GLOBAL TRADE
Trading Worlds: History (Dicken 2002)
- History: Trade/exchange & division of labor/specialization reinforce each other mutually
- Beginnings 7,000 BC—Regulations exist since 2,000 years
- Local (ordinary goods) & long-distance trade (luxury goods)
- Early nation states dismantled domestic tolls & restrictions, introduced technical standards
  BUT expanded tariffs, subsidies & barriers to inter-state trade (principle of mercantilism &
  protectionism of infant industries)
- Industrialization created immense demand and supply of finished goods & raw materials on a
  global scale b/w core countries (45%), core-periphery (colonialism, 50%) & b/w periphery-
  periphery (5%)
- Ratio of world exports/world GDP increase: 1820-1929, decrease 1929-1950, increase since
  1950

Contemporary World Trade
- U.S., G, UK, F covered 71% of world manufacturing production in 1938 but only 32% in 1999
- Roller-coaster pattern=>contraction-expansion following crises, wars, recessions (early 1980s,
  early 1990s)
- Change in international division of labor changes also types of traded goods
  - from primary commodities to trade in services
  - Increase of intra-industry & intra-firm trade
  - Proliferation of TNCs (=>2/3 of world trade)
- Regionalization
  - 3 mega-regions (North America, Europe, East Asia)=>80% of world merchandise export
  - Intra-regional trade within each major region, enhanced by TNCs production networks
    ("glocalization")
  - Peripheries: Africa, South Asia, Latin America, Middle East

World league merchandise trade 1999

<table>
<thead>
<tr>
<th>Exports</th>
<th>Imports</th>
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<tbody>
<tr>
<td>1. U.S. (12.4%)</td>
<td>1. U.S. (18%)</td>
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<td>2. Germany (9.6%)</td>
<td>2. Germany (8%)</td>
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<tr>
<td>3. Japan (7.5%)</td>
<td>3. U.K. (5.5%)</td>
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<td>4. France (5.3%)</td>
<td>4. Japan (5.3%)</td>
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<tr>
<td>5. U.K. (4.8%)</td>
<td>5. France (4.9%)</td>
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- New post-WWII international economic order, with the U.S. at its center
- Pillars: International regulatory mechanisms for trade=General Agreement on Tariffs and
  Trade (GATT), successor since 1995 is the World Trade Organization (WTO) with 130
  member states
  - Non-discrimination in trade=>most-favored nation principle & national treatment rule for
    imported goods
  - Generalized system of preferences for developing-country products to developed country
    markets=> 8 negotiation rounds, the latest was the Uruguay Round reducing average
    tariffs to 4%
- Uruguay Round (1986-1994)
  - Incorporation of agriculture, textiles & clothing into GATT
  - Special agreements on trade in services, intellectual property rights, trade related
    investment
Foundation of the World Trade Organisation (WTO) in 1995
1999 Seattle WTO meeting foundered amid a chaos of internal and external political and ideological differences

Pro’s of an Open World Trading System
■ Many countries, companies, communities and individuals gained from increased world trade (income, jobs, skills/education)
■ Consumers have more and cheaper choices because markets have expanded and trade barriers removed

Con’s of an Open World Trading System
■ Some companies, employees, communities lost income, jobs, choices because they were not competitive or depended on commodities whose “terms of trade” deteriorated
■ Decision-making in WTO is undemocratic and dominated by economic powerful countries
■ Labor standards, human rights (child labor, exploitation, political repression), and environment suffered in developing countries, especially Export Processing Zones
■ Sustainable development is undercut in “race to the bottom”
■ Trade is not fair because powerful economies retain protectionist measures (agriculture)
■ Global and local inequality between poor and rich is deepened
■ De-industrialization of North--new global division of Labor--mental (developed world) vs. manual (developing world)--brain drain

Cost First World
■ Declining wages and benefits
■ Loss of Jobs
■ Skilled into unskilled work. Competition with new immigrants
■ Growth of temps, flex-time
■ Families: 2 full-time workers, part-time jobs

Costs Developing World
■ Competition for MNCs
■ Jobs, BUT
■ Winners: providers of lowest wages, disciplined work-force (women and children), unregulated factories & environment

