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Globalisation and free trade

U N D E R S T A N D I N G T H E P R O T E S T S

Globalisation has become one of the buzzwords of the last decade. Our world is changing at a rapid rate and many people are distressed about who is benefiting from this change. Thousands of people across the globe are protesting against globalisation with large demonstrations in Seattle, Toronto and Melbourne. Yet there continues to be considerable uncertainty over what globalisation is, how it works and what it means in the future for all of us.

Globalisation refers to the intensification of political, economic, social and cultural relations across the globe. However, it is economic globalisation that has generated the most controversy. Economic globalisation includes trade and investment and has been intensified by the introduction of free trade policies.

Key Background Issues

- The increase in trade and investment since the 1950s continues a longer trend that existed throughout most of the 1800s, but which was reversed temporarily in the period between the two world wars. In this inter-war period coun-

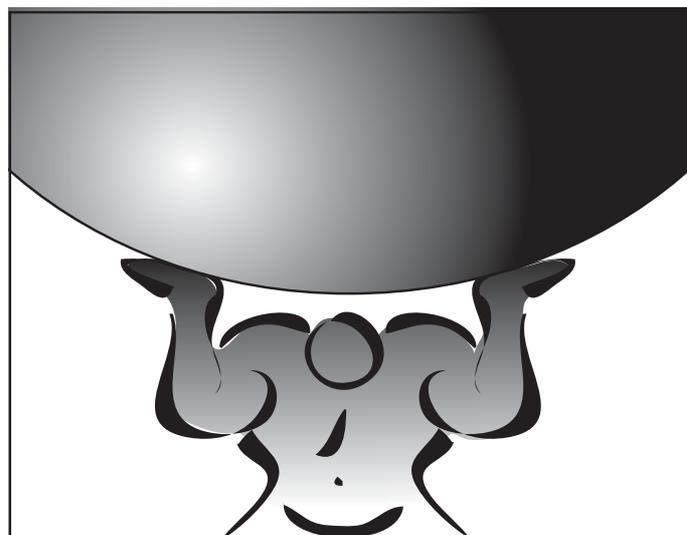
tries became increasingly protectionist and isolationist, closing down their borders to other countries.

- Following the end of the Second World War many world leaders believed that isolationism had been one of the causes of war. They established a number of international institutions to encourage countries to cooperate politically and economically.

- The three key economic bodies were; the International Monetary Fund (IMF), responsible for ensuring the world financial system worked smoothly; the International Bank for Development (better known as the World Bank), initially responsible for rebuilding Europe and Japan after the War, but now responsible for encouraging development in the third world; and what has become the World Trade Organisation (WTO), responsible for encouraging governments to remove trade barriers.

Trade and Growth

The WTO, in particular, has been very successful at decreasing tariffs and encouraging trade, which has increased from 7% of world production in 1945 to almost 25%



(UN Website). Renato Ruggiero, former head of the WTO claimed that this trend “has been a powerful catalyst to peace and economic growth” (MAI 1998). Some research suggests that those countries with more open economies (meaning less barriers to trade) have experienced economic growth of 4.5% per annum between 1970 and 1989, while those countries with more closed economies grew at only 0.7% per annum (MAI 1998).

However, there is considerable debate about who benefits from this increase in growth. While the United States, one of the biggest advocates of the push towards economic globalisation, has recently experienced sustained economic growth, almost all the benefits have gone to the top 5% of American families. The real incomes of minimum wage workers have actually declined since the 1970s (MAI 1998). So the evidence suggests that small numbers of the wealthy benefit while increasingly large numbers of people are becoming more impoverished at the expense of the few.

What is free trade?

Free trade is a set of policies and beliefs that emphasise the role of markets in making decisions about things like employment, wages, prices, production and investment. This is in contrast to other policies that allow national governments to take a more direct role in making these decisions. Free trade is associated with policies of privatisation, deregulation, removing tariffs and increasing competition. Advocates of free trade argue that competitive markets contribute to higher economic growth for all, while opponents of free trade argue that since the 1970s workers in countries such as the U.S., Canada and Australia have continued to see their Real wages decline. Opponents argue strongly that only a small minority have gained economic benefits, while there is increasing inequality for the majority of people around the world.

