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CARIBBEAN AGRO-ECONOMIC SOCIETY

**PROCEEDINGS OF THE
TWENTY-THIRD
WEST INDIES AGRICULTURAL
ECONOMICS CONFERENCE**

**TRADING ARRANGEMENTS:
THE WTO AND FTAA:
Rethinking the Development Paradigm
for Agriculture in the
Caribbean and Latin America in the 2000s**

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(The Bahamas, November 15-18, 2000)**

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ISBN: 976-620-163-3 (pbk)

Publication Data:

Main Title: Proceedings of the Twenty-third West Indies Agricultural Economics
Conference

Publisher: Caribbean Agro-Economic Society
c/o The Secretariat
Department of Agricultural Economics & Extension
The University of the West Indies
St. Augustine
Republic of Trinidad & Tobago

Printed in: St Augustine, Republic of Trinidad & Tobago

Publication Date: March 2002



SOCIAL IMPACT OF TRADE LIBERALIZATION

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In this paper we shall be looking at emerging social issues associated with trade reform and other measures related to globalization, the 'people' or 'human factor'.

After five years of trade reform, a growing chorus of voices is saying, "Let's look at the net impact of trade reform measures instead of focusing mainly on economic growth and economic impact." Questions are being raised such as:

- Who is really benefiting from these reforms?
- At what cost (defined in the broadest sense) are such benefits being achieved?
- Does economic prosperity always lead to a better quality of life?

These questions are being asked despite the existence of certain mechanisms to help countries deal with emerging problems in the short term. Such mechanisms include the proviso for special and differential treatment for

deserving countries and safety net measures. Thus, apparently such measures are not being seen as doing enough to deal with the situation.

We may argue that it is unfair to impose that kind of burden or responsibility on trade reform measures, that it is difficult to quantify such things (many economists and some people in other professions as well are uncomfortable with things that are difficult to quantify) and that it is difficult to establish causality. But we should keep in mind the following points:

- There is already general acceptance of the principle that we need to go beyond economic indicators to know how well a country is doing. The Human Development Index developed by the UN is gaining ground as an important indicator of a country's state of development.
- There could be a lot of validity in the issues people are raising and we need to give credence to their concerns. It is also an important consideration in

buying or enlisting their support. So we need to be open and consider all the possibilities.

- We cannot afford to ignore people's perceptions. We have to deal with them. Resistance can slow down or derail programmes no matter how well intentioned. If there are misperceptions they need to be cleared up.

The major international organizations – the World Bank, IADB, WTO – have of course realized that they need to do something about their image as the 'big bad wolf'. The perception seems to be that that they are forcing people to 'swallow a bitter pill' that is not helping them to get any better. Many people seem to welcome the demonstrations at Seattle and Washington or, at least, see them as timely. For example, a recent issue of *Spore*, a widely circulated newsletter produced by CTA (the Technical Centre for Agricultural and Rural Cooperation based in the Netherlands), in reference to the demonstrations, stated:

"The human touch is coming back, it would seem, after a long cold exile from the soulless world of monetarism and structural adjustment. Human interventions, sometimes misguided, often ill informed, but human and hopeful nonetheless have recently brought some big endeavours to their senses and, to an extent, to a grinding

halt... In April 2000, in Washington DC, the joint meeting of the World Bank and the International Monetary Fund found itself seriously challenged by an outburst of popular resentment on the streets that these institutions, seduced by their own rhetoric of glossy charm never saw coming. (New Economy, New Agriculture, 2000)

Organizations had to answer, or respond to, what has been widely accepted as the main imperatives for the new millennium – poverty reduction, and empowering civil society through people's participation in the formulation of policies that affect them. Thus the World Bank's 2000/2001 Development Report is entitled *Attacking Poverty*. It has also published a book called *Voices of the Poor* based on some of the background studies, claimed as the largest study ever using the qualitative approach.