New Reality of World Economy
Capital Movement
Is Trade the Driving Force of world economy as Neo-Liberalism claims?
■ Trade in goods and services is about $4 trillion/yr
■ London Eurodollar = $400 billion/day ($100 trillion/yr)
■ Foreign exchange transactions $1 trillion/day ($250 trillion/yr)

Conclusion
■ If global capital movements far exceed the volume of global merchandise and services trade, what are the consequences?
■ How stable is the global system of trade?
■ Does Neo-liberalism work?
■ The Crash in the 1990s highlights some of the problems

GLOBAL ECONOMIC INSTITUTIONS
Post-WWII Reconstruction of World Economy
■ New institutions (e.g., U.N. 26 June 1945, Marshall Plan 1947, NATO 1949)
■ Bretton Woods Agreement (1944 Conference) to construct post-war intl. economic system and help reconstruct destroyed W. Europe
■ Created three international organizations
Dollar-based gold standard
- Countries pegged their currencies' to gold (+ or -1%)
- Could change the pegs under certain conditions
- Only U.S. agreed to exchange its paper currency for gold

World Bank
- Initial goal: reconstruct war-torn Europe
- After 1950s: help poorer countries of the world develop economically BUT could only extend “hard loans” (capable of being repaid)
- LDCs claimed this policy was of no use to them
- WB Group: =>IBRD/World Bank; =>International Development Association: extends soft loans; =>International Finance Corporation: helps develop private sector; =>Multilateral Investment Guarantee Agency: provides political risk insurance

International Monetary Fund
- Bretton Woods Agreement also created the IMF
- goals:
  - promote international monetary cooperation
  - promote exchange rate stability

IMF Quotas
- IMF members join by paying a deposit, or quota, in gold and home currency
- Quota has triple function
  - size of voting power
  - size of borrowing power
  - serves as part of country’s international reserves

IMF Conditionality
- Each country has absolute right to power 25% of its quota (so-called gold tranche)
- If it wishes to borrow more than 25%, it must agree to conditions imposed by the IMF (cut government spending, liberalize trade, allow more inward FDI, etc.)
- IMF conditionality often causes domestic political turmoil

Collapse of the Bretton Woods System
- Aug. 15, 1971: President Nixon announced U.S. would no longer redeem gold at $35 per ounce
- exchange rates began to “float,” creating a flexible exchange rate system
- Smithsonian Conference Dec 1971: central bankers restore fixed exchange rates with new par values (gold=$38/ounce)

Deregulation, Financial Crises, and Structural Adjustment Programs

What is Deregulation?
- Privatization
- Deregulation
  - -- smaller state
  - -- lower social safety nets
  - -- remove supports for industry
- Free Trade – removal of tariffs and quotas
- Deregulation of financial markets
  - -- the market knows best
- Competition and comparative advantage
  - - competition - efficiency – productivity - growth
From State to Market

- Western industrial economies – Thatcherism, Reaganism, Social Darwinism
- Developing countries – structural adjustment programs
- Post-communist societies – marketization, shock therapy

IMF & World Bank’s Structural Adjustment Programs—SAP (Anderson 2002)

- Reduction of size of state & privatization of public companies & services => deterioration of school quality and attendance
- Balancing gvt. Budgets => cuts on health, education, environmental protection
- Deregulating economy => eliminate trade barriers, cut corporate taxes, open foreign ownership of natural resources, increase exports, decrease consumption
- Weakening labor => increase flexibility, reduce labor rights, suppress unionization

Failure of Neo-Liberal SAP’s

Anderson 2002

- Debt burden of LDCs grew 5-fold b/w 1980 and 1997. Debt relief program did not cancel debts but made them more palatable
- Anti-poverty programs failed and are considered public relation stunts
- Domestic protest against certain loan packages were ignored (Ecuador)
- Censorship: Critics in World Bank are silenced or pushed out
- Overall: Lack of transparency, democracy, commitment to fight poverty
- The richest countries got richer while the poorest got left behind

Admitting failure

- 'IMF riots’ over the past 15 years
- -- Zambia, Venezuela, Jordan, the Philippines, Jamaica, etc.
- World Bank has accepted that SAPs have failed the poor, with a special burden falling on women and children.
- Yet together with the IMF it still demands developing countries persist with SAPs if they wish to have access to future loans or debt relief.

