Multilateral Agreement on Investment (MAI) within the OECD and recent proposals to include full-scale investment negotiations within a new round at the WTO.

However, there is little or no evidence that 'getting government out of investment' either increases investment or increases quality of life. Unregulated investment tends to seek out the highest rates of return over the shortest period and can be withdrawn quickly if expectations are not being met. While this may make perfect financial sense for the investor, it leads to uncertainty for the recipient country and is not conducive to long-term sustainability.

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Introduction

Trade and Investment

The relationship between trade and the investment is not immediately obvious. Yet, the two are linked processes, accounting for big segments of global economic activity. Trade rules mainly affect regulation of products; investment rules cover the operations of corporations who see trade and investment as alternative, but complementary routes to global expansion.

Efforts to include investment within the trade system began during the Uruguay Round of the GATT (the forerunner to the [World Trade Organisation](#)). Consequently, the traditional focus of the trade system was expanded to cover other areas not normally associated with trade.

International Investment

International investment takes two forms, foreign direct investment (FDI) and international portfolio investment (IPI). FDI can be broadly defined as investment by a company in one country in an asset in another country (usually a subsidiary) with the intent to *manage* the asset. IPI on the other hand can broadly be defined as international investment in stocks and shares, bonds or other parts of the financial markets that does not result in a 'controlling stake'. Put more simply, FDI is 'active' whereas IPI is 'passive'. Also FDI is normally thought of as longer-term than IPI.

Both FDI and IPI have risen considerably in the past few decades. For example, in terms of capital flows to developing countries alone, IPI rose from a negligible amount in 1980 to nearly \$50 billion in 1996. Similarly, flows of FDI to developing countries increased from around \$10 billion in 1980 to over \$100 billion in 1996.

While it is well understood that foreign investment can be an important factor in development, there seems to be little obvious recognition amongst agencies like the IMF, the OECD and the WTO and some governments like the USA and UK, that foreign investment can have its drawbacks. These can include loss of control over natural resource use and increasing economic instability (see following pages for more details). The drawbacks to foreign investment call into question the almost slavish adherence to free market doctrine amongst these institutions and governments, and the attempts to further liberalise foreign investment firstly through the OECD's proposed [Multilateral Agreement on Investment](#) (MAI) and latterly through proposals to include investment within WTO rules.

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Foreign Direct Investment (FDI)

Inflows and outflows

*“...it cannot be presumed that the net socio-economic impact of FDI will in all circumstances be positive”.*¹

FDI is measured in outflows and inflows. In 1981 world FDI outflows were some \$48 billion per annum. By 1995 this had risen to \$318 billion per annum and in 1997 reached \$424 billion.

Annual FDI Inflows and Outflows 1981, 1990 and 1995
(Billions of dollars and percentage of total in brackets)

Year	Developed Countries		Developing Countries		Central and Eastern Europe		Total	
	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow	Inflow	Outflow
1981	37 (74)	47 (98)	13 (26)	1 (2)	negligible	negligible	50	48
1990	170 (83)	222 (93)	34 (17)	18 (7)	negligible	negligible	204	240
1995	203 (64)	271 (85)	100 (32)	47 (15)	12 (4)	negligible	315	318

Sources: South Centre, 1997. FDI policy brief & UNCTAD, World Investment Reports, 1996-1998.

Note: some of these figures have been rounded to the nearest whole number so the totals are not exact.

Since 1981 there have been massive increases in the amount of FDI flowing in and out of both developed and developing countries. The 1980s saw massive growth in FDI, especially in and out of the developed world. This trend was also evident in developing countries, but their overall share of FDI inflows dropped from 26 to 17 per cent. The 1990s has seen a reversal of this trend with developing countries increasing their overall share of both FDI inflows and outflows.

While there are some positive aspects to this trend, a few qualifications need raising. These are considered on the following pages.

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Mergers and acquisitions (M&As)

As the name suggests, M&As refer to when a company either merges with, or buys out (acquires), another one. According to UNCTAD,

*“Mergers and acquisitions are a popular mode of investment for firms wishing to protect, consolidate and advance their global competitive positions, by selling off divisions that fall outside the scope of their core competence and acquiring strategic assets that enhance their competitiveness”.*²

In 1997, the total value of cross-border M&As was some \$342 billion, three times as much as in 1988 and accounting for some 58 per cent of total FDI outflows. As UNCTAD had correctly estimated in 1995, M&As would increase as companies were seeking to expand their market shares in growth industries.

M&As do not necessarily result in a beneficial outcome for a nation's people or economy. For example, some mergers and acquisitions result in job losses while others result in the loss of national control over, or interest in, important sectors of the economy (e.g. natural resources, utilities, communications). For example, a merger between electronics companies GEC and Alstom resulted in 6,500 job losses in four years. The acquisition of food conglomerate Rank Hovis McDougall by Tomkins in 1991 resulted in the closure of 22 operations and an 11 per cent cut in the workforce. More recent M&As include BP and Amoco in 1998 resulting in 7,000 job losses and the subsequent merger of BP-Amoco with Arco causing a further 2,000 redundancies.

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Privatisation

Related to mergers and acquisitions is privatisation. Both unilaterally and as part of IMF or World Bank structural adjustment programmes many countries have privatised publicly owned assets. In some years, privatisation has constituted a major share of FDI flows, especially in developing country regions. For example, in 1993, 32 per cent of FDI inflows into sub-Saharan Africa were the result of privatisation. In 1991, privatisation accounted for 76 per cent of FDI inflows into Central and Eastern Europe. Other regions, such as Asia have either privatised less or have much greater overall FDI so privatisation is of less importance (1 or 2 per cent). Overall, between 1989-1994, privatisation accounted for 5.6 per cent of FDI inflows into the developing world.

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Winners and losers

Not all countries and their populations have benefited from the boom in FDI. As with so many other aspects of the world trade system, the biggest 'winners' have continued to be Western Europe and the USA, with the best 'newcomers' being the wealthy and powerful in China, Malaysia and a few other East Asian and Latin American nations. At the other end of the scale lie the least developed countries in Asia, Latin America and Africa (and in particularly sub-Saharan Africa).

Between 1985 and 1995, the top five recipients of FDI (cumulative inflows) were the USA, the UK, France, China and Spain, with the USA attracting more investment than the next three combined. Among developing countries, in 1995, just ten recipients - China, Mexico, Malaysia, Singapore, Brazil, Indonesia, Argentina, Chile, Bermuda, Thailand - accounted for nearly 80 per cent of total FDI inflows to developing countries.

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Competition for investment

Although opinions differ on whether the provision of government incentives to attract investment is an important factor affecting company location/relocation decisions, such provision nevertheless occurs. At the very least, there must be a fear that if governments do not provide incentives, companies will locate in similarly situated countries/regions with governments that do offer inducements.

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Attracting FDI has therefore become an auction in which governments offer tax breaks, subsidies, infrastructure development, low-interest loans or other incentives in the hope that companies will set up shop in their country. For example, in 1995, the state Government of Alabama in the USA provided \$253 million worth of incentives to attract investment from Mercedes-Benz.

Such expenditure is a significant drain on public resources especially in the developing world. As the South Centre states,

*“Developing countries as a whole lose collectively from competition among themselves in offering ever greater incentives packages to attract FDI. Collectively and individually developing countries would gain from co-operation rather than competition in this sphere”.*³

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Investment liberalisation

One of the main arguments put forward in support of further investment deregulation - through the MAI or through the WTO - is that a liberalised investment system will attract more investment resulting in greater economic growth and development. However, there is little or no actual evidence for this. Experience to date suggests that countries such as those in South and East Asia that developed rapidly during the late 80s and early to mid 90s, did so with a significant degree of government intervention and regulation of investment. Currently China's economy is attracting large inflows of FDI yet it by no means has a 'liberal' investment regime.

It is therefore possible to attract FDI and develop without the need for investment deregulation. In fact, much more important in attracting investment is having basic infrastructure and a workforce with sufficient skills. This begs the question, is further investment deregulation really necessary? Such a question is practically treated as heresy by free market advocates such as the [International Chamber of Commerce](#) (ICC) who, at a WTO Trade and Development Symposium in March 1999, told the African nations that their failure to 'develop' was their own fault and that the best way to attract investment and stimulate economic growth was to liberalise their investment regimes.

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International Portfolio Investment (IPI)

It is a great deal more difficult to obtain information on international flows of IPI. This is because IPI generally occurs over a shorter time period and transactions are made very quickly. It has been estimated though, that IPI to developing countries in 1996 was some \$50 billion, about half the value of FDI.

In terms of total portfolio investment, international flows are certainly significant, accounting for some 50 per cent of trading on the London Stock Exchange.

While IPI can be positive, the problem with IPI in environment and development terms is

its short-term nature and the high returns sought from it, especially in the least developed countries. For example, the annual rate of return on investment estimated by the World Bank for sub-Saharan Africa in 1990-94 was between 24 and 30 per cent, far exceeding the average for all developing countries (16-18 per cent) and the cost of commercial loans (6-7 per cent). Profits from foreign investments are often, at the very least, partly repatriated to the investor country and sometimes completely repatriated. This is especially the case where the company or investor sees few new investment opportunities in the host country. This repatriation of profits acts as a cost to the developing country because it must provide foreign currency for the transaction.

Two important points arise from this.

1. Unless a country can attract enough new foreign investment, or export enough products in order to earn enough foreign exchange, the repatriation of profits may prove an unwanted burden.
2. Those countries that are caused most difficulties by profit repatriation - the least developed countries - are those with the highest rates of return and thus the highest rates of repatriation. Yet these are the countries in most need of new long-term investment.

The reason that such high rates of return are demanded is the perceived increased risk from investing in the least developed countries. It is ironic that the greatest returns from investment are required from the poorest countries.

In terms of development, the benefits of IPI are also questionable because of what is known as 'capital flight'. IPI is one of the first things to 'jump-ship' (ie, be withdrawn) if investors are not confident in the economy. The recent flight of capital from the East Asian countries is a striking example of short-term thinking on the part of [speculative investors](#). Thus, encouraging IPI is not necessarily a strategy for long-term sustainable development.

As a recent report by the Bretton Woods Project concluded,

*“...portfolio investment should generally be avoided by low income countries as being too expensive and too volatile”.*⁴

This conclusion is backed up by the US Institute for Policy Studies which states that,

*“Of all the types of private capital to enter emerging economies, PI has the greatest potential to destabilize the recipient economy”.*⁵

The instability of IPI is closely linked to deregulated financial markets which encourage [speculation](#) either in terms of stocks and shares, commodities or currency.

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Conclusions and [Recommendations](#)

Although foreign investment is an important part of the world trade system and can be important in the development process, it is not a universally beneficial panacea for the

world economy. This is because:

- it can result in job losses (mergers and acquisitions);
- it can lead to a loss of accountability or democratic control over important resources (privatisation);
- it can be short-term and short-sighted leading to environmental and/or social degradation;
- it can cause foreign exchange problems if profits are repatriated;
- it can cause instability in a national economy if it 'jumps ship' at the first sign of economic difficulty.

Also, there is evidence to suggest that there is little or no correlation between deregulated investment markets and development.

As a rule, Foreign Direct Investment (FDI) is more likely to benefit a developing country than International Portfolio Investment (IPI) but it is by no means beneficial across the board. This means that it is imperative that governments have the right to choose the kind of investment they think will be beneficial depending on their development circumstances, and also to set conditions for that investment.

Such freedom of choice and right to regulate is threatened by the proposed incorporation of investment rules into the WTO - sometimes called the [Multilateral Agreement on Investment Mark II](#). Investment requires careful management and direction to promote more sustainable economies and societies: blanket provisions liberalising investment are not desirable. The WTO, which exists to promote liberalisation, is the wrong forum to deal with these issues. Investment should not be included in any further negotiations within the WTO.

New investment rules within the WTO would also expand the political and economic power of transnational corporations, some of whose overseas investments - particularly in developing countries - have been particularly damaging to the environment and local communities. A binding code of conduct on companies - through the auspices of the United Nations - would help to:

- retain governments' ability to screen and condition foreign investment projects;
- promote local, small-scale economic activity;
- set strong standards; and
- restrict inflows and outflows of speculative capital.

International investors would be required to follow minimum environmental and human rights standards wherever they operate.

