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# BACKGROUNDER

Photograph by Gutmann/laif, from Impact Visuals.

Leaders of the G-8 industrial nations met in Cologne, Germany, June 1999, to discuss global trade liberalization measures.

## Food First Trade Principles

*by Peter Rosset*
*Executive Director, Food First*

Since 1973 the income gap between rich and poor nations has grown from 44 to 1 to 72 to 1. The gap between rich and poor within most countries has grown rapidly as well, followed closely by deepening social problems. We have seen increased homelessness and hunger in America, even in times of economic prosperity. Behind this alarming picture lie structural changes in the global economy brought about by rapid increases in trade and capital flows.[1]

### Free Trade at the Millennium

Trade is the most important issue that defines the end of the millennium and the start of the next one. Since the 1970s the global economy has been transformed by advances in communications and transport technology, making it possible for companies to rapidly shift production around the world in search of lower wages and new markets. Transnational corporations have used their financial and political muscle to usher in an intense period of trade liberalization, in search of that Holy Grail of capitalism, free trade. Beginning with the Uruguay Round of negotiations for the General Agreement on Tariffs and Trade (GATT), one trade agreement or treaty after another has come up. From the North American Free Trade Agreement (NAFTA) to the founding of the World Trade Organization (WTO), the framework for free trade is being set in international law.

In general terms, we are moving from smaller, national economies, to larger regional or global economies. This poses the gravest threat to the livelihoods of ordinary people in every country.[2]

### The Race to the Bottom

Whenever a larger economy is created, new economies of scale come into play. Large transnational companies who use automated mass production technology to produce goods at low per unit costs, flood local markets at prices that smaller, national companies using labor intensive production practices cannot compete with. As witnessed in Mexico under NAFTA, these smaller companies go out of business and hundreds of thousands of people (or even millions) are laid off

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# Principles to Be Met by Any Trade Bill, Treaty, or Policy

### 1. Unconditional Debt Cancellation

External debt is the number one obstacle to offering decent social services and fostering broad-based development in every Third World country. The principle reason many governments in Southern developing countries are capital-starved is because of the unsustainable burden placed on them by debt service. Total annual debt payments are currently higher than the sum of all foreign investment, plus all foreign aid. Sub-Saharan Africa spends more on servicing its $200 billion debt than on health and education for its 306 million children.[3]

While free trade is often promoted as a way to get foreign investment capital into poor economies, debt cancellation is actually the single most important short-term way to inject needed capital into developing country economies.

A centerpiece of any trade-related (or aid-related) bill or policy relating to the Third World must be unconditional debt cancellation, with strong language and legal mechanisms to insure it happens. Debt cancellation must not be made conditional upon poorer countries modifying any of their own economic policies or laws, including making them accept structural adjustment or market-opening requirements; in the past onerous conditions have undercut positive benefits of debt relief.

### 2. True Participatory Process

Many trade bills before the U.S. Congress have been drafted by corporate lobbyists—representatives of those with the most to gain for the present international trade regime. On the international scene, a lobbyist from Cargill helped negotiate the agricultural portion of GATT.[4] Time and again trade policies are developed and implemented without the participation of those who stand to be most affected in a negative sense: farmers and small businesses in developing countries who must compete with a flood of cheap imports, and workers here in America who may lose their jobs as factories move to countries with cheap labor.

In the future the development of any bill or policy must occur through a participatory process with broad representation of "affected" civil society in the U.S. and abroad. Key groups who should participate are unions, farmers' organizations, consumers' groups, environmentalists, and community organizations.

### 3. No Job Loss

While NAFTA has created jobs in the U.S., Canada, and Mexico, it has led to the elimination of far more. In the U.S., an estimated 400,000 jobs have been lost.[5] In Mexico, some 28,000 small businesses have been driven out of business, and unemployment has doubled.[6] Corporations benefited at the expense of working people in all three countries, who have experienced downward pressure on wages and working conditions. There should be no likely net job loss either in U.S. or other countries as a result of any new policy or bill.

### 4. No Corporate Welfare

There should be no direct or indirect subsidies, or favored status for transnational corporations (TNCs) included in the bill or policy. That means no export credits or guarantees may be included that help TNCs penetrate Southern/developing country economies to the detriment of local businesses. Unfortunately many trade bills provide subsidies to TNCs that allow them to market their products in other countries at prices that undercut local producers.

### 5. No Coercion

Poorer countries should not be coerced through conditions or threatened by exclusion into removing their own tariff and non-tariff trade barriers, nor weaken the fiscal, trade-related, and other policy instruments at their disposal for guiding domestic economic development.

