

WHAT'S WRONG WITH WORLD TRADE

*and
what you
can do about it*

WTO

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Friends of the Earth
Les Amis de la Terre
Europe

A WHAT IS TRADE?



Trade affects almost everything we do. Put simply, it's the everyday activity of buying and selling goods and services - something we're all involved in. It doesn't even have to involve money. If you babysit for your neighbours in return for a box of home-grown vegetables from their garden, that's trade.

However, in today's global economy, trade is thought of in rather a different way. The volume of goods and services we buy from abroad has **increased dramatically** and we have come to associate trade with financial transactions, international commerce and **long-distance transport**.

In the past, governments sometimes controlled trade through military force. More recently, they have ensured that imports and exports have been controlled through trade restrictions such as taxes, quotas and bans. Despite seemingly different approaches, the aim has usually been the same - protecting the domestic economy.

Now, however, economists argue that protecting the domestic economy, often known as protectionism, blocks international trade and is uneconomic, inefficient and eventually leads to job losses. This argument has prevailed allowing 'free trade' or **trade liberalisation** to become widely **accepted worldwide**. Over the past 50 years many governments have opened up their markets to foreign trade and investment, so now goods and services move between countries more freely than ever before - annual global trade topped US\$7 billion in 1998.

B TRADE LIBERALISATION AND THE WORLD



Supporters of trade liberalisation believe that countries adopting 'free trade' can improve their economic prospects. To do this they must **specialise in producing** what they're best at and then trade with each other. To do this they must **open their markets**, by dropping any trade restrictions and forcing their companies to compete internationally.

The idea is that this increases competition and efficiency, which in turn drives down prices, making products more attractive to consumers and increasing demand. Business booms, national income increases and everyone benefits as the wealth trickles down. However, there is a great deal of evidence suggesting that **the reality of 'free trade' is rather different** (see below).

Friends of the Earth believes that it is because the overall costs to society outweigh any benefits. What has occurred is 'freer' not fairer trade. Economic growth continues to benefit the already rich while the decisions of the WTO work to overturn the laws of elected governments, damage communities and scar the environment. The **main winners** from trade liberalisation are rich countries, large companies and **the already wealthy**. The **main losers are poor people** and countries, small businesses and workers. Those that benefit strongly support further liberalisation, yet many millions more are implacably opposed to it for a variety of reasons.

Trade is governed by a set of rules overseen by the **World Trade Organisation (WTO)**. The WTO also oversees the trade liberalisation process, with its 140 member governments participating in negotiating rounds in which they agree to open their markets step-by-step so long as others do the same. The WTO is probably best known for handling **controversial trade disputes** between member states and it is this, its ability to authorise hefty trade sanctions, that gives it its clout.

A number of governments had planned to use the **WTO's Ministerial in Seattle**, in November 1999, to launch a new round of trade liberalisation or market-opening negotiations. If this had happened, WTO rules could have been greatly extended to cover many new areas, including foreign investment and government procurement. However, because of disagreements between governments on several issues - and because of unprecedented public opposition - the negotiations collapsed. Nevertheless some governments, led by the European Union, **continue to push for a new round**.



ORGAN (WTO)



10'S PROTESTING AGAINST THE GLOBAL ECONOMY?

TRADE LIBERALISATION

The protest against the World Trade Organisation's activities at Seattle was the biggest protest in the US since the anti-Vietnam war demonstrations. Around **50,000 people** protested, most peacefully. **Seattle** was a remarkable **political landmark** because it demonstrated that people from all walks of life, from all over the world, were sufficiently concerned about the impacts of trade liberalisation to work together to **oppose a new Round**. Nearly 1,500 organisations from 89 countries around the world, including Friends of the Earth, signed an international statement rejecting a new round and **calling for a review of current trade rules** and agreements.

But what brought about this unprecedented level of opposition? Five reasons are outlined below.

1 The gap between the rich and poor is getting wider

Shockingly, 1.3 billion people are still obliged to survive on less than one dollar a day and consumption in Africa is now 20 per cent lower than it was in 1980. Basic needs - such as adequate nutrition and literacy - are still not being achieved. Furthermore, between 1975 and 1997, as global trade expanded, the average wealth per person in the world's 31 richest countries increased, yet in 31 (mostly poor) countries it actually declined. In 1960, the 20 per cent of the world's population living in the richest countries were 30 times richer than the poorest 20 per cent: by 1997, they were 74 times richer. A **link between globalisation and increasing inequality** is already acknowledged by the United Nations.