Equally important, it can be argued that as long as developing countries have got something foreign investors want - timber, minerals, agricultural commodities or perhaps privatised utilities - there will be interest in their economy. However, if these resources or assets dry up or become uneconomic and the domestic economy has not developed sufficiently, foreign investors will look elsewhere, leaving the host economy and its people to suffer the consequences. This could leave countries without resources, without investment and without the domestic capacity to improve peoples' standard of living.

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Notes:

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The Citizens' Guide to Trade, Environment and Sustainability



World trade system | free trade history, theory and ideology

Free Trade History, Theory and Ideology

“Nothing in history has been so disgraceful to human intellect as the acceptance among us of the common doctrines of economics as a science”. (Mahatma Gandhi).

Supporters of 'free trade' believe that governments should not intervene in trade. Free trade is based on an economic theory known as 'comparative advantage', which holds that countries should specialise in producing those goods they produce most efficiently. Free trade ideology has enjoyed varying degrees of popularity over the past two hundred years but is now widely regarded as a fundamental part of national and international economic policy. It is also part of a much wider movement towards deregulatory free market policies, being pushed by a range of institutions, dubbed 'The Washington Consensus'.

The deregulation of trade is being accompanied by increasing globalisation in general - of finance, entertainment, food production, travel, communication and technology, for example. Thus globalisation is having a complex range of impacts on society and the environment. Such complexity makes it difficult to assess the precise impacts of 'free trade' and 'free market' policies alone but some fundamental points can still be made:

- 'Free trade' can be used as a means to an end - improving quality of life - but it is not an end in itself. It is not a holy grail that must be pursued at the expense of all other human endeavour;
- The rise of free market policies (including trade liberalisation) over the past few decades has been accompanied by a corresponding rise in inequality across the world;
- Economics, including free market economics, is not a predictive science. Centuries of experience show that economists do not deal in ultimate truths, but in theoretical ideas that reflect, with varying degrees of accuracy, the world around us.

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Why 'free trade'?

Goods and services have been traded internationally for centuries. Historically, this trade has been controlled by governments, either through force or through import and export taxes (tariffs), subsidies and other regulations. Whatever the method of intervention, the aim has been to maintain favourable terms of trade for the country, or group of countries, in question. The support by government of national interests - through tariff and non-tariff measures - is known, somewhat pejoratively, as 'protectionism'.

Since the late 18th century, various economists, businessmen and politicians have argued against intervention in international trade. Protectionism, they say, stifles international trade and is uneconomic, inefficient and reduces employment; instead they argue for what they call 'free trade' or 'trade liberalisation'.

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A brief history of 'free trade'

[Introduction](#)

The origins of trade liberalisation are inextricably linked with the free market ideology developed in late 18th and early 19th century Britain. This doctrine of *laissez-faire* (literally meaning 'free to do what you want') saw the removal of controls on wages, the virtual removal of support for the poor, the removal of agricultural support and the establishment of free trade. Ironically, the creation of this 'free market' required a high degree of state intervention.

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18th and 19th century Britain

Although not the first to expound free market theories, Adam Smith was arguably the most influential. In his book, 'The Wealth of Nations' (published in 1776), Smith provided, amongst other things, a theoretical justification for the abandonment of previously interventionist ideals and policies, and embraced the idea of free trade, saying;

*“If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage”.*¹

Smith's theories on trade were further developed in David Ricardo's theory of [comparative advantage](#) some years later. When the Corn Laws were dismantled in Britain in mid 19th century (the Laws were enacted to provide protection for British agriculture from foreign imports), 'free trade' policies became dominant in Britain.

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Free trade, protectionism and war

Despite some attempts in the late 19th century, and again in the early 20th century, to reverse 'free trade' policies, they remained intact until 1932, when, after the great depression of 1929-31, the then Chancellor of the Exchequer Neville Chamberlain introduced a general tariff. 'Free trade' was abandoned because Britain had lost its international competitiveness.

This return to protectionist policies in the UK (and an increase in protectionism in other countries, such as the USA's wide ranging 'Smoot-Hawley' tariff of 1930) has been blamed by some for the economic crisis that followed. Others maintain that these policies did not cause the depression but probably deepened it. The increase of protectionism in the 1930s has become inextricably linked with the rise of fascism in Germany and the start of the Second World War. As one author puts it:

*“What was it that made World War II such a watershed in international attitudes? Undoubtedly a major factor, if not the decisive one, was the widespread belief that the nationalist/mercantilist approach to international economic relations had been a significant contributing cause of the war”.*²

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Post-war developments

Whatever the underlying cause of World War II, its immediate aftermath was a period characterised by attempts to manage economies and set up international economic institutions.

In 1944 the allied leaders gathered at Bretton Woods - a town in the USA - and agreed to set up an international bank for reconstruction and development (the [World Bank](#)) and an [International Monetary Fund](#) (IMF) designed to stabilise exchange rates and balance of payments. At further meetings the USA proposed the formation of an International Trade Organisation (ITO) designed to liberalise international trade.

The World Bank and IMF were created without any problems but the ITO was much more contentious. Although the USA - the most powerful nation in the world at the time - was the main proponent of the ITO and nations such as the UK (represented at the various meetings by the famous economist John Maynard Keynes) were more sceptical, it was the USA that eventually sealed the fate of the ITO. In 1948, after the Havana Charter - intended as the basis of the ITO - had been drafted, the US Congress voted against ratifying it, effectively killing the idea of an ITO.

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The GATT and the WTO

One year before the demise of the ITO, 23 countries had drawn up the General Agreement on Tariffs and Trade (GATT) in Geneva. Whereas the ITO's intended remit was quite broad - including rules on employment, commodity agreements, restrictive business practices, international investment and services - the GATT was a much simpler agreement attempting to reduce and bind customs tariffs. In fact, it was originally intended to form part of the ITO. However, with the stillbirth of the ITO, the GATT - with its much simpler and more politically acceptable remit - became the spearhead for international trade liberalisation, mainly through negotiated tariff reduction, for the next 40 years.

Since the original formation of the GATT in 1947 there have been 8 'rounds' of trade negotiations. Initially, these negotiations dealt solely with tariff reductions/binding but by the 1980s the remit had expanded to cover non-tariff barriers to trade (NTBs). NTBs include regulations to protect the environment, health and safety (for example, a government could impose import restrictions on certain food products that are deemed to be a risk to public health).

It has been argued that NTBs became a focus of government negotiations because lower tariffs meant their 'visibility' as trade barriers increased. Others argue that NTBs actually increased as a direct consequence of tariff reductions.

Whatever the reason, the result was that, during the Tokyo Round (1973-1979), agreement was reached on a code of conduct for a number of NTBs. In the subsequent Uruguay Round (1986-1994), further agreement was reached on NTBs as well as agreements on new issues such as trade in services and intellectual property rights.

The Uruguay Round also led to the formation of the [World Trade Organisation](#) (WTO). Whereas the GATT was an agreement with 'contracting parties' and served as a negotiating forum, the WTO is a recognised international body with 'Members'. It is responsible for

monitoring and enforcing the World Trade Agreement (WTA).

The Uruguay Round was the longest, most tortuous and most controversial set of negotiations in the GATT's history. With an expanding membership (25 countries joined during the negotiations bringing the total to 128 in early 1995); many new issues on the agenda; and increasing public awareness of the possible impacts of GATT, international trade became more than just an argument over tariffs. For the first time, there was significant debate about the wider impacts of the GATT agreement - political, economic, social and environmental. There was also a great deal of criticism about the lack of transparency of the process and the fact that the majority of governments (almost exclusively from developing countries) were left out of important 'green room' meetings that constituted the bulk of the negotiations.

Despite this, and despite the massive delay in reaching an accord (caused by disagreements over, amongst other things, [agriculture and food security](#)) the Uruguay Round was concluded in 1994 and the WTO formed in 1995. By late 1999, the WTO's membership had reached 135 countries.

In April 1998, the world trade system celebrated its 50th birthday to great fanfare in the financial press. As we enter the 21st Century, the doctrine of 'free trade' continues to be accepted as 'conventional wisdom' for economic policy and, apart from a few notable exceptions, is rarely questioned amongst academic, industrial and governmental economists. However, this 'conventional wisdom' has been undermined by the outcome of the [Seattle Ministerial Conference](#).

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'Free trade' theory - comparative advantage

Introduction

The basis of the free trade argument is an economic theory known as 'comparative advantage'. This theory was formulated by British MP and economist David Ricardo in the early 19th century. The basic idea is best expressed using a two-country, two-goods example.

If country A is better at producing food than country B, and country B better at producing clothes than A, both will be better off specialising in the production of those goods and trading with each other. This is known as 'absolute advantage'. If on the other hand country A is much more superior at food production and slightly more superior at clothes production than Country B, it might be expected that country B will 'lose'. However, comparative advantage theory says that, country A should invest in specialising in producing the good which it is comparatively more superior at making (food). Country B should still specialise in what it does best (clothes) and the countries should trade. It is beneficial for both countries because, the theory argues, it is more economically efficient. According to the theory, this works because,

*“...no matter how poorly endowed a country is, it will always have comparative advantage in something”.*³

A number of criticisms of comparative advantage theory exist especially relating to its 'win-win' basis and its applicability in terms of the environment. These are:

- the [assumptions](#) on which it is based;
- the existence of '[externalities](#)';
- the existence (or not) of competition to keep standards low (a '[race to the bottom](#)');
- the impact of [specialised production](#) on the environment.

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Assumptions of comparative advantage theory

This theory has more or less become gospel amongst many economists, and the WTO calls it “..arguably the single most powerful insight in economics.”⁴ However, it is worth looking at some of the assumptions that lie behind this theory. Economist Paul Samuelson won a Nobel prize for economics for further developing the theory of comparative advantage, showing how it could benefit all parties. This theory though, was based on the following five assumptions (which apply to any one country in question):

- there is no government;
- the 'gainers' from trade compensate the 'losers';
- wages are equal throughout the country's industry;
- capital and labour are internationally immobile;
- there is no trade deficit.

It is clear that satisfying any one of these assumptions would be difficult let alone all five, yet the theory is a central pillar of 'free trade' ideology and claims to accurately reflect the real world. As one economist points out,

*“Any policy recommendation that derives from a theoretical construct is valid and relevant only if the assumptions which underlie the theory are compatible with the world in which the policies are being instigated”.*⁵

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Capital immobility?

Putting aside the win-win theory articulated by Samuelson, the general theory of comparative advantage, as proposed by Ricardo, is most famously dependent on the fourth of the above-listed assumptions; the international immobility of capital and labour. Whilst there are still some constraints on the movement of labour, it is clear that, in today's globalised world of transnational corporations, international money markets and massive financial transactions that can be made at the touch of a computer key, this assumption no longer applies in relation to capital. For example, in 1996, total world cross-border investment flows amounted to some \$310 billion. Further, the currency crisis that hit South East Asia in 1997 saw massive 'capital flight', resulting in, for example, the Malaysian stock market losing 40% of its value (some M\$250 billion) in just six months. Also, every day 1.3 trillion dollars is exchanged on the world's currency markets.

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Respected economists and writers Herman Daly and John Cobb criticise academic economists and free market proponents for failing to re-examine comparative advantage theory saying,

*“They have suppressed recognition of the fact that the empirical cornerstone of the whole classical free trade argument, capital immobility, has crumbled into loose gravel”.*⁶

In terms of the two-country, two-goods example given earlier, if capital is mobile it will most likely move to the clothing *and* food sectors in country A which are both more productive. Thus, country B will lose out because capital investment has no 'national loyalty' and will seek the most advantageous position no matter where it is.

Another author explains this further stating that,

*“When capital is mobile it will seek its absolute advantage by migrating to countries where the environmental and social costs of enterprises are lowest and profits are highest. Both in theory and practice the effect of global capital mobility is to nullify the Ricardian doctrine of comparative advantage. Yet is on that flimsy foundation that the edifice of unregulated global free trade still stands.”*⁷

Given then that the basis of the 'free trade' argument - the theory of comparative advantage - is not applicable in the real world, why has free trade ideology become so widespread? As one economist points out,

*“Given the large number of assumptions which limit the applicability of the pure, orthodox theory of international trade to reality...the fervour of the commitment to the doctrine of free trade is surprising”.*⁸

Perhaps one explanation lies in the working of what has become known as the 'Washington consensus'.