The WTO, as well, put out a voluminous document dealing with trade and poverty in which the overview (Nordstrom, 2000) acknowledged that: *"The eradication of poverty is a shared responsibility for the international community – indeed a moral imperative. This task has become no less urgent in the last decade, in spite of the rapid economic growth in many parts of the world."*

In referring to the available statistics relating to poverty, the article continued,

“it is easy to appreciate the growing public concern that not enough is being done to address poverty and poverty related social illnesses...” Nevertheless the article still indulged in some 'waffling' and trying to shift the blame stating that *“the linkage between trade and poverty are not as direct and immediate as the linkage between poverty and national policies on education”* and other areas. It also claimed, as well, that other international policies dealing with debt relief have a bigger role to play. It does, however, concede that, *“Trade can nevertheless affect the income opportunities of the poor in a number of ways – some positive and some negative.”* The full document also reports on two expert reports commissioned by the WTO Secretariat. The aim was *“to clarify the interface between trade, global income disparity, and poverty.”*

The main finding of the first report by Professor Dan Ben-David of Tel Aviv University, as reported in the document overview was that trade can be a factor in bringing about convergence to the ever-widening income gaps between rich and poor countries. A parallel finding was that trade related income convergence is accompanied by faster growth in liberalizing countries. The study claimed that this was due to, *“Many of the primary measures and institutions that facilitate the capturing*

if knowledge and trade – such as widespread and improved education, a sound infrastructure, protection of property rights, and so on – are inherently the same measures that facilitate a move to faster growth and an alleviation of widespread poverty.” (Nordstrom, 2000, p.1.)

The second report was prepared by Professor L. Alan Winters of University of Sussex. It claimed that “trade liberalization is generally a positive contributor to poverty alleviation – it allows people to exploit their productive potential, assists economic growth, curtails arbitrary policy interventions and helps to insulate against shocks.” He accepts, however, that “reforms will create some losers (some even in the long run), and trade reforms could exacerbate poverty temporarily” but “the appropriate policy response in those cases is to alleviate the hardships and facilitate adjustments rather than abandon the reform process.” Thus, the arguments of both reports do not really challenge the status quo much. It supports the original rationale. It’s really more of the same.

1. VIEWS ON NET EFFECT OF TRADE LIBERALIZATION

1.1 The Intellectuals or Theorists

We here briefly look on some perceptions on the net effect of trade liberalization and supporting arguments for the different positions ("Economic Liberalization: Good or Bad," 2000).

First we look at a debate between Michael Hart of the Centre for Trade Policy and Law at Carleton University in Ottawa and Jeff Faux of the Economic Policy Institute in Washington on opposing sides of the question, "*Is the North American economy better off as a result of having free trade in the last decade?*"

Hart felt that there was clear evidence of positive impact on people's prosperity while Faux claimed the data show the net effect has been negative. Faux felt that globalization was being pushed at too rapid a rate and thus institutions to keep the economy stable were not able to keep pace. These had a negative impact on families in the US and elsewhere. Faux, however, did not think that the process could be stopped. But nations shouldn't press ahead until they have mechanisms to respond to the unwanted effects.

Hart felt that countries with strong social safety nets did not put them in a better position to liberalize trade. The US was better able to adjust to trade

than Canada because it did not have as expansive a safety net. It forced people to find jobs in new industries when old jobs were eliminated. He contended that European nations with the strongest safety net programmes had the highest unemployment rates of major industrial economies. He seems to imply (or one can deduce from his arguments) that as far as economic liberalization is concerned, "the earlier the better."

Other prominent intellectuals are also questioning all out competition which sees the notion of the "welfare state" as antithetical to the spirit of free trade. In an article on this topic, Jim Lobe of the World News cited a new book by Professor Dani Rodrik of Harvard University that claimed social insurance has played a vital role in enabling the post-war expansion of trade in countries such as Sweden. Thus, "the dismantling of the powerful welfare state in the interests of economic competitiveness is not necessarily the best answer." (Lobe, 2000)

1.2 The Clients - Developing Countries

We now look briefly at what some of those directly affected by liberalization say and then we shall look at some responses from developed countries. For the perspectives of developing countries we use comments in a news release of a dialogue on the impact of globalization

in the General Assembly of the UN. ("High Level Dialogue On Impact of Globalization Continues in General Assembly", 1998)

- The representative from Bangladesh echoed the view expressed by Faux in the preceding section. He said that financial turmoil was often due to hasty economic liberalization and called for increased safety net measures and other initiatives such as reducing the debt burden and immediate lifting of trade barriers on least developed countries.
- That point was again raised by the representative from Pakistan who also raised a new issue. He felt that inequities would increase as part of the side effects – a new set of class divisions would be created. According to him, *"there would be divisions between those who prospered in a globalized economy and those who did not, between those who shared its values and those who would rather not, and between those who could diversify its risks and those who could not."*
- The representative of the Republic of Korea noted that the emphasis on the market had overshadowed the importance of the State and its policies. His statement and other speakers at the conference point towards the need for the State to maintain its pre-eminence and not

allow the *"hegemony that the international agencies are trying to exert on various nations to continue"*.