2 More production and trade has led to the excessive use of natural resources

Trade liberalisation encourages **richer countries to consume more** and **poorer countries to export more**, often destroying **irreplaceable natural resources**. Over-fishing now means that 60 per cent of the world's ocean fisheries are at or near the point at which yields decline. A huge area - 56 million hectares - of forest was lost globally between 1990 and 1995. Some metals and fossil fuels - such as oil, gas, coal and copper - could be exhausted within 50 years. If we continue to consume resources at this rate we would need eight planets to provide us with those resources in 50 years time.

3 Companies are becoming so powerful it's difficult to control their activities

The world's largest companies have access to high level decision makers on trade issues, because governments assume that what's good for business is good for everyone else. Yet these companies are looking to strengthen their position in a competitive global economy by increasing their own access to foreign markets and **reducing standards and costs** (to please shareholders). They are the driving force behind government moves to open up markets.

However, because of the pressures of international competition, many companies - particularly in the oil, banking and retailing sectors - are taking steps to reduce costs through mergers and reorganisations. About **two-thirds of world trade** is now accounted for by just **500 companies** - and some of these make more money than many countries. In 1997, the five largest companies in the world together had sales that were greater than the combined incomes of the world's 46 poorest countries. This makes it increasingly difficult for any government to resist their demands and take other concerns on board.

Did you know?
The top 10 computer companies now control 70 per cent of the global market.



4 Small businesses and farms can't compete and jobs are being lost

Smaller businesses and farms simply can't compete with the influence and market power of these new global giants, with implications for consumer choice. Mergers have also led to a large number of people losing their jobs. In addition, businesses are increasingly able to shift their offices and factories to countries with **cheaper labour** and **fewer anti-pollution laws**. In fact, the pressure of global competition is causing many countries to adopt more 'flexible' but weaker labour policies in order to cut their labour costs (France, Germany, Egypt, Argentina and Chile have all done this). Overall, job insecurity is on the increase worldwide.

5 Poorer countries have to negotiate on unequal terms

The WTO is heavily influenced by a small group of very powerful trading nations or blocs - including the US, the EU, Canada and Japan. Other nations risk being isolated in the global economy if they do not join the WTO. However, as many poorer countries discovered at Seattle, they were often **excluded from meetings** where important decisions were due to be taken.

Did you know?
More than 2,000 foreign companies, mostly American, have established facilities in Mexico, attracted by lower environmental standards

WHAT'S WRONG WITH TRADE LIBERALISATION

The overall impact of trade on people worldwide and the environment can clearly be seen if we look at oil, the world's most widely traded commodity (by value).

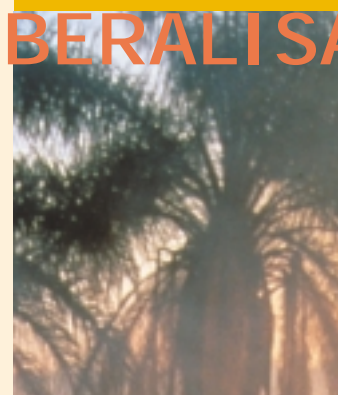
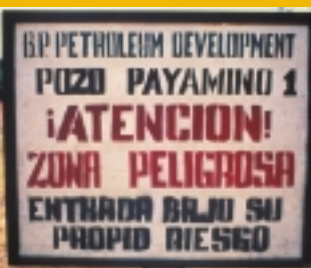
Since 1988, more than **100,000 new oil exploration wells** have been drilled. In the process, an area the same size as the US and Europe combined has been awarded to companies searching for oil. This threatens many **indigenous peoples** - including the U'wa in Colombia, the Karen in Burma, and the Baka and Efe indigenous peoples in the Congo basin - along with **untouched forest** in 22 countries and **coral reefs** in 38 countries.