In her book *No Logo* Journalist, Naomi Klein has argued that we are increasingly losing public space to advertisements and that these ads focus on the image of a product through its brand. This branding is part of a broader commodification of life, where everything, including our identities, is something that can be bought and sold.

Increasingly only a few large companies dominate the market in a number of industries. In telecommunications and pesticide production 10 corporations claim over 85% of the global market share (NI, 01.2001). The assets of the top three billionaires are now more than the combined GNP of all least developed countries and their 600 million people (UN). This means that multi-national corporations are gaining the power to dictate to national governments.

Money

The Deregulation of international money markets has allowed an extraordinary increase in the amount of money being traded across national boundaries. However, much of this money is invested for

very short periods of time in order to profit from changes in exchange rates. About 80% of money invested in foreign markets in 1996 stayed there for seven days or less, 40% stayed for two days or less (Porter, 1996).

This sort of investment can undermine the stability of a national economy. In 1996 \$93 billion of investment capital came into East Asia. In 1997 \$105 billion left the region. The result was a massive financial collapse. Indonesia's economy was one of the worst

hit, shrinking by 16% in one year and causing widespread unemployment and poverty (NI, 01.2001).

The mobility of money (capital) is also undermining the ability of governments to collect taxes. Vito Tanzi, Director of the IMF's Fiscal Affairs Department claims that "Now, if you begin to tax capital, it will move somewhere else". And by using creative accounting, multi-nationals can shift their tax burden among jurisdictions where they operate to where tax rates are lower. Offshore tax havens offer refuge for between \$5-8 trillion a year. (UN)

Restructuring the Global Economy

Both the IMF and World Bank have strongly encouraged third world countries to implement free trade reforms. This has been done by making aid to these countries dependent on specific reforms, giving national governments little choice.

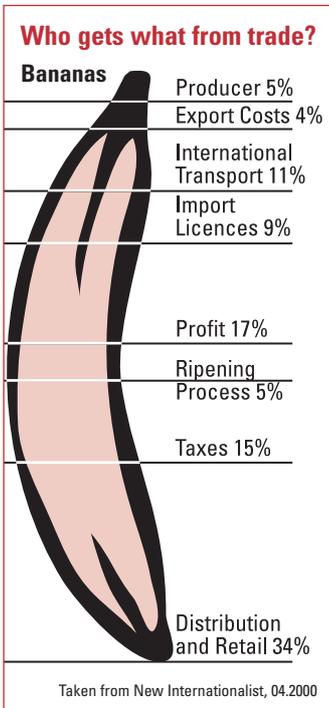
The best known of these policies have been the Structural Adjustment Programs (SAPs) advocated by the World Bank. Their aim has been to increase exports from developing countries in order to increase the amount of money flowing into the country. Governments have been encouraged to withdraw from direct participation in their economy, causing many governments to spend less on health and education and other vital services. When governments spend less on education and health the poorest people are the worst affected.

Governments in the developing world are forcing more people into the monetarised economy. In many countries people still live largely outside the market, producing most of what they need within the family or local community. However, in order to produce exports they have been encouraged into paid work in cash crops that get sold overseas. They then use their wages to buy other goods and services that they previously would have produced themselves.

However, most third world nations have few options in what to produce, nearly 70% of the African workforce is concentrated in agriculture (UN). Despite significant moves to increase free trade in other areas, food markets remain highly subsidised, with farmers in richer nations receiving government protection. This combined with the flood of third world countries into the market has seen prices fall, meaning wages have also fallen. People are now forced to work longer hours and start working earlier in life. 40% of all African children between the ages of five and 14 are forced to work (see UN website).

The debt crisis of many developing nations is rapidly increasing while multinational companies gain billion dollar profits. Community organisations around the world are greatly concerned about the increasing power of large international corporations and institutions like the IMF and the WTO, who are dominated by a few Western countries, particularly the US.

Many people are concerned that new rules being introduced by the WTO as part of the General Agreement on Trade in Services will force governments to open some industries to full competition, like health and education, undermining public programs that subsidise access for poorer citizens (Council of Canadians). The possible privatisation of such services has prompted mass demonstrations across the globe.



ACTION

- Check United Nations (UN) website
 - Read New Internationalist (NI), www.newint.org
- Compare these alternate views of global development:*
- Visit the IMF website
 - Check the info from the Council of Canadians



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