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'Free trade' ideology - the 'Washington Consensus'

Introduction

'Free trade', both on its own and as part of a wider free market economic paradigm, has become widely accepted the world over.

It can't be denied that free trade theory does have a certain simple logic that makes it attractive to economists and policy-makers alike. As two Canadian authors state,

*“Free trade is good stuff - see any classic text. Who then but fools, and the kind of cowards who fear good clean open competition would oppose it?”.*⁹

Yet why, when the theory has so little applicability in the real world, have so many governments around the world submitted to the will of the free market?

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The western view

Free market ideology stems very much from a 'western' view of the world which sees individual and/or private power as the most legitimate conception of freedom. A major part of this world-view is a belief that free market capitalism is the only viable socio-economic system and is thus 'right' for everyone. However free market ideology - a belief in competitiveness, market forces and private ownership - is very much rooted in western culture and psychology and is not necessarily applicable across the world.

It is clear both from recent economic history and from recent trade and investment liberalisation negotiations that not all countries embrace free market policies with the fervour of countries like the USA, UK, New Zealand etc. For example, during the Uruguay Round negotiations of the GATT, India was opposed to an agreement on intellectual property rights but, because negotiations were not sector specific, it had to sign up for the TRIPs agreement along with everything else.

Similarly, many developing and newly industrialised countries - such as Ghana, India, Uganda, Malaysia, Egypt, and Tanzania - were vehemently opposed both to the proposed [Multilateral Agreement on Investment](#) (MAI) and the incorporation of further investment rules in the WTO. Such countries want instead to keep the right to set the terms of entry for foreign investors into their markets. This is one of the major reasons why the MAI was originally negotiated in the OECD - a group of 29 industrialised countries generally in favour of investment liberalisation. The apparent 'consensus' is therefore an illusion. But why then are policies such as trade liberalisation so widespread?

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The institutional 'free market' push

The real consensus lies within a group of policy-makers, economists and international economic institutions largely based in Washington. Named the 'Washington Consensus' or the 'Washington View', it refers to the free market ideology and free market policies pursued by such organisations as the International Monetary Fund (IMF) and World Bank. That free trade and free market policies have become so widespread can partly be explained by the activities of these organisations and the governments that largely control them.

The Washington Consensus promotes a belief that free market capitalism is the only way forward for the world economic system. In fact, a belief that there is, or should be a 'world economic system', is a major driving force behind such governments as the USA and institutions such as the World Bank, IMF and WTO. According to the WTO part of its mandate,

“...is to co-operate with the International Monetary Fund, the World Bank and other multilateral institutions to achieve greater coherence in global economic policy-making”. ¹⁰

The World Bank encourages export-led development, often using the 'Asian Tigers' (e.g.

Indonesia, Malaysia, Thailand) as the model to be followed. Yet it does not acknowledge that these countries achieved development through a high degree of state involvement in industrial policy. At the same time the IMF pursues structural adjustment policies that promote privatisation, trade liberalisation, investment deregulation, public spending cuts and the removal of restrictions on the movement of capital. The policies of these two organisations, along with those of the WTO, interact to encourage (or even coerce) countries to follow a 'liberal free market' agenda. The free market psychology of the western powers, and the influence that they can have on other countries through the US-dominated World Bank and IMF helps make the 'Washington Consensus' all pervasive.

It is also worth noting that it is not just the WTO and Bretton Woods institutions that promote the 'conventional wisdom' of free market economics. For example, USAID, the United States' official development body, demanded privatisation and deregulation policies in return for providing development assistance in Panama and Costa Rica. Also relevant are the lobbying power of major TNCs and international peer pressure created by such bodies as the WTO. Moreover, the 'Washington Consensus' has also been adopted by other international organisations. Both UNCED in 1992 and the Poverty Summit in 1995 advocated free market policies for sustainable development and countering poverty respectively.

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Free markets and democracy

Ironically, despite the push by the US Government and US-dominated financial institutions for free market reforms and privatisation in other countries, in the USA, local governments and local communities are beginning to reject the free market and demand forms of state ownership in key sectors such as electricity and water.

This case of local democracy spurring non-'free market' policies gives the lie to the oft-used claim that 'free markets' and greater democracy go hand-in-hand. The proponents of 'free trade' would have us believe that free market economics is a driving force behind democracy around the world. Yet a democratic government was overthrown in Chile and a ruthless dictatorship installed in order to pursue the free market dream. China, for example, has also adopted a more free market approach yet there is no sign of democracy on the horizon.

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'Free markets' and development

Countries the world over are seeking development and to increase standards of living. There can be little doubt that many developing countries seek to emulate the 'success' that they see in North America and Europe in particular. In the past 20 years or so, many have freely chosen a path which has adopted the western free market model.

Some, however, have not rigidly adopted such a model and the experience of East Asian nations is illustrative. Countries such as Malaysia, Japan and Thailand are all characterised by state intervention and a certain amount of so-called 'protectionism'. This is very much a result of the culture in these countries. In fact, concern over the unquestioning acceptance of free market policies prompted the Japanese Government to provide most of the funding

for a World Bank study into the 'East Asian Miracle'. The World Bank concluded that state intervention had been an important factor but maintained that, “...*this model would not be applicable elsewhere*”¹¹. The study has also not dissuaded supporters of the 'Washington Consensus' from further pursuing market liberalisation in these countries. As one author states, regarding the recent problems in East Asia,

*“It is unlikely...that Washington will desist from taking advantage of the current crisis to achieve what it has been trying to push over the last decade with little success: the free market transformation of economic systems that are best described as state-assisted capitalist formations”*¹².

This view seems to be borne out by the austerity measures and market reforms demanded of Indonesia, Thailand and Korea by the IMF.

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'Free trade' and 'free markets' for all?

*“According to the 'Washington Consensus', 'democratic capitalism' will soon be accepted throughout the world. A global market will become a reality. The manifold economic cultures and systems that the world has always contained will be redundant. They will be merged into a single universal free market.”*¹³

The world contains a vast array of different cultures and ideologies and to use the liberal market ideals of western countries as a template for other parts of the world is wrong. There is a strong argument for the adaptation of economic policy rather than the wholesale adoption of it. This is important both in order to avoid the obvious problems associated with the western economic model but also to avoid what has been called the “*homogenization of global culture*” which is being exacerbated by privatisation and deregulation.

As one author states,

*“...it is the ultimate rationalisation for the entire Western development ethic that the sacrifice of cultural and biological diversity is worth what is gained, even if every place on Earth begins to look like Bakersfield, California”*¹⁴.

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Final word: freedom for whom?

Current ideology vilifies 'protectionism' while lauding 'free' trade. But why should this be the case when:

- It is the pursuit of 'free' trade that may force farmers in India to pay for their seed rather than collect it for nothing;
- It is the pursuit of 'free' markets that constrains the action of democratically elected governments after the imposition of austerity measures by unelected economists of the IMF;

- It is the 'free' market that ignores the massive human and environmental costs of old-growth forest destruction;
- It is the pursuit of 'free' trade that prevents effective international agreement on ways to combat climate change.

The fundamental question that needs to be asked is - freedom for whom? In the current system it is:

- Freedom for corporations to [move around the world](#) to wherever production conditions are most 'favourable';
- Freedom for the 'market' from the realities of complex [environmental problems](#), human nature, culture and social structures;
- Freedom for governments and companies to impose ever more draconian policies in the name of improving '[international competitiveness](#)'.

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- [8.](#) op cit Gray (1985).
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**Friends of
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The Citizens' Guide to Trade, Environment and Sustainability



World trade system | institutions and rules

Trade Institutions and Rules

The world trading system is made up of a variety of international institutions. They are all involved - albeit to varying degrees - in shaping the development of international trade. Perhaps the most striking aspect about the organisations listed below is that, despite their different remits and perspectives, most either overtly support or rarely criticise trade liberalisation, investment deregulation and the world trade system. This means that there is little or no questioning of free trade at the international policy level. A further criticism of these institutions is that various groups in society - such as [women](#) - remain largely excluded despite long-running campaigns for their recognition and involvement within such fora.

These pages provide at least a brief summary, and in some cases more detailed information, on these institutions.

- [Codex Alimentarius Commission \(Codex\)](#)
- [International Chamber of Commerce \(ICC\)](#)
- [International Monetary Fund \(IMF\)](#)
- [International Organisation for Standardisation \(ISO\)](#)
- [Organisation for Economic Co-operation and Development \(OECD\)](#)
- [Transatlantic Business Dialogue \(TABD\)](#)
- [United Nations Commission on Sustainable Development \(UNCSD\)](#)
- [United Nations Conference on Trade and Development \(UNCTAD\)](#)
- [World Bank](#)
- [World Business Council for Sustainable Development \(WBCSD\)](#)
- [World Trade Organisation \(WTO\)](#)

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World trade system | the role of TNCs

The Role of Transnational Corporation (TNCs) in the World Trade System

Transnational corporations (TNCs), mostly from the developed world, are one of the main driving forces behind the world trade system. They are responsible for a large proportion of international trade. The economic power of these companies gives them considerable influence over the world trade system, both directly and via government. Such influence helps ensure that the system works for their benefit. The extraordinary power and influence of TNCs and the lack of democratic control over any adverse environmental/social consequences resulting from their pursuit of the 'bottom line' (i. e. profits) is frequently a problem.

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Introduction

Transnational corporations (TNCs) are companies with investments outside their home country. While not, of course, being the only kind of company - millions of smaller businesses exist all over the world - TNCs are becoming increasingly important in the global economy due to their size, range of activities, economic power and political influence. Their importance is increasing as they merge into 'mega-corporations' (for more information on corporate consolidation, see FOEI briefing, [Seattle Series - The World Trade System: Winners and Losers](#)).

TNCs play a critical part in the world trade system and this page aims to give at least some explanation why.

Corporate power - the facts

General

The extent of corporate power can be summed up in the following statistics:

- About two-thirds of world trade is now accounted for by just 500 companies, and 40% of world trade occurs within these companies.
- 50 of the world's largest economies are TNCs.
- The total income of the 10 largest TNCs is greater than that of the world's poorest 100 countries, and many TNCs have greater sales than the GDP of some developed countries. General Motors is more powerful in pure economic terms than Norway or Thailand. Such economic power is being increased through mergers - a recent example being the deal between BP and Amoco, resulting in the largest company in Britain and one of the largest oil companies in the world.
- In 1996, the five largest TNCs - General Motors, Itochu, Ford, Mitsui and Shell - had combined annual sales of \$720 billion (see Table 1). This was more than the combined GDP of Sweden, Finland and the Netherlands in the same year. It was also more than the combined GDP of all South East Asian and Pacific countries. With 10 car and oil companies in the top 20 largest TNCs, it is little wonder that cutting greenhouse gas emissions is so politically difficult (see Table 1).

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Rank	Company	Country	Industry	Total Sales (\$billions)
1	General Motors	USA	Automotive	158
2	Itochu Corporation	Japan	Trading	153.5

3	Ford Motor Company	USA	Automotive	147
4	Mitsui & Co Ltd	Japan	Diversified	132
5	Royal Dutch Shell	UK/Netherlands	Petroleum	128.3
6	Mitsubishi Corporation	Japan	Diversified	127.4
7	Exxon Corporation	USA	Petroleum	117
8	Marubeni Corporation	Japan	Trading	113
9	Toyota	Japan	Automotive	109.3
10	Sumitomo Corporation	Japan	Trading/Machinery	108.4
11	BP Amoco	UK/USA	Petroleum	105.3
12	Mobil Corporation	USA	Petroleum	80.4
13	General Electric	USA	Electronics	79.2
14	IBM	USA	Computers	75.9
15	Daimler-Benz AG	Germany	Automotive	70.6
16	Philip Morris	USA	Food/tobacco	69.2
17	Hitachi Ltd.	Japan	Electronics	68.7
18	Volkswagen Group	Germany	Automotive	64.4
19	Siemens AG	Germany	Electronics	62.6
20	Nissan Motor Co Ltd.	Japan	Automotive	53.8
	TOTALS	USA 8 Japan 8 Germany 3 UK 2 Netherlands 1	Automotive 6 Petroleum 4 Trading/ Diversified 5 Electronics 3 Others 2	2024

Source: UNCTAD, Trade and Investment Report 1998.