1.3 The Clients - Developed Countries

Labor unions have been the most vociferous in the criticisms of globalization in the developed countries due to job losses etc. This was a major concern expressed at the 23rd Biennial Convention of the AFL-CIO (2000). In their resolutions, they point out first that, *"while increased global integration has brought growth and dynamism to some sectors and to some corporations, its downside has become more apparent and more troubling."* They felt that worldwide the same pattern could be found with a widening of the gap between the rich countries and the poor. The statistics cited in the quote below from their report are rather alarming.

"In sub-Saharan Africa and in many other of the poorest countries, per capita incomes are lower today than they were in 1970. The gap in per capita incomes between countries with the richest fifth of the world's people and those with the poorest fifth widened from 30-to-1 in 1960 to 60-to-1 in 1990 to 74-to-1 in 1995. Meanwhile the richest three people in the world have assets greater than the combined incomes of the 600 million poorest."

The real winners have been the transnational corporations. In their words, *"The economic and political power of transnational corporations has become increasingly concentrated, both through mergers and acquisitions and, in some industries, through rapid growth."* In the US these policies have resulted in losses of hundreds of thousands of high paying manufacturing jobs. Worldwide, the effect has been thousands of bankruptcies and suicides and tens of millions of people losing their livelihood and falling into desperate poverty.

According to the AFL-CIO: *"Trade and investment rules have focused on guaranteeing the mobility of goods and capital across borders, without giving adequate attention to the social impact of liberalization. In doing so, they have strengthened the power of corporations bargaining with their workers, as well as with national and state governments."*

Thus they raise some serious questions about who benefits in the long run.

2. THE ROLE OF THE TRANS-NATIONAL CORPORATIONS (TNCs) IN GLOBALIZATION

As just mentioned in the previous section, the TNCs have been perceived as a major player and a major beneficiary of globalization. Many governments and individuals have

advised caution in dealing with them. Dr. William Heffernan (1999) of the Department of Rural Sociology, University of Missouri examined the growing trend towards the centralizing of the food system in the US and, indeed, worldwide. He noted the following possible consequences that did not augur well for the future of the food industry.

- The major decisions in the food system are being made by fewer and fewer firms most of who are involved in food system clusters.
- The food system is becoming more like the other economic sectors. But food is different in that it is a basic need, which is needed on a regular basis. Thus, those who control the global food system have ultimate economic power.
- Their decisions are based on global considerations, which could affect the economic viability of rural communities in a particular country. With the new emerging system, agriculture will contribute less and less to rural development locally. As Heffernan et al (1999, p.13) pointed out, *"when the rural community retained all of the income related to the three factors of production, the funds circulated more in the community. Not just the family farms, but all of the family businesses providing the agricultural infrastructure contributed to*

the economic well-being of the community."

With the overseas-based corporations, the profits may not be invested locally. Rather, the profits will be sent to headquarters to be reinvested in any of the company's branches as they see fit.

- He also raised the issue of the sustainability of such systems. The viability of such systems is dependent on cheap petroleum, which can be quickly affected by financial depressions. If a depression occurs, then the effects on a system that is heavily dependent on an operational mode similar to a factory will be devastating. And those in need of food but cannot pay for it at higher prices that will make it economical for the TNCs to continue producing, will suffer. Thus, he pointed out that, "*A vulnerable food system will most likely be restructured numerous times in the future but at what social and economic cost and to whom. It is highly questionable whether society as a whole benefits.*"
- Family farms are more sustainable and are more likely to rebound in a shorter space of time. This in fact is already being demonstrated in the case of Grenada with the crisis in the banana industry. The virtual collapse of the industry has affected banana

farmers tremendously and has worsened the poverty situation in the country. But it could have been much worse. Many farmers traditionally also grow nutmegs and they were thus able to take advantage of a rise in the price of nutmegs on the world market to help them recover.

In the discussion the author, we think, raised several pertinent issues to the discussion, which must be factored into decisions. He did not say, however, whether he felt there were benefits to be gained from TNCs or to what extent the potential negatives outweighed the positives. This must also be taken into account. Of course, developing countries see advantages in being able to attract foreign investment. But as another author noted (Robbins, 2000) this is resulting in unhealthy competition among these countries with the TNCs as the final winners. He noted:

"The wholesale commercialisation of farming into agro-industry is not an option for many poor countries. In any event it tends to marginalise small-scale farmers, destroy the social integrity of rural communities and exacerbate urban drift. Exportable cash crops are produced for an already glutted market at the expense of food crops, thus reducing food security."

