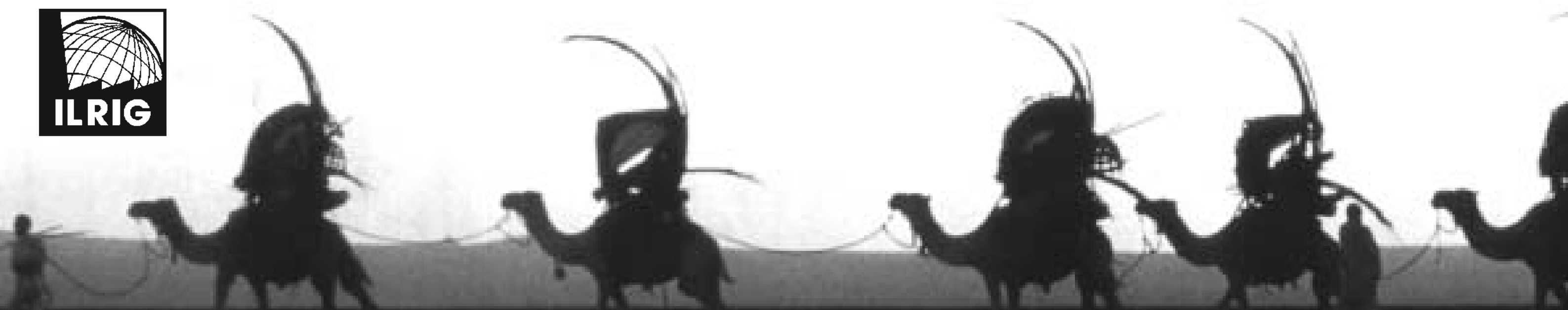
# TRADE & INVESTMENT

## an Activist's manual

# WTO
# DEMOCRACY



# TRADE AND INVESTMENT

## An Activist's Manual

**ILRIG**

**CAPE TOWN**

Trade and Investment. An activist's manual.

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# INTRODUCTION

## Why this manual?

Every day we are told by our government, by employers and in the media that our quality of life will be determined by whether we get foreign investment into South Africa. TV news, radio programmes and newspaper editors tell us about the strength of the Rand, and call on us to be as excited about the strength of the Rand as we are about Bafana Bafana. Sometimes, between this world of business and investment we see images on the TV of people demonstrating against big businesses at the World Economic Forum or the government negotiators at World Trade Organization (WTO) meetings.

Yet through our union or our community organisation we are struggling to defend the most basic human rights – like jobs, like our water and electricity supply. Rights that seem far removed from the things the experts drone on and on about – about the economy and the value of the Rand – and even what the demonstrators are fighting about at international meetings. But every time we demonstrate or are militant we are told that our actions are "irresponsible" and will "scare investors away".

This manual attempts to help us see the relationships between the daily struggles of our lives in South Africa and the big economic questions of trade and investment.

Specifically the manual aims to help us understand:

- What trade and investment are as practices, and what the changing trade and investment patterns tell us about power relations in the world today
- What some of the trade and investment agreements are that our government has entered into
- The role of the WTO as the international body which governs these agreements, and
- How activists in South Africa and in other countries have responded to these power relations.

This booklet is for worker educators and activists – from shop stewards in the trade unions to activists in the community and youth social movements. It is called a manual because it attempts to act as a guide for activists struggling to defend their jobs and the living standards of their communities rather than a work of academic research.

It is directed at activists who want to know about current debates on issues of trade and investment and who want practical short answers to difficult questions.

Questions such as: Why are local authorities cutting people's water and electricity? Why have thousands of women workers lost their jobs in the garment and textile industries? Why are South African companies such as SA Breweries and Anglo American so successful internationally, yet jobs and wages are down? Why do people protest so much at the institutions of international trade such as the WTO and yet the media tells us that free trade – the apparent goal of the WTO – is for the benefit of the working class and the poor?