Oil, together with products derived from it, such as petrol, is one of the world's most versatile resources. Countries' economies are based on oil, which is used to generate energy. Many industries, such as those that manufacture plastic products, are also dependent on oil as a raw material. International trade requires oil for **transport fuel in ships, planes and lorries**. It comes as no surprise that demand for oil increased by 30 per cent between 1985 and 1998 and is projected to increase by a further 15 per cent by 2010.

Yet oil can seriously **damage our environment and communities**. Oil exploration often destroys valuable habitats such as forests and wetlands and its movement often results in oil spills. The use and disposal of oil and oil products causes pollution, including carbon dioxide, an important climate changing gas. In fact, pollution from land, discharges from ships and illegal dumping account for the 2.5 million tonnes of oil released into the oceans every year. These impacts are made worse by escalating car use.

Nevertheless, some countries that produce and export oil have not benefitted from trade liberalisation. This is partly because the liberalisation of the oil trade during the 1980s and 1990s produced a glut of oil on the market, forcing its price down (but also stimulating car use). On average, **people in some of the poorer major oil producing countries** - such as Venezuela, Mexico, Gabon and Nigeria - witnessed a **fall in their wealth**.

Oil companies are some of the **most powerful institutions** in the world. The recent merger between Exxon and Mobil created a company with annual sales in excess of US\$190 billion making it more powerful - in economic terms - than Hong Kong (China) or Turkey. The production, trade and





TRADE LIBERALISATION FOR EUROPE?

marketing of petroleum products remains the lifeblood of the company and it has not sought to invest in other more environmentally friendly kinds of energy (such as wind or solar). Consequently, the company is opposing any efforts to agree an international climate change treaty.

'Free trade' is always sold to Europeans as a prize worth fighting for, something that will bring many benefits yet has no costs. Given that many European countries were built on trade this is hardly surprising. However, it isn't true. There are **drawbacks**, both for ourselves and people living in other regions of the world.

Rising **job insecurity** for many is a key concern, as numerous companies seek to locate to countries with lower production costs, either within or outside the EU. WTO rules also come into direct conflict with European import and consumer preferences, with the result that we may have to **dismantle high health and environmental standards**.

Through international trade, our purchasing decisions also have an **impact on others**. And increasingly, all these impacts are being influenced by the trading and investment decisions of a small number of large companies who increasingly **influence our lives**. Two key problems are outlined below.

1 Company reorganisations and job insecurity

Companies need to find the **lowest labour costs, weaker environmental**

standards or tax-related incentives and subsidies to keep overheads low enough for them to compete in the global marketplace. In Europe, this trend is most marked in **car manufacturing and banking**.

The global reorganisation of the car manufacturing industry has had a severe impact on job security in general. However, it was not associated with **large job losses** in Europe until the late 1990s. When Ford took over Volvo, it shed 1,500 jobs in the UK amid speculation that one or more of its European plants would be closed; and General Motors of the US now owns large European manufacturers such as Opel and Saab.

Because the competitiveness of older UK car plants is poor - and despite a subsidy of £150 million from the UK Government - BMW decided to sell Rover. Similarly, competitive pressures mean that Volkswagen is being enticed to invest further in Slovakia which has a relatively inexpensive workforce and a range of tax-related incentives on offer.

The European banking sector has seen similar changes, with negative impacts on job security. Swiss Bank and the Union Bank of Switzerland merged with the loss of 13,000 jobs world-wide; and the new partnership between Banque Nationale de Paris, Paribas and Societe Generale in France has increased speculation over job cuts. Deutsche Bank's merger with Bankers Trust of the US would shed 5,500 jobs; and the UK banking sector has announced 21,000 job losses as it seeks to minimise costs.

2 Consumers, workers and the WTO

Health and safety concerns are very important to European consumers. So, for example, many people object to eating beef from US and Canadian cattle that have been artificially 'fattened' using growth hormones. The European Commission, reacting to these concerns, has **banned imports** of this beef - and been **challenged by the US in the WTO**, on the basis that there is no scientific evidence to support this approach.



The WTO agreed and permitted the US and Canada to impose **retaliatory trade penalties** against goods being exported from Europe to North America. These penalties were imposed on sectors not related to the beef trade, meaning many unrelated businesses and jobs have been threatened. The trick governments use is to pick sensitive sectors that will make governments wince - in this case, mustard and roquefort cheese from France, meat exports from Denmark and Germany, and canned tomatoes and fruit juice from Italy.