The World Bank & IMF

"Economically speaking, we are more dependent on the ex-colonial powers than we ever were. The World Bank and the IMF are playing the role that our ex-colonial masters used to play"

Martin Khor (Third World Network)

WORLD POVERTY, PROTEST, AND ECONOMIC ALTERNATIVES
The Scandal of World Poverty

- Out of 4.4 billion people in developing countries, 1.3 billion live on less than $1/day
- 3 billion on less than $2
- Each year 15 million people die of poverty related causes, most are children
- 34 million people in Africa are infected by AIDS vs. 890,000 people in the U.S. and Canada
- The net worth of the 400 richest people in the world (1993) exceeds the combined GDP of India, Bangladesh, Nepal, and Sri Lanka (over 1 billion people)
- Over half the increased resources used since 1950 has been for the benefit of the richest fifth of the world’s people

Growth of Consumption Is Not Sustainable

- Per capita waste generation has trebled over the past twenty years in developed countries
- Carbon emissions have quadrupled over the past fifty years
- A sixth of the world’s land area has been degraded.
- Fish stocks are down by one quarter

The Backlog of Unmet Basic Human Needs Is Huge and Growing
- 1.2 billion people lack access to safe water
- 3 billion lack access to basic sanitation
- 2 billion lack access to power
- 500 million are mired in civil war and social unrest

The World Has Ample Resources to Tackle the Problem
- Only $55 million allocated to development cooperation
  - Versus:
    - $780 billion for military spending
    - $400 billion for narcotic drugs
    - $105 billion for alcoholic drinks (Europe)
    - $50 billion for cigarettes (Europe)
    - $35 billion for business entertainment (Japan)
    - $17 billion for pet food (Europe & USA)

Globalization
- Instability
- Winner Take All
- Marginalization
- Rapid technological change
- Unsustainable development strategies
- Inadequate institutional adjustment

The 1990s: Globalization and Anti-globalization movements
- The crisis of neo-liberalism and the response of the ‘social majorities’
  - Anti-globalization
  - Anti-neo-liberalism
  - Identity politics
  - Cultural survival
  - Regional autonomy movements
  - Social movements

Anti-globalization from Seattle to Genoa

The Great Disruption
- Decline in values
- From mass production to knowledge
- Major dislocation in social bonds
- Increased inequality

Towards Sustainable

Poverty Reduction Policies

Alternatives: Equitable and Sustainable Growth
- Sound economic management
- Well educated labor force
- Good, clean government
- Sound judiciary
- Resilient financial sector
- Rural development
- Labor intensive industries
- Equitable access to services
- Social safety nets
- Environment friendly regulations

Global Economic Alternatives

_Faux 2002_
- 1. Social protections: basic political & labor rights (freedom of association, no child labor,
nondiscrimination, minimum standards/wages)

2. Flexible development that benefits local population and their democratic rights

3. Winners compensating losers: increased public spending on health care for uninsured, worker retraining, community redevelopment, better unemployment compensation & wage insurance for those who bear cost of adjustment policies

4. Regulated finance: tax on international transactions (Tobin tax) used for long-term investments in edu & health care in poor countries

5. Coordinated economic policy by U.S., EU, Japan with low interest rates, etc

6. Instead of nationalist egotisms support expansion of democratic regionalism (=EU) with a strong social democratic contract including trade unions, NGOs, civil rights, environmental standards, and a modest welfare state (not like NAFTA)

The Development System Should Be Re-engineered

- New Partnerships
  - Mission oriented global alliances
  - Mutual accountability
  - A greater voice for the poor
  - Social entrepreneurship
  - Empowerment

Questions and Tasks

- Weigh the pro’s and con’s of world trade
- Should the IMF and World Bank continue to support SAP policies?
- What can the DC’s do to help the LDC’s? What should LDC’s do to improve their economic status?
- What is and what should be the role of the U.S. in all of this?