The manual assists activists grappling with answers to some of these questions:

- sometimes by giving background information
- sometimes by directing activists to where more detailed answers may be found, and
- often by revealing that there are different views and interests at stake.

In these cases we try to introduce activists to current debates amongst governments and amongst and within organisations struggling to defend the living standards of the poor.

The manual is therefore a guide to help activists find their way in the minefield of debates about international trade and investment issues which affect ordinary people today.

Because powerful interests – particularly Transnational companies (TNCs) – who dominate our lives, wish to carry on their pursuit of profit and their influence over governments, they have so-called 'experts' (people called economists, corporate lawyers and trade and investment 'specialists') who speak a language which most people can't understand and which intimidates us into thinking "this is beyond my understanding, let's leave these decisions to experts". This manual seeks to speak to activists in language which is accessible and which unmasks the interests behind the difficult language used by experts.

But we cannot make new knowledge accessible if it doesn't draw on the experiences of ordinary people and their well of knowledge about how the world functions. We therefore combine our explanations with exercises and open-ended questions designed to help users of this manual foster debate within your organisations and find answers which can help build struggles to defend workers and communities against those who privatise our services, like water, and make profits out of our job losses.

# ABBREVIATIONS

| | |
|---|---|
| AGOA | The African Growth and Opportunities Act |
| ANC | African National Congress |
| APF | Anti-Privatisation Forum |
| COSATU | Congress of South African Trade Unions |
| EU | European Union |
| FEDUSA | Federation of Trade Unions of South Africa |
| FTA | Free Trade Area |
| GATS | General Agreement on Trade in Services |
| GATT | General Agreement on Tariffs and Trade |
| GDP | Gross domestic product |
| GERA | Gender and Economic Reforms in Africa |
| GMO | Genetically modified organism |
| ICFTU | International Confederation of Free Trade Unions |
| GEAR | Growth, Employment and Redistribution policy |
| ICSID | International Centre for Settlement on Investment Disputes |
| IMF | International Monetary Fund |
| MAI | Multilateral Agreement on Investment |
| MFA | Multi Fibre Agreement |
| MFN | Most favoured nation |
| MIGC | Multilateral Investment Guarantee Agency |
| NACTU | National Council of Trade Unions |
| NEDLAC | National Economic Development and Labour Council |
| NGO | Non-governmental organisation |
| NP | National Party |
| OECD | Organisation of Economic Co-operation and Development |
| SACTWU | Southern African Clothing and Textile Workers Union |
| SAMWU | South African Municipal Workers' Union |
| SEATINI | Southern and East African Trade and Industry Network Initiative |
| TAC | Treatment Action Campaign |
| TNCS | Transnational companies |
| TRIMS | Trade Related Investment Measures Agreement |
| TRIPS | Trade Related Aspects of Intellectual Property Rights Agreement |
| UN | United Nations |
| UNCTC | United Nations Commission on Transnational Corporations |
| WTO | World Trade Organization |
| WW1 | World War 1 |
| WW2 | World War 2 |

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TREVOR
MANUEL
- MINISTER
OF CHEAP
SAYS:
WORKERS
TO

# CHAPTER 1

# What have trade and investment issues to do with our daily lives?

Thami (41) from Brown's Farm is one of the few African women working as a machinist in the Cape Town clothing industry. She, her husband and three children moved from the Eastern Cape in 1997 "looking for green pastures but we don't find them". She had been working as a machinist since 1984, but decided to leave the Eastern Cape as the pay was poor. However, her experience in Cape Town has been worse. Not only has she lost five jobs in the six years that she has lived in Cape Town, but she has been abused by the same group of company owners who close and re-open factories to duck financial commitments. Each time after a closure she and the other workers were contacted to join the new outfit. At their last unregistered cut, make and trim operation she left after not being paid for several weeks. She joined a new factory, hoping her luck would change. But that one was liquidated in November last year. "I don't feel right to go to another factory. All the time they are closing down and I have nothing for the children," says Thami, who has been medically treated for 'stress' three times since her last job loss. "I must get a job but I don't feel up to going." Her husband earns a 'good' salary (R4 000 per month). But since her loss of employment they run out of food towards the end of the month. And she and her husband can now only afford to send R150 to each of their mothers back in the Eastern Cape.