Note: Due to the increasing number of mergers and acquisitions, these figures are liable to change rapidly. For example, this ranking will have now changed due to mergers between Exxon and Mobil and Chrysler and Daimler-Benz.

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The economic power of the major TNCs means that these companies can, either individually or jointly as corporate lobby groups, have a great deal of influence on government decision-making. This influence has a significant impact on the [fairness](#) of the trading system and the so-called '[level playing field](#)' that the world trade system claims to promote.

In the three main trade sectors defined by the WTO - food and agriculture, mining and manufactured goods - TNCs are becoming increasingly dominant. 'Consolidation' and 'vertical integration' are the current corporate buzzwords with mergers and acquisitions providing greater corporate mobility, market share and control over all aspects of production.

[Return to contents](#)Food and Agriculture

TNCs are increasingly exerting their control over the food system which has important implications for food security (ie, ensuring access to an adequate supply of nutritious food for every individual).

- Just four companies control 90% of the world's exports of corn, wheat, coffee, tea and pineapples. As long ago as 1983, over 70% of world trade in rice, cocoa beans, bananas and sugar, was controlled by just 3 to 6 TNCs. Also, in 1983 over 85% of world trade in such materials as forest products, cotton, tobacco and jute were controlled by just 3 to 6 TNCs. Trends in globalisation will most likely have increased, rather than decreased, this control on agricultural commodity distribution.
- Nestle and Unilever, the world's two largest food TNCs had combined sales in 1994 (\$97 billion) worth more than the combined GDP of Egypt and Nigeria (\$74 billion). In 1992, Unilever made 22 corporate acquisitions worth some \$300 million.
- In terms of the tea we drink, Unilever controls some 30% of the UK market, 62 % of the Australian market, 30% of tea sales in Canada, nearly 50% in the USA and 95% of packaged tea sales in India and Pakistan.
- Subsequent to a \$500,000 donation to the US Democratic Party by banana TNC Chiquita, the US Government lodged a dispute in the WTO over the EU's banana import regime.

See also FOEI briefings, [Seattle Series - The World Trade System: Winners and Losers](#) and [Food and Food Security: The Implications of Current Trade Negotiations](#).

[Return to contents](#)Mining/Minerals

The oil industry contains some of the most powerful companies in the world. The merger of BP and Amoco in 1998 (combined revenue of \$105 billion in 1996) makes BP Amoco the third largest oil company in the world, behind Royal Dutch Shell (\$128 billion) and Exxon-Mobil Corporation (\$197 billion approx). The combined sales of these three companies is more than three times the combined GDP of the 48 least developed countries. Exxon-Mobil Corporation is a leading member of the Global Climate Coalition (GCC) an organisation trying to block meaningful progress to greenhouse gas reductions.

Also economically powerful is the mining industry. For example, in 1991, the world's two largest mining companies - Rio Tinto and Anglo American - delivered more than 30% of official world gold production. In terms of sales, in 1983, over 80% of world trade in copper, bauxite and iron ore was accounted for by just 3 to 6 TNCs.

Many countries are dependent on minerals for export revenue and some 70 countries have changed their laws to attract foreign investment from mining TNCs. Mining companies are involved in some of the most socially and environmentally damaging projects on earth such

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as the Freeport-McMoran mine in Irian Jaya (Indonesia) which is responsible for exacerbating an ethnic conflict, and the proposed [Rio Tinto mine in Madagascar](#) which could destroy a significant portion of Madagascar's unique forest.

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Manufactured Goods

The automotive industry is the most economically powerful in the world. Six of the top 20 TNCs are involved in car manufacturing (see Table 1). General Motors is one of the largest companies (in terms of sales) in the world.

Such companies are seen by governments as crucial for employment and receive massive publicly-funded inducements (handouts) either to locate in a particular country or not to move away. For example, between 1996 and 1998 the UK Government provided some £200 million to car manufacturers in the UK.

Some of the most important manufacturing sectors are more than 40% dominated by five (or fewer) corporations including cars, electronics, steel, computers and aerospace (see also FOEI briefing, [Seattle Series - The World Trade System: Winners and Losers](#)).

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Is TNC economic power and political influence a bad thing?

The basic argument of TNCs and their advocates (like the [International Chamber of Commerce](#) and the [Transatlantic Business Dialogue](#)), although not necessarily expressed in these terms, is that what is good for business is good for people. If business benefits from the trade system, people will benefit. The main problem with this line of argument is that there is more to life than business and there is more to improving quality of life than just increasing trade and growth.

Fundamentally, the domination of industries by fewer and fewer TNCs means the benefits from increased trade or growth are channelled into fewer and fewer hands. These companies are then able to exert a great deal of power and influence over democratically elected bodies in the pursuit of their own interests, potentially overriding the public interest. Time and again, it has been shown that the corporate interest and the public interest can be poles apart. For example, in 1984 a poisonous gas leak from a negligently maintained chemical factory in Bhopal, India, owned by US multinational Union Carbide caused the deaths of 3,000 people, injuring a further 200,000. More recently, Rio Tinto, the largest mining company in the world, proposed a massive operation on the island of [Madagascar](#) threatening a vast area of natural forest containing species found nowhere else on earth.

A 1989 report by a Papua New Guinean Government Commission stated that TNCs in its New Ireland Province were,

“...roaming the countryside with the self-assurance of robber barons; bribing politicians and leaders, creating social disharmony and ignoring laws in order to gain access to, rip out, and export the last remnants of the province's valuable timber.”¹

Similarly, after cataloguing a range of illegal practices rife in the forest industry in developing countries, one author concludes,

*“Already established in the forestry sector, illegal and corrupt activities may continue to operate, perhaps with increasing force as more and more powerful companies converge on remaining global forest resources”.*²

A more recent example is the influence that oil and car companies in particular have had through the Global Climate Coalition (GCC), on attempts to reduce greenhouse gas emissions. The GCC and others spent US\$13 million in 1997 on trying to persuade the US people that emissions should not be reduced as it would hurt American jobs. This is despite a statement signed by 2,000 economists that there are many potential policies for which the benefits outweigh the costs. The interests of the whole world's population, and future generations, would be best served by action to prevent climate change. The short-term interests of industries dependent on fossil fuels are best served by no action at all. As yet, the US has not ratified the Kyoto Protocol.

There is, as yet, little or no effective control over the actions of TNCs on a global scale. Bodies like the [ICC](#), [WBCSD](#) and [TABD](#) plus many governments promote 'voluntary' controls because regulation and intervention are seen as constraining economic activity and slowing economic growth. Yet, like people, TNCs do need to be subject to legally enforced responsibilities because they do not necessarily act for the good of society. For example, TNCs generate some 50% of greenhouse gas emissions (responsible for climate change), TNCs are producers and users of ozone-layer depleting chemicals, TNCs contribute to air, sea, river, ground-water and land pollution and TNCs contribute to biodiversity loss through forest and other habitat destruction.

TNCs now dominate significant proportions of our lives - from what we eat, how we communicate, the television we watch and the music we listen to - yet there is little or no democratic control over these organisations. Given that many corporations are more economically powerful than governments, the question is who governs the corporations and to what end?

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TNCs - The Good, The Bad and the Ugly

The good

Few TNCs have a consistent record of environmental destruction. Examples of good practice include Rank Xerox which is now taking back two-thirds of its own end-of-life photocopiers, reusing parts and recycling materials in order to make 'remanufactured' copiers. Of course, such practice also makes good business sense as it saves the company £50 million on raw material purchases. Another encouraging step was recently taken by MacMillan Bloedel (however, see below) - for years widely condemned for its environmentally damaging logging practices in the ancient forests of British Columbia, Canada - which took the bold step of announcing a halt to the use of clearcut logging in its forests. It must be hoped that this policy statement is translated into more sustainable forestry practices.

[Return to contents](#)The bad

While such examples of good practice are encouraging, many TNCs are able to use their power to override the interests of local communities and the environment. Such 'bad practice' includes:

- Union Carbide whose cost-cutting caused one of the worst industrial disasters ever. In 1984, its “*negligently maintained*” chemical plant in India leaked poisonous gas killing 3,000 people and injuring 200,000.
- In 1996, the tailings dam of a Canadian owned goldmine in Guyana leaked toxic cyanide-laced mining waste into two rivers, seriously affecting water supplies and wildlife. Although the company has admitted liability for the leak, it is trying to minimise the damages it will have to pay by lobbying to have law suits heard in Guyanan rather than Canadian courts.
- US biotechnology company Monsanto has taken 400 American farmers to court for saving seed from crops on which Monsanto owns the patent.

[Return to contents](#)The ugly

The activities of some TNCs could be classed as downright ugly. For example:

- The alleged links between British Petroleum (BP) - now merged with Amoco - and private militias in Colombia involved in squashing resistance to oil developments.
- The attempt by the Global Climate Coalition - a front group for industries like oil and automobiles that have a vested interest in maintaining fossil fuel use - to block meaningful action to curb climate change.

Also among the uglier activities of TNCs is the use of libel law suits - known as SLAPPs (Strategic Law-suits Against Public Participation) - to quell dissent and block protest against their activities. For example,

“In 1986 a woman in Texas was sued by a company, Hill Sand Co., for \$5 million for using the term 'dump' for a landfill; her husband, who had not been involved in the protest, was also sued because he 'failed to control his wife'. After nearly three years of court appearances and thousands of dollars in legal fees, during which time many people withdrew from the campaign in fear, the law suit was dropped. Hill Sand closed down and a couple of years later the landfill was investigated by the Environmental Protection Agency as a hazardous waste site that needed to be cleaned up.”³

Other notable examples include McDonalds in the UK, who tried to ward off protestors by suing two individuals over the content of a campaign leaflet, and Fletcher Challenge and MacMillan Bloedel in Canada. Between them these two companies have sued over a hundred individuals, plus four community and environmental groups over their opposition

to the companies' logging activities in Canada.

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Corporate power: what could be done?

A number of possible policy options/actions exist, including:

- Re-opening the UN Centre for Transnational Corporations which conducted research into TNCs and was closed down to form UNCTAD.
- Enacting binding international rules to control the activities of TNCs (including legal liability).
- Enacting international monopolies and mergers (anti-trust) rules to break up existing and/or prevent further TNC dominated industries.
- Government intervention to favour local businesses and local production.

Governments are quick to enact laws to prescribe the 'rights and responsibilities' of individuals but seem paralysed when it comes to doing the same for companies. However, in a world where corporations play an increasing role in our lives, some form of action is imperative.

For further and more detailed suggestions from FoEI, please read our new publication [Towards Sustainable Economies](#).

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Further information

[Corporate Watch](#)

[Corporate Europe Observatory](#) and their publication [Europe, Inc. Regional and Global Restructuring and the Rise of Corporate Power](#).

Notes:

- [1.](#) Quoted in: WRI, IUCN and UNEP. (1992). *Global Biodiversity Strategy*. World Resources Institute, International Union for the Conservation of Nature and the United Nations Environment Programme.
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Searching the Site

The 'Citizens' Guide' contains a great deal of information on a range of trade issues and we recommend you also use the [site map](#) and [contents](#) pages.

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Links and further reading

Links and Further Reading

Because trade, environment and sustainability issues cut across such a broad spectrum of activities, compiling a truly comprehensive list of links and further reading is a difficult - perhaps impossible - task. This page is intended to provide as wide a range of links and further reading as possible. It includes organisations mentioned in these pages plus a few extras. If you have updates and or corrections, please mail them to the website manager at info@foei.org.