### 6. Sovereignty Over Basic Economic Policy

All countries must retain the right to establish currency and import controls, set the conditions of trade and investment to meet the needs of their people, and control flows of capital and resources into/out of the country as a legitimate means to achieve domestic economic stability.

### 7. No Arms

There should be no subsidies or easing of restrictions for arms sales, nor should military or police training be included.

### 8. No Food Dumping

There should be no dumping of foodstuffs (either disguised as 'aid' or 'trade liberalization'). Each country has a right to protect basic food production as it sees fit. Cheap imports undercut the ability of local farmers to stay in business, often driving them off the land and into cities; this undercuts long-term national food security and creates dependence on imports. Self-reliance in basic necessities gives countries and communities a stronger bargaining position in the global economy.

### 9. Only Small and Medium Businesses

Favored trade status should only be granted to: a) 100 percent domestically-owned small and medium size enterprises abroad, and b) small and medium size enterprises (especially 100 percent minority owned) in the U.S.

### 10. Close Loopholes

Provision must be made to close 'sub-contracting' loopholes and transfer pricing by which TNCs use locally-owned sub-contractors to intentionally evade taxes and national ownership, minimum wage, workplace safety, and trade regulations.

### 12. Mandatory Impact Assessments

There must be an independent and objective social/economic/cultural/ environmental impact assessment prepared with full participation and partnership with the public and civil society organizations (with on-going monitoring thereafter), and strong provisions for canceling part or all of the proposed bill/policy if negative impacts are likely or occur during implementation.

### 13. Subordinate to Human Rights and National Constitutions

There must be clear and binding language that gives legal precedence over trade agreements to each country's domestic constitutions, as well as to international conventions and treaties on human rights and the environment.

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## Food First Trade Principles

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as new high tech factories hire far fewer workers. One result is fewer jobs are needed to manufacture the same quantity of goods. Another result is that profits shift from nationally-owned companies, which tend to reinvest locally, to transnational corporations (TNCs) based in distant nations, who rarely re-invest in the 'affected' country. Those who benefit are corporate stockholders in Northern countries.

It is not just factory workers who have found their employment prospects threatened. The practice of 'out-sourcing,' by which companies use suppliers around the globe, pits everyone from workers on the line to computer programmers, chip designers, and automobile engineers in a global competition for jobs. The basis of that competition is who will work for less, accept part-time employment without benefits, and accept unsafe working conditions and toxic emissions in their backyard. It is a veritable race to the bottom.

As weaker economies are merged with stronger ones, a highly uneven playing field is created. The nature of most new trade agreements (as well as conditions imposed through World Bank and International Monetary Fund loans) is to require that national governments give up sovereignty over their domestic economies. They must more or less abandon tariffs, import quotas, multiple fixed exchange rates, and other tools used in the past to direct national economic development. In essence, they are pitted against far stronger competitors, even as they are stripped of anything they might use to defend themselves. The results so far have been predictable.

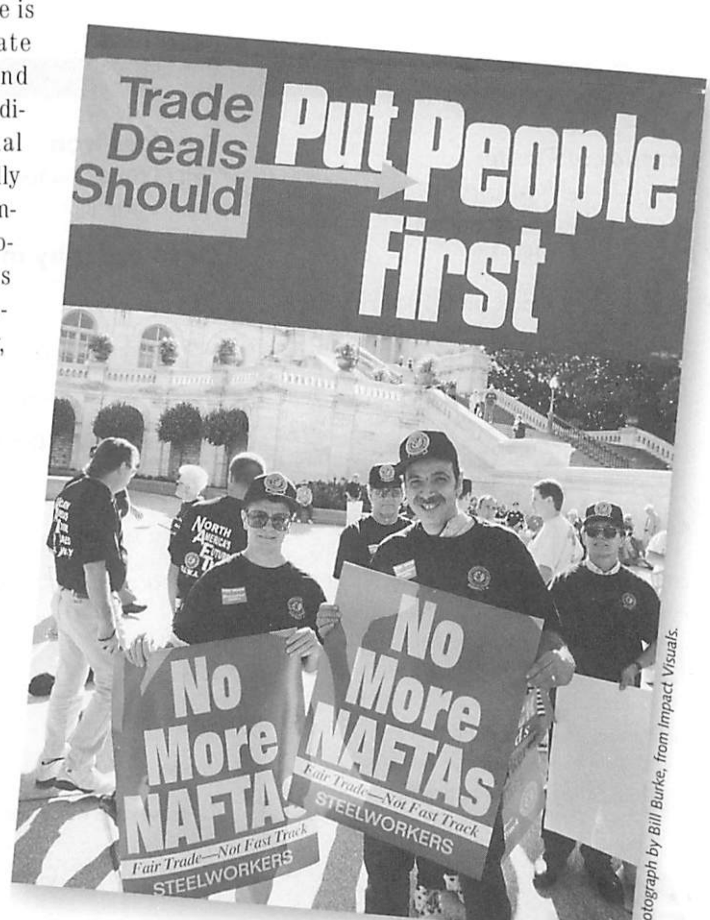
In a short period of time we have seen the post-war period, which saw living standards around the world rise in tandem with productivity, give way to a new pattern in which productivity continues to rise but living standards begin to drop. The first region to face the new free trade policies was Latin America, through the so-called structural adjustment programs of the 1980s—now known as the 'lost decade' of Latin American economic development. Living standards of the poor majorities slipped back to pre-1960s levels. Next up were East and Southeast Asia, where forced trade liberalization went hand in hand with the removal of currency controls. The result was the Asian financial crisis, and the collapse of some of the Third World's strongest economies. Next on the free trade agenda is Africa, with some of the economies the least prepared to compete in the global economy.