Thami's experience is not just a personal example of bad luck. It is the experience of thousands of women who worked in the garment and textile industries and lost their jobs when South Africa signed the World Trade Organisation agreement on Textiles and Clothing and agreed to cut the tax it charged importers.

*This chapter looks at examples from our lives in South Africa where communities have been affected by decisions made by our government about liberalising trade and investment. It shows that some things that appear to be very far removed from our daily lives – trade and investment agreements drawn up by governments – have actually played a direct role through increasing unemployment and in making communities vulnerable to investors seeking profits from selling or managing social services and basic foods.*

In the 1980s, the apartheid government attempted to open up opportunities for South African companies to enter foreign markets and to allow foreign companies to sell their goods in South Africa. However, international and local protests over apartheid limited the ability of the then government to promote trade and investment liberalisation completely. Since the achievement of democracy in 1994, however, the government has pursued various strategies to achieve international competitiveness for South African companies. One of these strategies has been the liberalisation of trade and investment.

This strategy of opening up trade and investment has been associated with major blows against the living standards of ordinary people. We give three examples which may be familiar to you:

- The Western Cape clothing and footwear industry job losses;
- The end of price control of our dairy industry and the takeover by foreign companies; and
- The privatisation of water services and the contracting of basic services to foreign companies.

## CASE STUDY 1: Opening up trade and investment and women workers in the clothing and footwear industries[1]

Up until the 1980s, the South African clothing and footwear industries were protected from foreign competition – by taxes on imports (called tariffs) – and produced clothes, shoes and boots mainly for the domestic market.

The National Party (NP) minority government started trade liberalisation by reducing tariffs in 1985, which was further enhanced by its Structural Adjustment Programme of 1989. This shift away from an inward-looking macroeconomic policy by the NP was continued by the African National Congress (ANC) government after it joined the WTO and implemented a neo-liberal macroeconomic strategy called the Growth, Employment and Redistribution policy (GEAR).

In 1994 South Africa, under the ANC-led Government of National Unity, signed with the WTO the requirement that all quotas be scrapped by 2005. The government, however, went even further: by not using a temporary loop-hole called the Multi Fibre Agreement (MFA) to limit tariff reduction, by reducing tariffs more rapidly than was necessary within the WTO – over eight years – and to lower levels than

required by the WTO. In respect of clothing tariffs were reduced to an end-rate of 40% by 2000, instead of the prescribed 45%.

High tariffs used to protect clothing manufacturing, as it is a labour-intensive industry and therefore susceptible to the threat of competition from countries where businesses pay even lower wages than ours. This threat has become reality in South Africa. South Africa's labour costs are lower than most rich countries, but higher than that of many poor countries.

The lack of protection from countries with cheaper labour has resulted in a growing inflow of imported clothes since the NP's Structural Adjustment Programme. But the WTO has given the clothing industry the hardest knock.

By signing the WTO agreements the South African government agreed:

- to open the local market, including the clothing and footwear markets, to imports;
- to create favourable conditions for foreign investment;
- to reduce and, in time, to withdraw subsidies to the manufacturing sector;
- to gradually reduce, and eventually withdraw, volume restrictions on imports over a ten-year period
- to apply rules of the General Agreement on Trade and Tariffs (GATT) to all trading goods.