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- [More international trade law links](#)
- [One World - an umbrella site for many NGOs](#)
- [Panos \(a research institute\)](#)
- [Trade and Environment Database \(TED\)](#) - provides case studies on trade and environment issues
- [Center for International Development at Harvard University](#) - provides information

and research papers on international trade policy

Non Governmental Organisations (NGOs)

- [Action Aid](#)
- [A SEED Europe](#)(Action for Solidarity, Equality, Environment and Development)
- [Catholic Fund for Overseas Development \(CAFOD\)](#)
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- [Equal Exchange](#) - a worker-owned fair trade organization
- [Fairtrade Foundation](#)
- [Friends of the Earth International Groups](#)
- [Greenpeace International](#)
- [International Centre for Trade and Sustainable Development \(ICTSD\)](#)
- [International Institute for Environment and Development \(IIED\)](#) , sustainable consumption and trade initiative
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- [International Institute for Sustainable Development \(IISD\)](#)
- [The Institute for Agriculture and Trade Policy \(IATP\)](#)
- [Jubilee 2000 Campaign](#) (debt cancellation)
- [Latin American Center for Social Ecology - CLAES](#) (ecology and trade in Latin America - in Spanish)
- [Oxfam](#)
- [People and Planet \(formerly Third World First\)](#)
- [Public Citizen](#) (US NGO) Global Trade Watch Pages
- [SAFE Alliance](#) (an NGO working for sustainable agriculture and better food)
- [Survival International](#) (an NGO campaigning for indigenous peoples' rights)
- [Sustainable Alternatives to the Global Economy \(SAGE\)](#)
- [Third World Network](#)
- [Traidcraft](#)
- [World Development Movement](#)
- [World Wide Fund for Nature](#)

International Institutions

- [Food and Agriculture Organisation](#)
- [International Chamber of Commerce \(ICC\)](#)
- [International Monetary Fund \(IMF\)](#)
- [International Organisation for Standardisation \(ISO\)](#)
- [Organisation for Economic Co-operation and Development \(OECD\)](#)
- [United Nations Conference on Environment and Development \(UNCED\)](#)
- [United Nations Commission on Sustainable Development \(UNCSD\)](#)
- [United Nations Conference on Trade and Development \(UNCTAD\)](#)
- [United Nations Development Programme \(UNDP\)](#)
- [United Nations Environment Programme \(UNEP\)](#)

- [United Nations Research Institute for Social Development \(UNRISD\)](#)
- [World Bank](#)
- [World Business Council for Sustainable Development](#)
- [World Trade Organisation \(WTO\)](#)

Free Market/Free Trade proponents

- [Cato Centre for Trade Policy Studies](#)
- [Thoreau Institute](#)
- [Adam Smith Institute](#)

Transnational Corporations (TNCs) - Information

- [Corporate Watch](#)
- [Multinational Monitor](#)
- [Corporate Europe Observatory](#)

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Further reading

The following range of references should provide at least a starting point for those interested in further pursuing some of the issues tackled in this guide. This list is of course by no means definitive and reflects the bias of the author in so far as there are fewer references to pro-free trade/free market publications. However, if you are interested in reading more about the arguments for deregulation, privatisation, free market economics and free trade most large bookshops should have an adequate selection.

The inclusion of a reference in this list should not be taken as an endorsement by Friends of the Earth International of the publication or the views expressed in it (except those published by Friends of the Earth!).

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**Friends of
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International**

The Citizens' Guide to Trade, Environment and Sustainability



Trade acronyms

International Trade: Acronyms

When reading about trade, environment and sustainability issues it is possible to almost drown in a sea of acronyms. What follows is a list of at least some of the most commonly used ones.

AB: Appellate Body

ACP: African, Caribbean and Pacific countries

APEC: Asia-Pacific Economic Cooperation

ASEAN: Association of South East Asian Nations

ATC: Agreement on Textiles and Clothing

BST: Bovine somatotropin (a growth hormone)

CAA: Clean Air Act (USA)

CBD: Convention on Biological Diversity

CITES: Convention on the International Trade in Endangered Species

Codex: Codex Alimentarius Commission (a world food standards body)

CTD: WTO Committee on Trade and Development

CTE: WTO Committee on Trade and the Environment

DFID: Department for International Development (UK)

DOC: Department of Commerce (USA)

DSB: Dispute Settlement Body

DSP: Dispute Settlement Panel

DSU: Dispute Settlement Understanding

ECOWAS: Economic Cooperation of West African States

EMIT: GATT working party on Environmental Measures and International Trade

EU: European Union

FAO: Food and Agriculture Organisation

FDA: Food and Drug Administration (USA)

FDI: Foreign Direct Investment

FOE: Friends of the Earth

FOEI: Friends of the Earth International

FSC: Forest Stewardship Council

FTAA: Free Trade Area of the Americas

GATT: General Agreement on Tariffs and Trade

GATT 1994: aka The World Trade Agreement (WTA) or WTO rules

GDP: Gross Domestic Product

GEF: Global Environment Facility

GM: Genetically Modified

GM: General Motors

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UNDP: United Nations Development Programme
UNEP: United Nations Environment Programme
USTR: United States Trade Representative
WB: World Bank
WBCSD: World Business Council for Sustainable Development
WCMC: World Conservation Monitoring Centre
WHC: World Heritage Convention
WHF: World Heritage Fund
WHO: World Health Organisation
WIPO: World Intellectual Property Organisation
WRI: World Resources Institute
WTA: World Trade Agreement (aka GATT 1994)
WTO: World Trade Organisation
WWF: Worldwide Fund for Nature

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Friends of
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International

The Citizens' Guide to Trade, Environment and Sustainability



World trade system | globalisation

Globalisation

“Globalization is not a policy choice...it is a fact”. (Bill Clinton, 1998)

Globalisation is an age-old process of economic, political and cultural integration across the world. Spurred on in the past by merchants, explorers, colonialists and internationalists, globalisation has in more recent times been accelerating due to improvements in communications, information and transport technology. It has also been further encouraged by trade liberalisation and financial market deregulation. However, economic globalisation in particular presents the people of the world with a range of both threats and opportunities. Recent experience suggests that the world is not making the most of the opportunities but *is* succumbing to the threats.

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Introduction

Globalisation is a process of increasing economic, political and cultural integration across the world. The causes of globalisation are basically twofold: changes in technology and changes in policy. While some of its impacts can be beneficial, many people are concerned that, without some form of management, globalisation will be detrimental.

Some, such as President Clinton, maintain that globalisation is an unstoppable process that the world just has to live with (see quote at top of this page). Such remarks give the impression that politicians are powerless to do anything about globalisation. This may well be the kind of impression that some non-interventionist governments want to make: it is not necessarily true.

People *do* have a choice about the *direction* globalisation takes. Firstly, for example, they are not obliged to accept [neoliberal economics](#). Secondly, whilst it may be imprudent to prevent technological innovation, it would certainly be wise to introduce policies to ensure such innovations benefit people and their environments.

[Speculation](#) provides a very good example of real choices that can be made concerning globalisation. Although technology now allows massive speculative international currency transactions to be made at the touch of a computer key, such transactions can have major impacts on peoples' lives - as was the case in the recent Asian crisis. In policy terms the international financial system can either let the 'free market' run free or it can reign in such speculative flows of capital by regulating and taxing financial transactions. This is a very real policy choice and not a foregone conclusion.

International policy development is also driving globalisation in the areas of international trade and investment policy. Again, the existence of deregulatory policies that encourage economic integration and homogenisation are by no means a foregone conclusion. They are very much a product of current economic policy fashion.

The way that globalisation is allowed to happen is therefore very much in our hands.

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Threats and opportunities

Economic globalisation has many negative social and environmental impacts. However, a more constructive, equitable and sustainable approach to international cooperation could generate a range of positive impacts:

Globalisation - Some Threats and Corresponding Opportunities

Threats	Opportunities
Increasing income inequality, for example between South-North and women-men	North-South wealth redistribution
Increasing power in the hands of the few	Increased technology transfer. The development of vibrant local economies.
Increasing environmental degradation and social breakdown	International co-operation to solve environmental and social problems.
Cultural homogenisation	Better cultural understanding
Increased economic instability through unregulated financial markets, trade and investment.	A regulated system that encourages long-term economic thinking and action and discourages short-termism.
Economic homogenisation	A recognition that 'one-size' does not fit all in terms of economic policy and a system that allows policy based on circumstances and democratic decision-making.
Competitiveness pressures which keep low, or drive down, regulations and government spending on the environment	International measures to improve standards, internalise the costs of environmental damage and transfer revenue to where it is needed.

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Unfortunately, it seems that the world is succumbing to the threats rather than taking the opportunities. Economic globalisation has real negative impacts on peoples' lives and scepticism about the current 'benefits' of globalisation is the result. A cold hard look at some recent trends provides an indication that we are pursuing a path that will allow the process of globalisation to run out of control.

For example:

Inequality

1) In the past 30 years [inequality](#) between the world's richest and the world's poorest has increased. In 1965 the richest 20% of the world's population had 70% of its income. In 1990 this had risen to 83%. The developing countries' share of world trade has dropped from about 30% in the 1950s to about 20% in the 1990s. It is important to remember that many of the technological developments - such as better air travel, cheaper international phone calls, satellite technology, the internet etc. - that are seen as making the world more integrated, are completely meaningless to billions of people around the world who face more pressing daily issues.

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TNCs

2) The economic and political power of [transnational corporations](#) is increasing. Fewer and fewer companies now control more and more of the world's resources and trade. A leaked letter at the 1998 climate talks in Buenos Aires showed that the USA's negotiating position was heavily influenced by big business interests. As the [FOE press release](#) stated at the time:

"The letter is to top US negotiator Stuart Eizenstat from the US Business Roundtable, a coalition of powerful companies including Exxon, General Motors and the Chase Manhattan Bank. The letter sets out US business demands for the summit - which match the US Government's public negotiating position."

The climate conference ignored the mounting evidence that decisive action needs to be taken immediately to curb emissions of climate change gases.

In another example, documents only recently made available under US freedom of information laws show how US business interests in Chile put pressure on the US Government in the early 1970s to 'intervene' (i.e. encourage a military coup) due to fears that the Chilean Government was about to nationalise various sectors of the Chilean economy.

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The Globalisation of Environmental Crises

3) Despite the last 50 years of (to paraphrase many free market proponents) "unparalleled

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economic growth and development", the world is facing an increasing environmental crisis. Although globalisation and trade can break down the barriers of local scarcity, regional and global problems are on the increase. Furthermore, globalisation can actually disguise some of the problems. For example, although stocks of cod off the east coast of Canada collapsed, cod can still be imported from the fisheries of Norway or Russia. Similarly, despite having cleared much of its own forest land, the UK is able to import cheap forest products from all over the globe, maintaining its consumption levels at the expense of forests in far off places. Globalisation shifts limits to a global scale. This means that local or regional environmental problems increasingly become global.

While global integration has resulted in increased regional and international cooperation to try and solve environmental problems, it has also resulted in a further concentration of power and benefits in the hands of the few. This has created private interest groups capable of blocking environmental measures that threaten the status quo. The recent climate negotiations, as already described, are a case in point.

Cultural Homogenisation

4) Globalisation is having a profound effect on cultural diversity. Culture is becoming homogenized in a world increasingly dominated by American lifestyles and values. Witness, for example, the rapid global spread of US style fast food. Similarly, the US media and entertainment industry is now the country's largest exporter. The industry is dominated by a small number of large vertically integrated companies, of which AOL Time Warner and Disney are the largest, driving out small and local industries (for example, in film making). English language films and television now reach many of the world's population. In addition, 90% of the internet is conducted in English. Community, custom and tradition are being eroded.

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Deregulated financial markets

5) Increasingly deregulated financial markets are taking their toll on societies across the world. The Asian financial crisis shows how deregulated finance and linked economies can combine to have far reaching impacts:

- During the Asian economic crisis, around 50 million more people into poverty. In East Asia alone, unemployment increased by 3.3 million.
- The only growth economy at the time - the US - had to absorb surplus and cheap production from Asia causing unemployment and an increase in its trade deficit.
- A factory in North East England, owned by a German electronics company, employing 1,100 people and established partly on the basis of a promised £50 million subsidy from the British taxpayer, closed down because of a property price collapse in Thailand. This collapse caused massive capital flight and a devaluation of the Thai currency resulting in cheap exports from Thailand and the inability of the German electronics company to compete in international markets. Ironically, the firm had relocated to North East England in the first place to take advantage of cheaper labour and weaker employment rights.

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The Influence of the World Bank and IMF

6) During the past few decades, the [IMF](#) and [World Bank](#) have been using SAPs to promote the same economic policies - privatisation and deregulation - around the world no matter what the local circumstances and development priorities.