### Time for New Trade Policy

The time has come to step back from this mania for free trade at any cost, assess the damage, and seek a new start. At Food First we do not suggest that every kind of international trade is bad. In appropriate circumstances and under the right conditions, international trade can potentially benefit local economic development, provide needed goods that cannot be produced domestically, and create jobs.

But trade bills and treaties designed to favor the wealthiest and most powerful corporations at the expense of everyone else are profoundly wrong. Recognizing the positive potential of trade, we ask: Under what conditions could trade contribute to human well-being and broad-based development? In that light we present a set of principles to serve as the basis for a different kind of trade policy, one under which the benefits of trade might flow primarily to the countries and communities most in need.

These principles may sound tough and utopian. Some may say that with these criteria, no trade bill would be passed and no treaty signed. Our answer is that no new trade legislation, and no new trade treaties, or the rollback of existing treaties, would be far better than ones which have massively set back human welfare and the environment. If we can't do it right, then let's not do it at all.




Photograph by Bill Burke, from Impact Visuals.

Steelworkers rally September 1998 against 'fast track' authority, allowing the President to negotiate trade deals without consulting Congress or the public.

# Principles to Be Met...

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### 14. No Sweatshops

Trade agreements may not be based on 'drawback' or maquila- style provisions that favor sweatshops and allow TNCs to rapidly shift production around the world seeking the cheapest labor and weakest environmental and occupational safety regulations.

### 15. Large Compensation Fund

A substantial fund should be created to compensate regions and peoples negatively affected by changes in trade and development patterns brought about by the bill or policy. An example is how some regions in Europe that were hurt by integration into the European Economic Community (EEC) received special subsidies from the European Union.

### 16. Human Beings Have More Rights than Goods and Capital

When a common market or free trade zone is created (like the EEC or NAFTA), labor must be given the same mobility as capital and goods (as it was in the EEC, but was not in NAFTA). Otherwise excessive downward pressure is exerted on wages (as in NAFTA). Money and goods should not be favored over people.

### 17. Controls on Capital Flows

Controls over international speculative capital flows must be implemented to create a stable environment in which any positive potential of trade can be realized. Rapid capital movements can trigger national economic collapse, as in the Asian crisis, canceling any positive benefit from trade.

### 18. No Divide and Conquer

One country or region should never be "played off against another" (i.e. do not take import quotas from Asia to give to Africa). This was an unfortunate feature of a recent Africa trade bill.

## Notes

1. United Nations Development Program, *1999 Human Development Report* (New York: UNDP, 1999), chapter 1.
2. Background for unattributed statements can be found in chapters 7 and 8 of Frances Moore Lappé, Joseph Collins, and Peter Rosset with Luis Esparza, *World Hunger: Twelve Myths, Second Edition* (New York: Grove Press, 1998).
3. Charles Lyons, "Plagues Persist Despite Century of Miracles," *San Francisco Chronicle,* August 15, 1999.
4. Women's Environment and Development Organization (WEDO), *How Secure is Our Food? Food Security & Agriculture Under the New GATT & World Trade Organization.* (New York: WEDO, 1995).
5. Public Citizen Global Trade Watch, *The NAFTA Index*, October 1, 1998. www.tradewatch.org
6. Public Citizen Global Trade Watch, *The Failed Experiment: NAFTA at Three Years,* June 26, 1997. www.tradewatch.org

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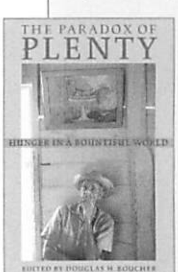


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