The South African government believed that the introduction of the terms of the WTO agreements would force local manufacturers to adapt and become internationally competitive. Government's view at the time was that the WTO would encourage foreign investment. Competition was seen as motivation for manufacturers to become creative, and expand their markets beyond the borders of South Africa. This new approach to trade and industry promised jobs and security to a manufacturing sector thrust upon a global economic stage. South African consumers were also expected to benefit from trade liberalisation, as a larger selection of goods would be available cheaply. As the WTO process unfolded, South Africans saw this expectation translate into job losses, the decline of manufacturing industries and an increase in poor socio-economic conditions of working class communities.

Trade liberalisation has led to a significant drop in formal sector employment. In the Western Cape alone, where the clothing industry has been concentrated historically, the number of workers in formal employment fell from 55 288 in 1989 to 39 512 in 1998. As 80% of clothing workers are women who are paid low wages (37% of the average manufacturing wage), these developments have had a harsh impact on women and led to the feminisation of poverty.

In the footwear industry, thousands of workers have lost jobs, and their families have been split apart through retrenchment and economic instability.

*"Before if you worked in a footwear or leather company you felt lucky because you got a good salary and working in the factory was nice. Now things are different, they are really bad."*
(Rachel, footwear worker, 2002)

Footwear manufacturers have drastically down-scaled operations or completely closed their doors. However, there were manufacturers who made some benefit from the WTO. Their down-scaled operations meant fewer workers were needed. The low labour costs also meant that footwear components could be imported, greatly reducing the cost of manufacturing. Large manufacturers such as Dick Whittington, Jordan and Idlers have benefited from trade liberalisation. It is a benefit that is not shared with the South African consumer.

Not only did workers in the footwear industry lose jobs, but the industry became more monopolised and the liberalisation of trade and investment also led to foreign TNCs taking over a major share of the South African footwear and clothing industries.

A South African company – the Conshu Group – once monopolised footwear production – some 20%. But by the mid-1990s, after GATT liberalised trade and investment, the group was bought over by the German company, Daun en Kie, and de-listed. Jordan and Barker, who were once part of this company, were included in this take over. Daun was determined to make good on their investment in this sector. As a result, pressure was placed on these companies and their workers; at Barker, for example, hundreds of workers were retrenched. Duan has since taken over the major share of the footwear and clothing industries in South Africa.

## CASE STUDY 2: Trade and investment liberalisation – changes in the dairy industry

Until the 1980s the South African dairy industry was highly regulated. The price of milk was fixed by the government as part of a long-standing basic food policy

(the bread price was also fixed), and dairy farmers sold their milk through a Milk Board. Farmers were guaranteed a price and consumers paid a relatively low price for milk.

The nature of milk as a perishable good that is difficult to store and transport, and import controls by the government, meant that the market for dairy products was mostly domestic.

During the 1980s and 1990s, first the Apartheid government, and later the ANC government, embraced the idea of globalisation and the free market. The industry went through a process of deregulation and some laws were changed and the control boards were closed down.

By 1994, import controls were changed. This was done in conjunction in line with the GATT. The final act of deregulation was in 1997, when the Agricultural Marketing Act was removed. Since then, the industry is described as being in an environment of unbridled competition.

One major impact on the industry was the closure of many milk producers. During the 1980s there were about 30 000 producers. In 1997 there were 7 916 registered producers, and by June 2003, there were only 4 856 producers.

Another effect has been a steady drop in the number of workers in the dairy industry. About 17 000 jobs were lost in the industry between 1996 and 2001.

Trade and investment liberalisation also led to the take over of much of the dairy industry by a Transnational company – in this case, the Italian TNC, Parmalat.

Parmalat entered the South African market in 1998, and bought over Towerkop and Bonnita, thereby capturing about 32% of the market share of dairy products and becoming one of the biggest companies in the dairy sector. When the company took over Towerkop and Bonnita, their combined number of employees was about 5 000; today Parmalat only employs 1 600 people. This was brought about through a process of retrenchments, outsourcing and contracting out.

