

Fair Trade - failure of 'Free Trade'

The current global trading system is dominated by transnational corporations which are overwhelmingly based in industrialised countries, mainly the US, Europe and Japan, although a few have emerged from newly industrialising countries. They have developed global production and distribution chains in both goods and services. Seventy per cent of global trade is between industrialised countries, with 20 per cent between industrialised and developing countries, and only 10 per cent between developing countries. Two billion people in developing countries live on less than US\$2 per day.

Over the past 30 years, national governments and intergovernmental global financial institutions - the International Monetary Fund (IMF), the World Bank, and the World Trade Organisation (WTO) - have promoted policies known as 'neoliberalism' or the 'Washington Consensus', which are essentially about making global production chains more profitable, and about redistributing income from low income groups to corporate interests.

The policies are familiar and include rapid removal of tariffs, removal of most regulation of investment and finance, shifts from company and income taxes to consumption taxes, cuts in social welfare spending, privatisation of essential services, less regulation of corporations generally and repressive labour laws.

The trade arm of these policies is promoted by the World Trade Organisation, and by the US and Europe through bilateral and regional trade agreements in the name of 'free trade'. They are negotiated in secret, labeled 'commercial in confidence' and we don't discover the results until the deal is done.

The failure of free trade policies to produce economic growth or reduce poverty in many developing countries, has led to increased scepticism and resistance. Some leading economists like Joseph Stiglitz, Nobel Prize winner and former chief economist at the World Bank, have noted that rapid tariff reduction can simply destroy local industries in developing countries, which lack the capacity to develop new industries. The World Bank itself has admitted that it has been too zealous in pursuing such policies in some developing countries. The result is simply higher unemployment and increased poverty.

The actual history of economic development in industrialised countries shows that countries like Britain, the US and Australia used tariffs and other active industry policies to promote local development, then gradually reduced them once local industries were established.

Impacts of the Global Crisis

The World Bank reports that global industrial production declined by 23% in rich countries and 15% in developing countries between September and December 2008. In April, the IMF predicted global GDP to decline by 1.3 per cent in 2009. Global trade flows are expected to decline by 9% in 2009. The International Labour Organisation projects that the global unemployment rate could reach between 6.3 per cent and 7.1 per cent. This would result in an increase of between 24 million and 52 million people unemployed worldwide.

Given the inequalities of wealth and power in the global trade system, the impacts of the global crisis will hit developing countries hard, but in varying ways. Many of the poorest countries are net importers of food, and suffered badly from food price rises in 2007-08. Others which export commodities have seen declines in prices.

Globally, as unemployment rises, many thousands of temporary migrant workers are losing their jobs and being sent home. This means a loss of income to them and their families, which will increase poverty and unemployment in their home countries.

Most developing countries do not have the resources for the kind of government spending required to counter some of the impacts of the crisis.

Global climate change is also having a dramatic impact, with increases in cyclones and flooding of coastal areas.

Free Trade and Financial Regulation

Unfortunately, the decline of neoliberalism does not in itself spell the end of the free trade era.

Although neoliberalism in general has been discredited by the crisis, there is a strong push to preserve free trade policies, especially in Australia.

Prime Minister Kevin Rudd carefully exempted free trade policies from his general condemnation of neoliberalism in his article in the February 2009 *Monthly Magazine*.

The rationale for this is the memory of the extreme tariff rises initiated by the US in the 1930s, which did contribute to the global depression. In 1929 tariffs were already high by today's standards, but were raised to between 30% and 60%, and provoked retaliation by US trading partners. By contrast, the general level of tariffs in Australia today is less than 3.5%, and no-one is proposing significant increases.

Most industrialized country governments are now re-regulating their financial sectors. But the EU and the US are still pushing bilateral Free Trade Agreements in developing countries that require complete removal of restrictions on foreign banks and deregulation of the financial sector.

Far from free trade policies being a solution to the crisis, as claimed by the Australian and other G20 governments, further deregulation would undermine some of the solutions to the crisis. There should be a moratorium on new trade agreements and reassessment of existing agreements in the light of the need for new forms of global financial and environmental regulation.

What would a Fair Global Trading System look like?

A fair global trading system would be transparent and democratic, to allow full participation by all WTO members, including developing countries. It would include more regional trade arrangements between networks of developing countries, as is occurring in Latin America, where a group of governments have rejected the NAFTA (North American Free Trade Agreement) model.

A fair global trade system would fully recognize the rights of government to regulate financial institutions, to implement carbon reduction policies, to ensure access to affordable medicines and to regulate for other social and environmental goals. It would recognize the special and differential needs of developing countries to have policies that assist development, including slower reductions in tariffs on goods and agricultural products, policies to ensure food security, and interventionist industry policies.

These changes will not occur unless broad popular movements demand new forms of regulation to curb the power of transnational corporations and their influence on governments, and make governments accountable for economic policies that support human rights, labour rights and environmental sustainability.

In the context of the global economic crisis, we have the opportunity to start debating and building this process.

(Source: 'The economic crisis and the global trading system', Dr Patricia Ranald, Co-convenor, Australian Fair Trade and Investment Network, abridged and edited. www.aftinet.org.au)

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