European objections to eating **genetically-modified (GM) food** could also be the cause of another major trade dispute. The US - the main producer of GM crops and under pressure from its own companies - maintains that the EU's temporary ban on the further approval of GM crops violates global trade rules. Consumers have also stated a preference for labelling to enable them to make more informed choices over the products they buy. But even this could be deemed illegal under WTO rules. European shoppers buy many food items, such as out-of-season green beans, that are grown and imported from countries such as Kenya and Zimbabwe. These crops are not normally grown there; they are **export crops** grown to help **pay crippling debts**. Such export crops are associated with high levels of fertilisers and pesticides and often displace local people from the land. Air freight also causes severe environmental problems. The solution to this problem is to cancel the debt, not increase exports.

Did you know?
Our weekly shopping can include imported products that have adverse affects on people and their environment in other countries. For example, Europe is a major consumer of paper products - packaging, writing pads, magazines and newspapers - many of which are imported from countries such as the US, Canada and Brazil. To meet demand, old-growth forest is being cut down, with negative impacts on ecosystems and communities that depend on the forests. Imports could be drastically reduced, however, by lowering demand - primarily through reuse and the manufacturing of recycled products in



WHAT DOES FRIENDS OF THE EARTH WANT



Friends of the Earth is not anti-trade. What Friends of the Earth wants is **fairer trade** - trade that is conducted more sustainably, with the benefits shared more equally. In particular, we want to see the importance of local communities and economies around the world acknowledged, supported and strengthened. Trade within borders is at least, if not more important than trade across borders.

How can this be achieved?

Friends of the Earth believes that we need to **stop the trade liberalisation process, rollback the power and authority of the WTO and review the trade system and its rules to assess** what has or has not been achieved - economically, environmentally and socially. In particular, there should be **no new round** of trade negotiations. Instead, there are a number of first steps that should be taken to restrain the WTO. These are in particular:

- 1 WTO rules must **not apply** to sectors critical to **human or animal welfare or the environment**. Trade rules should not be permitted to cover food and water, basic social services, and health and safety.
- 2 The remit - and hence the power - of the WTO should **not be expanded** to include new issues such as biotechnology.
- 3 WTO rules should **not override** laws designed to protect local communities and the environment.
- 4 The WTO should not be permitted to oversee disputes with non-trade impacts, for example on **people or their environment**, internally. Disputes should be held in an independent court.



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5 The WTO should be **more democratic and transparent** : and it should reflect the needs of all, including people that have been largely excluded from the global economy (including poor countries and people, women, children, workers and indigenous peoples).

6 In addition, there need to be strong and **binding rules** governing the activities of **corporations** . Governments should also be allowed to screen and set standards for incoming investors.

WHAT CAN YOU DO?