*"One year after Parmalat came to South Africa, we had a strike which lasted two and a half months because management tried to change their style. There was no retrenchment policy, but management wanted to retrench. We wanted to discuss the retrenchment procedure first, but management said that those on the list to be retrenched must be out by 31 September. We went on strike. While workers were on strike, management sent notices that they are retrenched and they will get their money in the bank and must not come back onto the premises. The retrenchments happened at the Parow, Ladismith and East London workplaces."*

*(FAWU shop steward at Parmalat)*

## CASE STUDY 3: Trade and investment liberalisation and the privatisation of water and sewerage

In 1992, a company called Water and Sanitation Services Africa – a wholly-owned subsidiary of the French TNC, Lyonnaise des Eaux – got a contract to manage water and sewerage services of the South African municipality of three Eastern Cape towns – Queenstown in 1992, Stutterheim in 1993 and Fort Beaufort in 1994. These contracts were for a varying period – 25 years in the case of Queenstown – and were signed by the then apartheid municipalities who feared a democratic government. In terms of the deal, the French TNC would manage public water and sewerage supplies to people and ensure that payments wereAfter the end of apartheid, however, in 1996, a visit from the French government to the South African government included a package deal to help local authorities to buy services from French TNCs, and the new government welcomed this move and agreed to promote privatisation.

This privatisation of water in the Eastern Cape led to a massive increase in the price of water and sewerage charged to the people, as the following table shows:

**Tariffs before and after privatisation (in Rands)**

| | 1994/95 | 1995/96 | 1996/97 | 1997/98 | 1998/99 |
|---|---|---|---|---|---|
| Basic water (10kl) | 6.10 | 6.10 | 22.30 | 27.00 | 27.80 |
| Sewerage | - | 10.13 | 30.39 | 35.00 | - |
| Bucket | - | 10.13 | 19.00 | 22.00 | 22.60 |
| Electricity | - | 4.50 | prepaid | prepaid | prepaid |
| Refuse | 4.50 | 6.50 | 20.00 | 23.00 | 23.70 |
| All services | 10.60 | 28.00 | 60.00 | 72.00 | 74.00 |

(Source Greg Ruiters, 2002)[2]

By February 2000, consumers owed the municipality R13 million, and in turn the municipalities services debt rose to R15 million. This crisis of high prices and debt resulted in people getting cut off from water and sewerage and there was a public outcry. The Fort Beaufort Municipality was forced under pressure to take the WSSA to court and won a victory to reduce its contract from 10 years to 5 years.

The privatisation of water in the three Eastern Cape towns was done under the Apartheid government and, in the case of Fort Beaufort, was overturned by the new democratically-elected municipality. But in terms of the General Agreement on Trade in Services (GATS), however, South African courts might find it difficult to rule against a foreign company whose services lead to impoverishment of local communities because since 1995 the South African government has been

a member of the WTO. The current GATS negotiations at the WTO will lock in foreign investment in privatised services under its ruling that South Africa can't 'discriminate' against foreign water investors if South Africa lists water investment under GATS. The WTO will then have to rule on this matter in terms of its own brief of trade liberalisation.

FOR DISCUSSION

- Do you know of any other international agreements that have been signed by the South African government?
- Can you think of any other service to a community that has been affected by an international trade agreement?
- Do you think that the South African government has had little choice but to go along with these international agreements?

WTO

CHAPTER 2

# Is trade and investment liberalisation about free trade?

"South Africa's reacceptance into the world community has opened up new horizons for Anglo American, enabling us to restructure our international operations through Minorco and expand into areas previously blocked to us. In West Africa we are a partner developing a most promising gold deposit in Mali and are conducting exploration in many African states. In Zambia we are pursuing opportunities provided by the privatisation programme..."
(Anglo American Corporation advertisement in Business Day, 12 July 1994)

"Behind the headlines that speak of inter-regional trade rivalries and 'free market competition', there is more actual co-operation, more planning of the global economy and more interlinking between interests than ever before in the history of mankind.