In 1997, for example, at least 35 countries - including Panama, Sri Lanka, Kazakhstan and 25 sub-Saharan African countries - were in the process of privatising their state-owned telecommunications companies. Some of these may be following a domestically-driven agenda but others are responding to the demands of the IMF and World Bank in return for loans. In fact, as the World Bank states,

*“Sell-offs met least resistance in the wake of economic crises, as in the former Soviet Union and Latin America”.*¹

The globalisation process has been quickened by deregulatory measures - promoted by the Structural Adjustment Programmes of the IMF and World Bank - that have reduced barriers to trade and investment and increased flows of finance. As the United Nations points out, *“Structural adjustment and global integration are interdependent and mutually reinforcing.”* ([UNRISD](#))

The Race to the Bottom

7) Excessive levels of international competition are leading to an overall '[Race to the Bottom](#)'. The deregulatory aspects of economic globalisation threaten national existence or introduction of a range of labour, environmental, health and other standards. This threatens to undermine the environmental and employment gains made in the industrialised world over the past century; and also has the potential to prevent people in the developing world improving their standard of living in the future.

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Conclusions

The important points from this page are that:

- globalisation is as much about cultural integration as it is economic and financial integration;
- globalisation is happening both as a result of technological changes and policy changes;
- globalisation and neoliberal economic globalisation are different and need to be treated differently;
- trade and investment policy are critical factors in the globalisation process;
- current policy favours 'the market' where interaction is between companies, products/ services and individuals. The market has no room for communities or societies, thus often ignoring the rights of, for example, traditional populations and [women](#);

- communities and societies need to take back control of the economic process to make sure that it works to benefit people and the environment.

As one author states, the danger of globalisation is that it:

“...will contribute to social disintegration, as nations are split along lines of economic status, mobility, region or social norms. Even without a protectionist backlash, a victory for globalisation that comes at the price of social disintegration will be a very hollow victory indeed.”²

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UNRISD paper on '[Structural Adjustment and Global Integration](#)'

UN Sub-Commission on the Promotion and Protection of Human Rights [new report on globalisation and its impact on human rights](#), 15 June 2000

Notes:

- [1.](#) World Bank. (1998). World Development Indicators, 1998. Washington DC, World Bank.
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The Citizens' Guide to Trade, Environment and Sustainability



What's wrong with the trade system | free trade ideology, growth and development

Free Trade Ideology, Growth and Development

“The recent decades show all too clearly that there is no automatic link between growth and development.”

(UNDP Human Development Report 1996).

The theory goes: increased trade will expand economic growth and thus promote human development. This theory is encouraged through the policies of, for example, the WTO, IMF and the World Bank.

Yet, the theories and principles behind ‘free trade’ are flawed. Thus, rather than working to promote human development, the free trade system is working to benefit those that have already benefited (the rich), and marginalising the rest (the majority).

It has been shown time and again that economic growth, as measured by Gross Domestic Product (GDP) or Gross National Product (GNP), does not necessarily lead to improvements in peoples' quality of life. The idea of perpetual economic growth also comes up against the laws of nature - the physical limits of the planet on which we live. The global economy cannot continue to 'grow' through increasing natural resource use forever.

What is required are different concepts of development which are based on people's real quality of life; a more equitable distribution of wealth; and sustainable (and equitable) levels of resource consumption.

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[Conclusions](#)[Further information](#)**Introduction**

The current economic system is fundamentally flawed. The rationale is to liberalise global markets in the belief that the free flow of trade and investment will produce the best outcome for growth and economic welfare. However, this prescription pursues growth and profit via trade and investment liberalisation at all costs, despite significant weaknesses in its philosophy, rules and operations. In particular, it focuses on constant economic growth based on ever-increasing (and thus unsustainable) rates of resource use (this growth, the argument goes, then trickles down to the rest of society). The system also pays little heed to the needs of the poor and disenfranchised of the world; it deals only with the monetary economy and fails to address a range of issues related to peoples' quality of life.

There is an increasing body of evidence and opinion that suggests trade liberalisation and economic growth are part of the problem and not the solutions. The root of many of these problems is the failure to recognise legitimate concerns regarding key principles behind trade liberalisation and growth: a) that the theory of comparative advantage is flawed; b) that many of the earth's resources are limited; c) that there are deficiencies in measuring growth by GDP; d) that perfect competition does not exist; and e) that the western free market ideology is not right for everyone.

Trickle down

Trade liberalisation directly benefits those already trading and enjoying economies of scale. There appears to be no evidence to support the 'trickle down' theory that this wealth is then passed onto the rest of society. As Michael Jacobs concludes: *"The theory that wealth would automatically 'trickle down' from the rich to poor has been proved simply wrong: rather, it now appears that wealth can circulate and expand within geographical and economic class boundaries to the exclusion of those outside"*.¹

There is plenty of empirical evidence for this conclusion; that the benefits circulate and expand within rich classes (people, TNCs, developed countries) whilst the poor (people, marginalised communities, most developing countries) continue to suffer:

- shockingly, 1.3 billion people are still obliged to manage on less than one dollar a day (and the number is growing);
- according to the UNDP, between 1975 and 1997, the per capita GDP for least developed countries declined by 15% in real terms;
- between 1980 and 1991, the cumulative loss in terms of trade for all developing countries was \$290 billion (ie, countries suffer declining terms of trade which means that the revenue from a given volume of exports purchases a smaller volume of imports).
- between, 1970 and the mid 1990s, least developed countries suffered a cumulative decline of 50% in their terms of trade;
- world trade expansion as a result of the Uruguay Round is expected to increase global income by between US\$212 and \$510 billion by 2005. However, a number of studies have shown that this new wealth is shared very unequally. In terms of countries, most of the benefit will accrue to the US and the EU, with China (not yet

a member of the WTO) and a few upper-income Southeast Asian countries being the main beneficiaries in the South. In contrast, it has also been estimated that the world's least developed countries (LDCs) stand to lose up to US\$3 billion in the period up to 2000, whilst sub-Saharan Africa is set to lose US\$2.6 billion.

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Comparative advantage

The theory of [comparative advantage](#) is based on the fact that capital is immobile and will be invested domestically. This is patently untrue in today's globalised world of transnational corporations, international money markets and massive financial transactions, where capital moves to wherever products can be produced at the least cost - and does so at the touch of a button. For example, in 1997, total world cross-border investment flows amounted to over \$400 billion. Short-term (often speculative) capital now totals more than \$2 trillion annually.

Limited resources

Conventional economic thinking pays no heed to the idea that the Earth's resources are limited. Such thinking translates into the pursuit of eternal economic growth. Yet the Earth is a 'closed system' with physical and biological limits where energy and matter cannot be created or destroyed. Sooner or later economic systems based on using natural resources will come up against the limits that all biological systems obey. What this basically means is that, unless the traditional linear economic relationship of turning resources to products to waste can be changed to a sustainable circular relationship, resources will continue to be depleted and the environment increasingly degraded.

Economic growth, as is currently pursued, will continue the transformation of natural resources into manufactured goods and waste and will result in the environment increasingly becoming a limiting factor in development. That said, economists such as Julian Simon argue that these limits either don't exist or can be overcome through human ingenuity. Of course, evidence can be found to support both sides of the limits argument. Simon uses decreasing commodity prices as evidence of increasing resource abundance rather than decline while others suggest such things as climate change, biodiversity loss and land degradation are evidence of limits.

Whatever ones views on limits, a more fundamental question needs asking which is; even if technology allows humans to live in a world where natural resources are minimal and human resources are massive, is this the kind of world we want to live in? Just because we can 'master' the natural environment doesn't mean we have to.

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Gross domestic product

'Progress', 'growth' and 'development' are measured through such statistics as Gross Domestic Product (GDP). Yet is this pursuit of economic growth (ie, in terms of increasing GDP) one of the prime causes of environmental degradation? A growing body of economic opinion - including economists such as Herman Daly, Paul Ekins, Michael Jacobs and Manfred Max-Neef - seems to think so. In fact, after analysing the gains and losses from

economic growth, one author stated,

*“The weight of evidence was overwhelming: the unquestioning quest for growth had been an unmitigated social and environmental disaster”.*²

Economic growth and quality of life

Does trade liberalisation result in a better quality of life? According to one author,

*“Trade liberalisation and environmental protection share a common aim: enhancing social welfare by improving the quality of life”.*³

If this is the case, why do some free traders and environmentalists disagree so strongly? One explanation is that the interpretation of social welfare by the two camps is fundamentally different.

According to many economists, 'free trade' policies have resulted in growing Gross Domestic Product (GDP) in many countries. GDP is a measure of the performance of a national economy based on the total flow of goods and services produced by that economy over a certain period (normally a year). Growing GDP is seen as concrete evidence that social welfare is being enhanced by trade liberalisation. There is, however, a growing body of opinion that argues that GDP is seriously deficient as a measure of 'social welfare' or 'development' because it does not adequately reflect peoples' real standard of living. As one economist states,

*“Development is clearly not the same as economic growth”.*⁴

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GDP and society

For example, although the US economy has been growing at 2.5 percent per annum since 1973, there is little actual evidence of improved lives in terms of improved infrastructure, higher real wages, more economic security and people being able to spend more time with their families or in leisure pursuits. Despite economic growth, the US prison population has trebled since 1980 - with some 5.1 million Americans in jail or under judicial supervision - and about 75 million US citizens now have a lower income than in 1966. Another example is [Chile](#) where exemplary growth statistics in the 1970s and much of the 1980s, were accompanied by a reduction in quality of life for millions of Chileans. In the UK, although GDP has risen one-and-a-half times since 1972, in the same period violent crime has quadrupled, the incidence of asthma tripled and the number of workless households tripled.

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GDP and the environment

GDP is also deficient in its treatment of environmental quality. Recently, the UK Office for National Statistics conceded that,

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*“Gross domestic product is a poor measure of welfare as far as it relates to environmental issues”.*⁵

This is because, amongst other things, it counts the cost of pollution clean-up as actually adding to the nations wealth. For example, the cost of the Exxon Valdez oil spill was counted as a positive contribution to Alaska's economy. (See FOE web site on [measuring progress](#)).

Natural resource destruction - such as the clearance of forests for agriculture - is also seen as a positive addition to GDP, yet the potential adverse impacts on wildlife, hydrological systems, soils and climate may reduce peoples' standard of living. A study involving the World Resources Institute, calculated the natural resource accounts over a 20 year period for Costa Rica. It showed that, from 1970 to 1989 the accumulated depreciation in the value of Cost Rica's forests, soils and fisheries was over \$4.1 billion (1984 prices). There was no indication of this loss in Costa Rica's national accounts.

It has been reported that, in his diary, Bobby Kennedy - prospective US Presidential candidate in the late 1960s - wrote concerning GNP:

*“It counts special locks for our doors and the jails for those who break them. It counts the destruction of our redwoods and the loss of our natural wonder in chaotic sprawl. It counts napalm and the cost of a nuclear warhead, and armoured cars for police who fight riots in our streets...Yet [it] does not allow for the health of our children, the quality of their education, or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages, the intelligence of our public debate or the integrity of our public officials....It measures neither our wit nor our courage, neither our wisdom nor our learning, neither our compassion nor our devotion to our country; it measures everything, in short, except that which makes life worthwhile”.*⁶

GDP and [women](#)

Women's quality of life has not risen in line with increases in GDP in developing countries (many social factors are simply not included). Economic growth and market expansion has seriously affected their lives and has often been costly to their position in society. For example, economic growth has often been promoted through market reforms (which include cutbacks in public spending on welfare) and through export-led programmes (which promote export industries that often employ women as cheap labour or displaces them from traditional forms of work, such as agriculture).

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Perfect competition

Free market theory is also based on the ideal of 'perfect competition' where, amongst other things, there is perfect knowledge about all products and markets, all prices reflect the true costs - economic, social and environmental - of a product and there are no monopolies, oligopolies or cartels. This just does not happen.

Western market ideology

'Free trade', both on its own and as part of a wider free market economic paradigm, has become widely accepted the world over. Free market ideology stems very much from a 'western' view of the world which sees individual and/or private power as the most legitimate conception of freedom. A major part of this world-view is a belief that free market capitalism is the only viable socio-economic system and is thus 'right' for everyone. However free market ideology - a belief in competitiveness, market forces and private ownership - is very much rooted in western culture and psychology and is not necessarily applicable across the world.