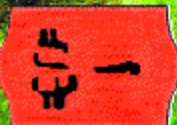
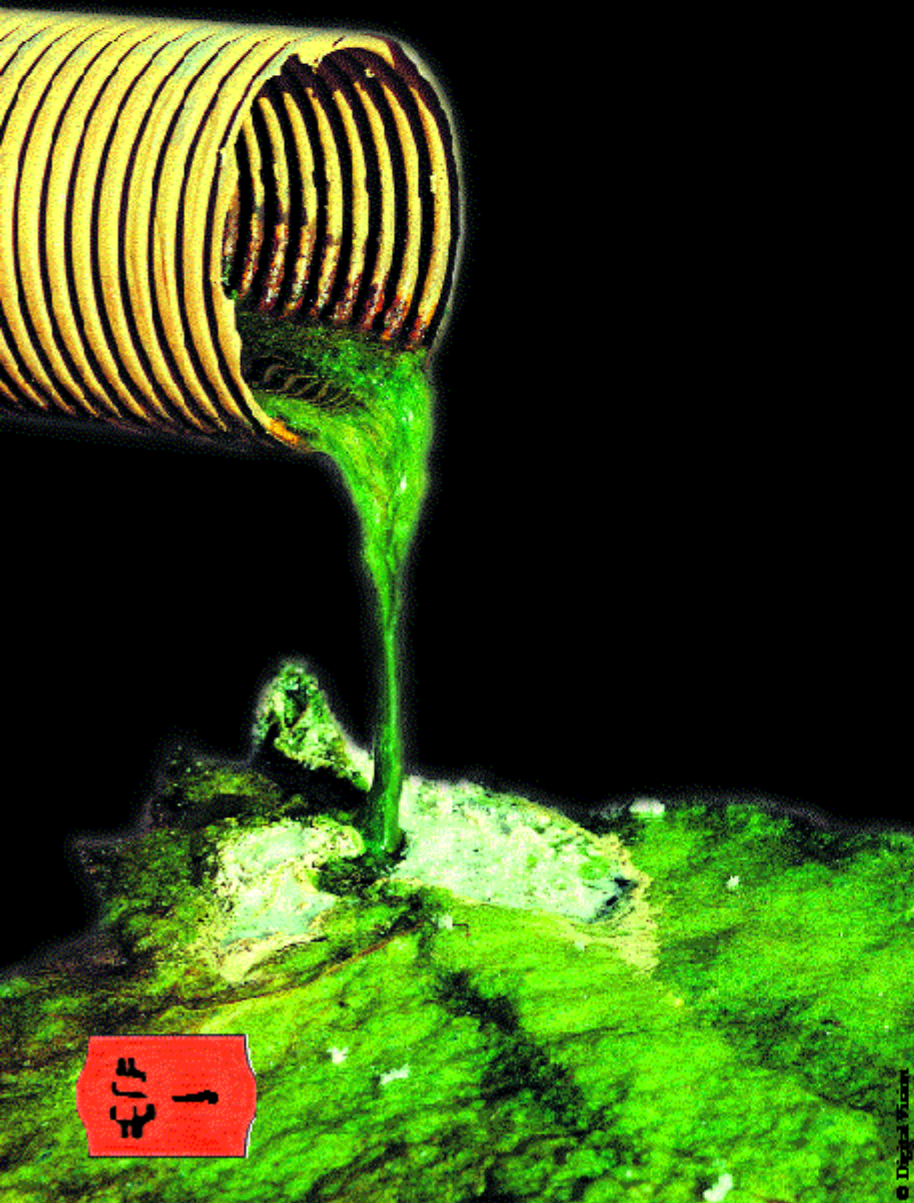
There are three keys ways to help encourage fairer trade. You can keep yourself well-informed by backing organisations which are working on trade issues , like Friends of the Earth. You can make wise lifestyle choices and you can be an active citizen. Here's how:

1 Keep informed e.g. by visiting the Friends of the Earth Europe web site for up-to-date **campaign information** : <http://www.foeurope.org/trade/about.htm>

2 Make wise lifestyle choices. It's important that people living in rich countries - who consume most of the world's resources - **reduce the impact** of our lifestyles. Consumers in Europe can **a| buy locally produced** (preferably organic) products where possible; **b| ask shops and supermarkets** to stock locally produced and **organic products** and a full range of **fair trade products** . And ask stores to adopt policies to develop fairer trade; **c| buy environmentally friendly products** and the increasing number of fair trade products that are now on the market - chocolate, breakfast cereals , coffee, tea, honey and other preserves , rice and pasta to name just a few; **d| increase efforts to reduce, reuse or recycle** .

3 Be an active citizen e.g. by **a| writing to your Head of State** demanding that the rules of the WTO should not be extended and that a **full, independent assessment** of the trade system is conducted. Demand the right for **products to be labelled** so that consumers can make an informed choice as to the kind of product they buy (eg, organic, sustainably harvested or fair trade); **b| asking your Government** to assist in the development of markets for **fair trade products** .





What's wrong with trade – and what you can do about it; written by Tim Rice and Ronnie Hall, Friends of the Earth England, Wales and Northern Ireland. Amended and adopted by the Friends of the Earth European Trade Working Group; design by Jan Kowalzig; cover picture © Nick Cobbing; printed on 100% recycled paper; Friends of the Earth Europe, January 2001

Friends of the Earth Europe, the European branch of Friends of the Earth International, is the largest environmental network in Europe working at grassroots level with 31 national member groups and over 3000 local chapters. Friends of the Earth campaigns on the most urgent environmental and social issues of today.

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