But this co-operation does not take place in the public arena and is not subject to democratic oversight. It takes place in the private and secretive boardrooms of the companies."
(Vic Thorpe, ex-General Secretary of the International Chemical, Energy and Mineworkers Union, ICEM)

*In this chapter we look at the notion of free trade and outline the logic of those who argue that free trade leads to the greatest good for everyone. The chapter suggests that there are a number of contradictions and hypocrisies involved when rich governments argue for free trade – they argue for poor countries to liberalise and then they don't.*

*The chapter suggests that beneath the talk of free trade something else is going on –spaces are being created for companies to make profits without any regard for the consequences for citizens.*

## WHAT IS TRADE LIBERALISATION?

For many years countries have passed laws which shaped or restricted international trade in some way. Examples include:

- Tariffs on imports – where a country taxes the importation of certain goods so that it becomes more expensive to do so;
- Subsidies for local companies – where the government of a country gives support to a particular industry or local companies so that they can function against international competition or maintain jobs or keep prices down;
- Confining certain trade to local companies altogether or setting prices for particular goods or keeping certain industries in the public service.

Trade liberalisation is about governments agreeing to reduce or end these measures. Businesses and government who argue for trade liberalisation normally say they are in favour of 'free trade'. Most have welcomed the period of globalisation in which, it is claimed, trade liberalisation is leading to the greater integration of the world.

But is trade as 'free' today as many on both sides of the debate claim, and if so, is free trade an opening for the upliftment of the poor or is it one of the causes of increasing poverty in the world today?

This is a difficult argument to engage and we need to apply our minds to what is going on behind the debates and what people really mean when they argue the case for free trade or something else.

## THE ARGUMENTS IN FAVOUR OF TRADE LIBERALISATION/FREE TRADE

Governments and financial institutions who argue the case for free trade draw on arguments put by political economists of the 18th century. These arguments were posed by a British political economist called Adam Smith. The arguments go as follows:

If there are millions of producers in the world and they produce goods which are demanded by millions of

### THOSE FOR

**People who are for Trade Liberalisation:**

**If there are millions of producers in the world and they produce goods which are demanded by millions of consumers then the best prices will be achieved through the mechanism of supply and demand. If producers and customers are not interfered with, then we have conditions of perfect competition and both producers and consumers will ultimately be satisfied.**

## THOSE AGAINST

People who are against Trade Liberalisation:

- There is no way in which everyone can be a producer, freely competing against millions of other producers in a world of monopolies. And far from everyone being a consumer with an infinite range of choices, consumers in a capitalist economy can only buy things if they have money (which many poor people simply do not have).
- The idea that countries trade with one another on the basis of their comparative advantage assumes that all countries have their investors or owners at home and only trade internationally. In the real world, businesses also buy (invest) in other countries and then trade the goods produced on this basis, gradually monopolising trade and investment and increasing inequality.

consumers then the best prices will be achieved through the mechanism of supply and demand. If producers and customers are not interfered with, then we have conditions of perfect competition and both producers and consumers will ultimately be satisfied.

In the case of countries, other liberal economists – following another economist called David Ricardo – have applied this reasoning, saying that different countries have different advantages. There is a kind of international division of labour. Therefore, this argument goes, if countries can trade freely the ones with, say, better farming qualities, will get the best prices by trading freely with those whose advantages lie in, say, low wages in mining and so all countries will eventually benefit from the free market.

Today we refer to such followers of the liberal 18th century political economists as neo-liberals. Since the 1980s, most governments in the world have become neo-liberal and argue that the logic of trade liberalisation will lead to overall benefits for everyone.

In this period of globalisation, neo-liberals have argued for tariff reductions to ensure that international trade does not experience extra costs and that governments should not subsidise local producers because such practices, they say, distort the market.

In South Africa, our government has argued that by reducing tariffs even faster than that required by their signing of the WTO agreement in 1994, prices will come down and consumers will benefit.