He suggested developing countries should form cartels in the mode of OPEC

and cut production capacity so that prices would go up. Such a move, however, should have the full backing of farmers' associations and groups representing civil society.

Other points raised by Heffernan resonate with the views of other writers. Gwynne Dyer, a London-based independent journalist, whose articles are published in 45 countries in an article in the *Express* of November 2, 2000, a newspaper in Trinidad and Tobago, ("After the Roaring Nineties?") discussed the possibility of an economic depression occurring in the midst of a boom. He pointed out that there were "disturbing parallels" between the '20s and the '90s and therefore, some thought should always be given to this possibility. In looking at the past, he also noted that the depression was milder and shorter in the European countries that spent more on social welfare spending than the US. It caused more damage in the US because the then President felt that the situation should be left entirely up to market forces and he even opposed direct government assistance to the unemployed.

In Trinidad and Tobago, some of the issues are now being played out. In October 2000, Nestle Trinidad Ltd., one of the largest and most profitable manufacturing firms in the country retrenched 130 workers involved in a product line that was going to be moved

to the Dominican Republic. Similar action was planned for another company, Lever Brothers, a subsidiary of Unilever, the Dutch multinational giant.

A paid advertisement by the union representing the workers of both companies reflects the feelings and concerns of the workers. First, there was intense disappointment that this happened in spite of the fact that the company was making money "due in large measure to the effort of the workers." According to them, and which is generally recognised, "*The issue..is not about whether the company is making a profit, it is about maximising that profit regardless of the impact that would have on the workers, their families or the social and economic repercussions that may flow from increased unemployment.*" In the case of Nestle, too, the move also resulted in reduced milk purchases from farmers much to the chagrin of the politicians. While this was happening, the price of milk imported from overseas has gone up. In effect therefore, the local industry could be undermined thus impairing its ability to respond effectively to the price swings caused by international forces.

3. GLOBALIZATION AND MENTAL HEALTH

The caption of a recent newspaper article, "*Globalisation contributes to mental health problems*" (1999)

suggests that the growing incidence of stress related problems in the work place could be directly linked to globalisation. Actually it dealt more with the idea that the revolution in information technology has created a secondary mental health problem in the work place. For example, computer work from home makes it difficult to separate work from personal life. However, the issue is likely to be more serious and more direct than that. The AFL-CIO report referred to above mentioned large numbers of people committing suicides as a result of job losses.

There is no question there are lots of fears associated with people losing traditional markets and not knowing how they will face the future. If the present trend continues then the concept of job security will become obsolete since companies can close down at any time and re-establish themselves elsewhere. Similarly, farmers will have an insecure future if they do not have a market they can depend on for some reasonable fixed period of time. A sense of security is a strong psychological need and if that is undermined people's mental health will undoubtedly suffer. In light of such fears, it seems foolhardy to press on without dealing with those concerns and offering alternatives. As mentioned earlier, the approach seems to be to basically leave things alone and they will eventually work themselves out.

4. THE CREDIBILITY DIVIDE

The move towards free trade seems to be inexorable and those who are not yet part of the arrangements are apprehensive about being left behind. The champions of free trade seem to be quite sure that it is good for the world and many countries have 'bought' the arguments for free trade. This is quite a paradox since as we have already mentioned, many of those who have been involved have been disappointed with the benefits to their individual countries. As we are seeing, the credibility of the proponents (mainly the powerful multilateral development agencies) is being challenged more and more. Recent events have only served to undermine the public's confidence in what their governments are telling them. After the death of a 14-year old girl in England from the human form of "mad cow" disease in October 2000, a Reuters article cited a report that concluded that "the government had misled the public for years about the dangers of British beef and the chances of BSE being spread to humans." ("Teen dies from mad cow disease", 2000).

5. LOOKING TO THE FUTURE

The future activities relating to the promotion of free trade cannot be oblivious to the concerns and issues that have emerged during the past five years

or so. These concerns are deep seated and widespread and cut across a wide spectrum of people. There must be a genuine effort at engagement and dialogue. Most governments clearly still think that there is a lot to be gained by some amount of free trade. But the ground rules must be fair and equitable and seen to be so. The thrust towards free trade seems to have reached a watershed, a delicate balance. The next few steps are crucial for the success of this important venture.

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