Conclusions

In recent years, a number of authors and organisations - including Friends of the Earth - have been suggesting the need for an [alternative measure of quality of life](#). Until this happens, and countries stop counting such factors as pollution, habitat destruction and waste production as a positive contribution to GDP - and thus human 'welfare' - governments are likely to continue favouring policies, such as trade liberalisation, that aim for growth in GDP, even though such policies may in fact result in environmental or social degradation.

As two authors point out,

*“It is certain that the currently dominant business-as-usual approach, going for GDP growth with a few environmental add-ons, will not address the gathering environmental crisis...”*⁷

Given the view that the global trade system and economic growth could deliver benefits for all has been shown to be, at best, misplaced (particularly for some of the poorest sections of society and in the most impoverished countries), a fundamental issue remains: how to address human development? Those that argue against ever increasing growth and consumption do not advocate no growth at all, but more [sustainable economic activity and a redistribution of the earth's wealth](#). Northern countries, with only a quarter of the world's population, consume almost a half of the total fossil fuels, around two-thirds of metals and three-quarters of 'industrial wood products'. All these commodities are very widely traded around the world, reflecting the fact that scarcity has become international and that trade has become part of an economic and political ideology that places growth above all else.

Wealth redistribution is complex and involves many factors. However, a fundamental principle would involve the recognition of '[environmental space](#)'. This approach builds on the theory of global limits to resources, to encompass a concept of global equity - of fair access to environmental resources for every nation (see [Trade and Consumption](#)). In a world where resource use is limited, then development can only be achieved through redistribution - ie through access to the resources required for true self-determination. If the over-consuming developed countries do not plan for such redistribution, then the people of the South will continue to be marginalised.

A second fundamental principle would be agreement on immediate debt relief. Repayment of debt has resulted in a tragic 'reverse Robin Hood' transfer of wealth from poor countries to rich Northern creditors. Heavy debt burdens on developing countries encourage governments to allow increased exploitation of natural resources for export in order to

generate foreign exchange. The export-led development programmes of the Bretton Woods institutions (the IMF and the World Bank) have reinforced this short-term and damaging approach, creating a vicious circle in which world markets are oversupplied, commodity prices tumble, and poverty-stricken countries are forced to increase exports. Thus rich, importing countries have ready access to cheap supplies of natural resources and have, in fact, incurred an ecological debt to the countries of the South which far outweighs the official financial debt of the South.

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Further information

FOE's web site on [measuring progress](#)

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Notes:

- [1.](#) Jacobs, M., 1996. *The Politics of the Real World*. Earthscan, London.
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The Citizens' Guide to Trade, Environment and Sustainability



What's wrong with the world trade system? | environmental and social impacts

Environmental and Social Impacts of Free Trade

'Whilst a certain degree of international trade may be inevitable and even desirable, healthy and sustainable local economies and communities are the key to meeting people's basic needs. However, they are being undermined by the current trade liberalisation process in many ways. Serious social and environmental impacts include:

- a failure to account for environmental and social degradation;
- a potential reduction in environmental and social standards;
- specialisation which increases monocultures and decreases diversity;
- environmental damage caused by long-distance transport;
- export-oriented growth which exacerbates all of the above;
- incompatibility with some environmental protection measures;
- increasing inequality between rich and poor countries, rich and poor people and women and men, all of which also exacerbate poverty and environmental degradation.

The current world trade system is characterised by a range of activities/phenomena that make it environmentally and socially damaging. These are listed below along with a brief summary.

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[Externalities and cost internalisation](#)

'Externalities' is the economic term for the costs (e.g. environmental and social) of an economic activity which are not borne by the operator, but instead by the wider community.

For example, if a forestry operation contributes to species loss or habitat destruction and these 'costs' are not somehow paid by the operator and thus reflected in the price of the final product, they will be 'paid' by the wider community - locally, nationally or globally. They are thus 'externalities'. The theoretical idea that trade benefits all is partly based on the assumption that externalities do not exist because prices reflect the true costs of production (i.e. the costs have been 'internalised'). Such an assumption is a fallacy; the environment is being damaged, costs are not 'internalised' and thus trade is not benefiting all. Many now recognise that, for the trade system to work properly, costs must be internalised. But this recognition has not been turned into reality. This is partly because, if anything, the world trade system encourages competition to reduce costs (which can include actively externalising them) rather than encouraging the internalisation (and thus increase) of costs through taxes, regulations or other mechanisms.

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[The global 'race to the bottom'](#)

The increasing global mobility of companies means that they can often move, or threaten to move, to wherever the costs of production are lowest. Such costs include environmental and social issues (such as the exploitation of cheap labour, often [women](#)). The use, by companies and/or governments, of the uncosted services to gain competitive advantage could lead to what has been called the 'global race to the bottom'. Put simply, this is competition between countries to lower, or keep low, social and environmental standards in order to be more 'competitive'. Averting a 'race to the bottom' requires government involvement yet the world trade system aims to reduce government 'interference' in the international flow of goods, services and capital.

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[Trade and specialisation](#)

One of the central pillars of trade theory is that countries will specialise in producing those products which they are comparatively better at making relative to other products and other countries. On the one hand, such specialisation allows a country to take advantage of economies of scale (i.e. larger scale operations producing goods more cheaply) and become more efficient. On the other, such specialisation can lead to problems. For example, if a nation is reliant largely on exports of a small number of products, changes in the international markets of those products can have drastic impacts on the nation in question. Also, specialisation of production can result in the specialised use of natural resources (e.g. monocultures) which impoverishes the natural environment.

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[The impact of the international transport of goods](#)

Transporting products to consumers around the world, whilst being a 'miracle' of modern technology that provides those wealthy enough with a vast choice of goods and services, also has serious environmental and social impacts. These impacts are often remote (geographically or temporally) and are rarely, if ever, paid for by those who produce and consume the products. The current low price for international transport is a gross

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misrepresentation of the true costs of oil extraction, transport, processing and use. The price is artificially low due on the one hand to the existence of subsidies and on the other to the fact that costs of environmental damage ('externalities') are ignored. This transport price distortion in turn leads to a distortion in the price of international trade. The current trade system seems unable or unwilling to deal with this fundamental flaw.

[Export-led development/export-oriented growth](#)

Another fundamental aspect of current free market ideology and trade liberalisation is the pursuit of 'export led development'. Put simply, this is the (re)structuring of an economy towards producing goods for export markets in order to afford more imports and stimulate economic growth. As often as not, exports are also needed to help pay off debts. Purely in terms of economic growth and the payment of debts, experience of export-led development is mixed. However, in both the cases of the growth 'successes' and 'failures', export-led policies have often been at the expense of the natural environment, economic stability and social justice.

Other weaknesses inherent in the idea of pursuing export-led policies include such problems as:

- the theory of comparative advantage - on which such policies are based - no longer applies due to the mobility of capital;
- if many countries increase their exports of similar products this causes an oversupply, depresses prices and reduces revenue (yet structural adjustment programmes encourage this very situation);
- encourages small-scale farmers, often women in developing countries to abandon their more traditional crops in favour of more export-advantageous produce.

Yet, regardless of the associated problems and obvious theoretical weakness in the global pursuit of such a strategy, it is promoted by institutions such as the IMF, World Bank, OECD and WTO.

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[The WTO/WTA, the environment and sustainable development](#)

According to the World Trade Organisation (WTO), its rules and operation are intended to promote sustainable development. However, far from encouraging more sustainable ways of living, working and trading, the rules and operation of the system can actually prevent attempts to protect the environment and encourage sustainability. The main problems include:

- the weak incorporation of environmental and social goals into the WTO and WTA;
- the uncertain status of trade-affecting multilateral Environment Agreements (MEAs);
- the potential adverse impact of the trade system and the WTA on reducing consumption in the North;
- the adverse impact of the TRIPs agreement on the environment and technology transfer;
- the potential adverse impact of the WTA on eco-labelling and certification;
- the potential adverse impact of the trade system on regulating the trade and use of Genetically Modified Organisms (GMOs).

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Inequality, poverty and environmental degradation

Poverty is widely regarded as one of the major contributory factors to environmental degradation. Poor people the world over have no alternative but to increasingly exploit the environment to maintain a subsistence-level existence. The world trade system has been touted as a route out of poverty for the world's poor. The theory goes that increasing incomes will lead to both increased demand, and money to pay for environmental improvement. The trade system has not however led to an improvement in the quality of life for the world's poor. Whilst this situation cannot be laid entirely at the door of the world trade system, the unequal power relationships within it act against the kind of measures - such as technology transfer, fairer agriculture and textiles trade, debt cancellation and reform of intellectual property rights regimes - needed to bring the least developed nations towards a fairer share of the world's resources. Also, [IMF](#) structural adjustment programmes further exacerbate inequality by putting an increasing amount of wealth and resources in the hands of a few through, for example, privatisation. The trade system also does nothing to redress the imbalance in consumption between the rich and poor of the world, if anything acting to increase the gap.

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The Citizens' Guide to Trade, Environment and Sustainability



What's wrong with the world trade system? | WTO - transparency, democracy and power

WTO - Transparency, Democracy and Power

If the trade system is to promote fairness, equality and environmental protection it is imperative that its institutions are transparent, democratic and mesh with other international concerns. Although the WTO has taken steps to improve transparency in its processes and its consensus-based decision-making system gives the impression of a democratic and egalitarian institution, it has many major drawback including:

- the exemption of the WTO from a recent international freedom of information agreement;
- the lack of transparency of the dispute settlement process;
- the workings of associated standard setting bodies such as the [Codex Alimentarius Commission](#);
- the power of the major trading nations in setting the agenda and dominating negotiations;
- the weakness of small countries in being able to, if necessary, implement trade sanctions subsequent to a dispute;
- the power held by the Appellate Body, made up of a small group of trade experts;
- the ability of TNCs to influence the process;
- the all-or-nothing nature of the multilateral trade agreements.

Put together, these problems make the current world trading system non-transparent, undemocratic and unfair. Until these problems are addressed it is unlikely that the international trade system can achieve real progress in the development and environment sphere.

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Introduction

Transparency, democracy and power are recurring themes in discussions about the WTO and have an important bearing on the way that it operates. This is significant for the way the organisation itself impacts on environment and development.

Significant question-marks exist concerning:

- the justification for the current level of secrecy in the WTO;
- the equality of power between different players in the 'trade game';
- how democratic the WTO is.

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Transparency

General

The WTO has been much criticised, especially by Non Governmental Organisation (NGOs), for its lack of transparency. For example, it has been criticised by the International Institute for Sustainable Development for having a culture of closed decision making. NGOs have been trying to become more involved in WTO processes for some time and some positive 'noises' have recently been made by the WTO Director-General. For example, the WTO has asked the International Centre for Trade and Sustainable Development (ICTSD) in Geneva to co-ordinate some kind of position/suggestion on increased NGO consultation and increased transparency. However, it should be remembered that NGO involvement in the WTO process is a side-issue. Real transparency involves giving the public the opportunity to scrutinise the operation of the trade system.

In this sphere, some positive steps have been taken such as the development of an internet site and the publication of guidelines in July 1996, allowing the public immediate access to all unrestricted WTO documents. However, the Internet is still only accessible to a minority of the World's population and access to restricted documents is still only allowed after a six month waiting period. Also, although as recently as June 1998 the governments of Canada, USA and Europe signed a United Nations Economic Council for Europe (UNECE)

convention allowing for greater public access to information related to the environment (and recourse to the courts if they don't get it), organisations such as the WTO are exempt from such a convention. This means the WTO is effectively beyond legally sanctioned public scrutiny. As one environmental writer has stated,

*“Since these bodies [WTO and World Bank] are at least as influential as governments in global matters, this omission could be a major setback in the fight to peel back the layers of secrecy”.*¹

The transparency problem is also apparent when it comes to trade negotiations. Minutes of meetings and attendance records are all secret so people have no way of knowing what is being discussed and by whom. While this may make for more 'efficient' negotiations, it means that there is little or no public oversight of one of the most important aspects of the trade system; a very dangerous situation.

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Dispute settlement

Another major problem with WTO transparency and accountability is in the dispute settlement process. Independent scrutiny of the process is difficult because of:

- closed session hearings;
- no access for the public to full submissions (unless voluntarily released by a disputing party);
- little or no external input into the process.