The logic of this argument by the government puts many people who argue against trade liberalisation on the defensive. If it is true, as the neo-liberals claim, that trade liberalisation brings down prices then you must be selfish if you're arguing for something that is going to push up prices.

And so trade unions who accept that trade liberalisation leads to lower prices and then fight for protectionism for the sake of jobs get told: "Don't be selfish and think only of the jobs of your members. What about the greater need of poor communities for lower prices?"

## DEBATING WITH THE FREE TRADE THEORISTS

Despite the fact that the arguments of the liberal and neo-liberal economists appear so straightforward, many people have pointed out many problems with their arguments. People have pointed out that the model of perfect competition does not exist in reality, and that even Ricardo's notions of comparative advantage does not correspond with the real experience of countries in the world. Specifically these critics argue:

- There is no way in which everyone can be a producer, freely competing against millions of other producers in a world of monopolies. And far from everyone being a consumer with an infinite range of choices, consumers in a capitalist economy can only buy things if they have money (which many poor people simply do not have).
- The idea that countries trade with one another on the basis of their comparative advantage assumes that all countries have their investors or owners at home and only trade internationally. In the real world, businesses also buy businesses (invest) in other countries and then trade the goods produced on this basis, gradually monopolising trade and investment and increasing inequality.

So theories of free trade – whether within a country or between countries – are based on models which do not correspond with reality.

In fact there are many other misconceptions of the free trade theorists which abound in the world today.

## HOW FREE IS INTERNATIONAL TRADE?

Trade is an ancient activity and forms of international trade pre-date capitalism. Under globalisation, however, the international trade of goods has had the following features:

- Much of what is called international trade is not 'free' but is 'managed trade' – through bilateral agreements, most-favoured nation status, anti-dumping laws, patents, quotas and international cartels. Drugs and pharmaceuticals are protected by patent rights; sugar, petroleum and diamonds are sold by quotas or cartels. Many areas of trade, particularly agriculture, are underwritten and subsidised by national states.
- There hasn't really been an escalation in international trade under globalisation, as claimed by its supporters. Some studies suggest that if we take the ratio of exports and imports to gross domestic product (GDP) of the Organisation of Economic Co-operation and Development (OECD) countries, then this ratio has not significantly exceeded that of the period before World War 1 (WW1).
- Almost one-third of what is called international trade is the movement of parts and components across international borders within the same TNCs. Changes within the world of work under globalisation have accelerated this process as companies relocate parts of the production process to lower-waged countries and then 'import' these parts. On the national books of accounts these appear as goods involved in international trade. An example of this is the case of Mexico, where US companies have set up parts manufacturers in the northern province of Chihuahua and then they import these parts. The area in Chihuahua along the border with the USA is known as the Maquiladora and this example of international trade has apparently made Mexico one of the biggest exporters in the world.

## BUT WILL PROTECTIONISM BENEFIT THE PEOPLE?

While there are many different arguments raised by activists against trade liberalisation, there is one school of thought which argues the case for some forms of protectionism – like our government keeping relatively high tariffs. Others argue for campaigns to stop illegal imports and pressurise people to only buy from local companies.

Many trade unions and non-governmental organisations (NGOs) argue that cheaper imports make it easier for companies to get their components overseas or that cheaper imports will destroy South African businesses. These people point out that the reasons that many things are cheaper in certain countries is because the bosses in those countries pay even lower wages than they do here. So many trade unions have argued that there is a need for international solidarity to prevent cheapness coming from lower wages and to prevent all workers' wages from being reduced through that kind of international competition.

But this puts activists in a dilemma. Should we be campaigning to protect companies which charge higher prices because in this way jobs will be saved? In the case of such campaigns, wouldn't there be a tension between trade unions, representing workers, who argue thus, and workers as consumers who would like cheaper goods to buy out of their already low wages?