The dispute settlement process has been criticised by the International Institute for Sustainable Development for,

*“...still resembl[ing] the rules committee of a club”.*²

This level of secrecy is likely to be partly responsible for much of the controversy that surrounds the operation and decisions of WTO Dispute Settlement Panels and the Appellate Body. Although greater transparency, and also greater use of independent expert witnesses, in the dispute process could well result in less controversy, there is little evidence that such measures are being actively taken.

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Beyond the WTO

Outside the WTO itself, transparency problems exist with the external standard setting bodies that dispute panels rely on for the international standards on which to base rulings. For example, perhaps the most controversial is the [Codex Alimentarius Commission](#) (Codex) set up in 1963 to establish food-related standards. Codex is run jointly by the Food and Agriculture Organisation (FAO) and the World Health Organisation (WHO) and holds regular meetings at which international food standards are discussed. Codex is explicitly recognised by the WTO - the SPS Agreement refers directly to Codex which therefore

constitutes an integral part of the trade system.

The composition of delegations to Codex is extremely unbalanced and meetings are heavily influenced by industry. At the 23rd Session of Codex in June and July 1999, some delegations from industrialised nations had a very large number of industry representatives - 40% in the cases of both the US (8 out of 20 participants) and Switzerland (4 out of 10) and 38% for both France (7 out of 18) and Germany (6 out of 16). Conversely, only a handful of NGOs were invited as participants in national delegations. The total number was probably no more than about 10 NGOs (although a larger number were invited as 'observers'); the EU had just two participating NGOs (both from Germany) whilst the US and Switzerland had none. While some countries (such as Denmark, the UK and Holland) have started to hold national level meetings with both industry and NGO participation, it is argued that there is an urgent need for greater transparency and democracy within Codex. Concern has also been expressed over the potential for industry to heavily influence the standard setting procedures of the International Organisation for Standardisation (ISO).

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National governments

The final transparency problem rests more with national governments than with the WTO. Although most WTO Member governments are elected in some way and are thus democratically accountable, trade negotiations are rarely transparent in their operation. National governments do not often explain to their public or even their own parliamentarians what is being negotiated and why. It is often left to third parties to try and make some sense of what little information 'leaks out' of trade negotiations. As the National Maori Congress in New Zealand declared in 1994:

*“The Crown...has violated the very principles of democracy by not adequately informing the public of the pros and cons of the GATT agreement and by not seeking the consent of New Zealanders before signing and ratifying an international agreement which has such widespread and direct consequences on the lives and livelihoods of individuals and communities”.*³

The main 'problem' arising from governments consulting their people over trade negotiations is the perception that it will slow down the process. That said, a certain double standard exists in the realm of international deal making. For example, when it comes to trade negotiations, countries like the USA attempt to get 'fast-track' authority for the negotiators (i.e. the President) - as was the case in the 'Uruguay Round' GATT negotiations - so that any agreement reached is considered under special rules that limit debate and amendments. On the other hand, environmental negotiations, such as the recent attempt in Buenos Aires to agree on action to reduce greenhouse gas emissions will be subject to normal treaty ratification procedures. It could be argued that taking action to avert climate change is a great deal more pressing than trade liberalisation so if this process can be subject to democratic scrutiny and thus 'slowed down' then so can trade negotiations.

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Democracy and Power

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Negotiations

In terms of power, the WTO suggests that the involvement of a large number of developing countries in the Uruguay Round negotiations,

*“...effectively killed the notion that the trading system existed only for industrialized countries”.*⁴

The increasing membership and the existence of a consensus-based decision-making system suggests a highly democratic and egalitarian process. However, this does not take into account the power and influence of the industrialised countries in comparison with their counterparts in the developing world. This is basically analogous to having one boxing ring with one set of rules but pitting a heavyweight against a flyweight.

Despite the fact that over three-quarters of WTO Members are developing countries or economies in transition, the agenda and operation of the WTO is dominated by industrialised countries. The EU and the USA hold a vast amount of power in terms of what gets discussed and what the final outcome of negotiations is. This was manifest at the Singapore Ministerial Conference in 1996 where the majority of time was devoted to the priority agenda items of the EC and US, namely, information technology, investment, competition policy, government procurement and labour standards.

It was also reported that, at the Singapore Conference, developing countries were not involved in much of the 'behind-the-scenes' negotiating that took place. According to a writer present at the Conference,

*“The entire negotiations were made among some 30 delegations (with a Minister and advisor for each delegation allowed in the room). The other delegations did not know what was going on”.*⁵

It has been reported that some developing country ministers confessed to a feeling of “helplessness” and were surprised to find that, in some cases they knew less about what was going on than the NGOs present. Also, the negotiations were structured in such a way as to involve discussions on a number of different issues in different places at the same time. This, of course favours the powerful traders like the EU and USA that have large delegations comprising expert trade lawyers and acts against those members with small delegations and fewer lawyers. Further, of the 14 state leaders that attended the WTO's ministerial meeting in Geneva in 1998 and the subsequent 50th Anniversary of the world trade system, only two came from Africa. According to an African diplomat, this lack of attendance is

*“...a big indication of how dissatisfied..[they are]..with the events of the past 50 years”.*⁶

This dissatisfaction finally came to a head at the WTO's Third Ministerial Conference in Seattle in November 1999, when lack of access to negotiations for many developing countries was one of several reasons for the now well-known collapse of the talks. Governments from Africa and the Caribbean, furious that their concerns about the WTO's agenda were-being over-ridden and that they were being denied information about and access to key meetings, finally registered their objections in the strongest possible terms

and refused to proceed. (For more detail see [The Seattle Ministerial Conference and Beyond](#)).

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Dispute settlement

There is also a major question-mark over the ability of weaker countries to lodge complaints against stronger nations. The Overseas Development Institute (ODI) has pointed out that the WTO's dispute settlement mechanism,

*“...remains a serious weakness for small countries acting against large ones, although limited forms of collective complaint and action will now be permitted”.*⁷

Furthermore, although Members have generally accepted panel or Appellate Body decisions without the need for recourse to retaliation, the ability of a small country to 'force' a large country to comply through the threat of trade sanctions is severely limited.

The judgements made by the Appellate Body are not contestable in any court in any country in the world. Add to this the virtual impossibility of the WTO's Dispute Settlement Body overturning an Appellate Body decision and it effectively means that,

*“under the WTO, a group of unelected trade representatives will become the world's highest court and most powerful legislative body, to which the judgements and authority of all other courts and legislatures will be subordinated”.*⁸

The judgements of the Appellate Body are the final extension of the WTO's power. This power has led some to question how democratic such an institution is. As one author points out,

*“Sovereign states may sign up to membership of the World Trade Organisation; but it is that organisation, not the legislature of any sovereign state, which determines what is to count as free trade, and what a restraint of it. The rules of the game of the market must be elevated beyond any possibility of revision through democratic choice”.*⁹

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TNC influence

Also questionable is the extent to which Transnational Corporations (TNCs) are able to influence the process. It has been reported that some of the world's largest TNC's have been highly influential within GATT - especially during the Uruguay Round - and may be similarly influential within the WTO. It is clear from the disputes over banana and beef imports into the EU that powerful TNCs are able to lobby governments to initiate complaints on their behalf. It seems that less than 24 hours after Chiquita Brands - one of the world's largest banana producers - made a \$500,000 donation to the Democratic Party in the USA, the US Government made a complaint to the WTO about the EU's [banana trade policy](#). Such power will also increase if an [investment agreement](#) is reached that allows

companies themselves to lodge complaints - at the WTO or some other international court - against governments as was the case in the [Ethyl Corp](#) dispute.

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Government legitimacy

Even in democratic countries there are question-marks over the rights of governments to negotiate and sign away citizens' rights. For example, in New Zealand, where there has been a long running dispute over land rights between Maori people and the Government, the National Maori Congress consistently challenged the government's right to negotiate at the GATT/WTO on its behalf, eventually declaring that it considered itself exempt from the WTO. Massive protests took place in India concerning the TRIPs agreement, reportedly involving over 500,000 farmers concerned that their rights to collect and use seed were being curtailed. Yet, although India and many other developing country governments were opposed to the TRIPs agreement it was part and parcel of the whole Uruguay Round which left them with an 'all or nothing' choice. It has been pointed out that;

“...from the point of view of democracy... [the all-or-nothing approach]...forces many countries, usually small ones, to accept trade in areas that might be undesirable in the long run”. ¹⁰

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Summary

In terms of transparency, the WTO has taken some steps to improve its internal operations. There seems to be some commitment within the WTO Secretariat to make its processes more transparent. That said, some serious questions remain concerning:

- the exemption of the WTO from freedom of information legislation;
- the transparency of the dispute settlement process;
- the workings of standard setting bodies such as the [Codex Alimentarius Commission](#);
- the way national governments negotiate on behalf of their people;
- the secrecy of trade negotiations.

Democracy/power is similar. On the face of it, the way the WTO operates - consensus-based decision-making and a large number of developing countries involved - seems highly democratic and egalitarian. However in reality there are problems with:

- the ability of developing countries to participate fully in the system (resource and skill constraints);
- the power of the major trading nations in setting the agenda and dominating negotiations;
- the weakness of small countries in being able to retaliate if necessary;
- the power held by the Appellate Body, made up of a small group of trade experts;
- the ability of TNCs to influence the process;
- the ability of governments to sign away the rights of people who are not necessarily fully represented in their national democratic process;
- the all-or-nothing nature of the multilateral trade agreements.

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What's wrong with the world trade system? | equality and fairness

Equality and Fairness

The past few decades of trade liberalisation and globalisation have seen increasing inequality across the world. The push for deregulation and free markets has been accompanied by the development of a two-tier world with the top 20% increasing their share of the world's wealth and the bottom 80% seeing their income decline. The world trade system has not made for a more fair or equal world. In fact it has resulted in a vast increase in power and influence for a small number of international organisations and large transnational corporations (TNCs).

“Whosoever commands the trade of the world commands the riches of the world and hence the world itself.”
(Sir Walter Raleigh)

International trade is meant to be mutually beneficial so, by now, such a quote should have become meaningless. However, in reality, this statement still has a great deal of resonance in today's world, where the largest traders - industrialised countries and their TNCs based in them - gain the lion's share of the world's wealth and effectively control the world trade system through the WTO.

One of the main objectives of the World Trade Organisation (WTO) is to provide a so-called 'level playing field' for all involved in international trade. While, on the face of it, the rules and the operation of the system seem fair, the operation of the [WTO is still biased](#) in favour of big business and the major trading nations: in reality there is no '[level playing field](#)' because the [benefits from trade](#) liberalisation go to the rich and powerful and very little '[trickles-down](#)' to the poor. This has had a serious impact on some of the most marginalised and vulnerable sections of society, for example [women](#).

Increasing inequality is illustrated by the fact that:

- Some 85% of world merchandise trade is accounted for by North America, Western Europe and Asia. It is also dominated by TNCs; about two-thirds of world trade is now conducted by just 500 companies.
- The total income of the largest TNCs is greater than that of the world's poorest 100

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countries, and many TNCs have greater sales than the GDP of some developed countries. In 1998, General Motors had annual sales greater than the GDP of Norway.

- The ratio between the richest and poorest country in 1820 was 3 to 1; by 1992, this ratio had climbed to 72 to 1.
- United Nations Development Programme (UNDP) figures show that in 1960, the 20% of the world's population living in the richest countries were thirty times richer than the poorest 20%. By 1997, they were 74 times richer.
- In the 1990s, the richest 20% of the world's population has 95% of all commercial lending, 94% of all research and development, 86% of world gross national product, 82% of world trade, 81% of all domestic investment, 81% of all domestic savings and 68% of all Foreign Direct Investment (FDI). In contrast, the poorest 20% has only 1% of world GDP and 1% of FDI.

Also important in terms of trade, environment and sustainability is the issue of '[green protectionism](#)' and whether environmental policies will be just another way for the powerful traders to maintain their dominant position.

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What's wrong with the world trade system? | international shopping basket

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International Shopping Basket

In today's increasingly globalised world, the products we buy come from further and further away. From food and clothing to paper and metals, our shopping baskets are full of products from all around the world. While this increases the range of products that we can choose from, it also means that we are increasingly divorced from the impacts of our everyday purchasing decisions. The following pages aim to help explain some of the issues related to the production and international trade in a variety of products and draw out some of the most important issues concerning trade and the environment.

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