In South Africa, today, the Congress of South African Trade Unions (COSATU) has joined forces with a campaign called 'Proudly South African' which calls on businesses to source their goods from South African manufacturers. The argument is that since South Africa became a member of the WTO, there has been a reduction of tariffs on imports. Imports of many goods are becoming cheaper, so this argument goes, and, as a result, South Africans are buying goods manufactured overseas, leading to lower domestic demand for South African manufacturers. In other words, this view reasons, if South Africans buy locally produced goods then jobs will be saved, whereas if they buy cheaper imports then jobs will be lost.

If this is true, workers are left with a dilemma: should they buy cheaper imports and so make their hard-earned wages

**If this is true, workers are left with a dilemma: should they buy cheaper imports and so make their hard-earned wages stretch further or should they be patriotic and 'buy South African', even if locally made goods are more expensive and therefore less affordable?**

**So we see that the issue of trade liberalisation is not so much about lower prices, but about power within world trade – the power to dominate trade – and that the same governments that argue the case for trade liberalisation are equally capable of supporting protectionism or support of their businesses.**

stretch further or should they be patriotic and 'buy South African', even if locally made goods are more expensive and therefore less affordable?

This is a very difficult debate and one which confuses many activists.

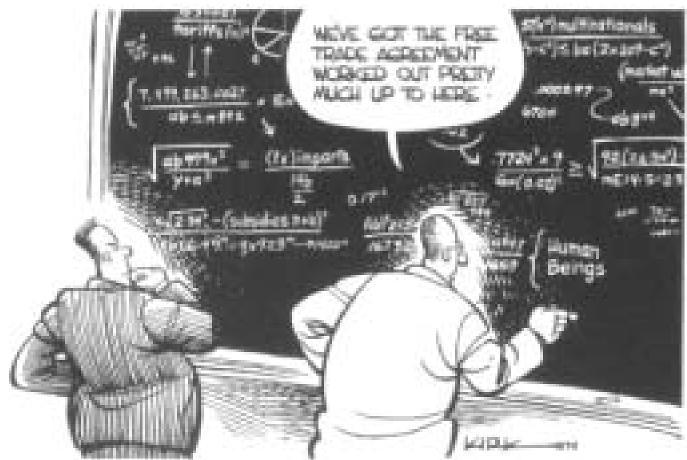
The examples we looked at of trade and investment liberalisation in Chapter 1 show that trade liberalisation did not lead to lower prices for consumers. There are of course examples in which trade liberalisation did lead to lower prices and many of us know of examples of cheaper clothing and footwear on sale on our streets. This is something you will have to asses on the basis of your own experience.

But whether free trade or trade liberalisation leads to lower prices or not, and whether this is the case sometimes or all the time, may not be the most important issue. In fact it is the same governments who champion free trade the most who do not practise what they preach.

There are two notorious cases in the world today:

- The President of the United States of America issued a proclamation in 2002 that the USA would limit the sale of steel from a number of countries – including Britain and the European Union (EU) – while other countries would not have this restriction. In fact the USA is one of the most protected economies in the world in that its government can impose anti-dumping measures on any products from any country it chooses. Yet the USA is one of the most vociferous enforcers of trade liberalisation on poor countries.
- In the case of the EU, it subsidises farmers to ensure that EU agriculture is internationally competitive. While EU agricultural production costs are almost twice that of South Africa, the EU is able to account for a very significantly high percentage of world agricultural exports. In the case of dairy products, the EU accounts for an average of more than 55% of South Africa's imports. This becomes possible because of government subsidies to farmers. Yet the EU fights with the governments of poor countries to force them to do away with subsidies. Secondly, the EU also has another form of subsidy called the

Common Agricultural Policy (CAP). Under CAP, the EU provides a refund to exporters of agricultural products of the difference between the world market price and the domestic production cost. This, together with the subsidies to farmers, allows the agricultural exports from the EU to be lower than the world market price.




So we see that the issue of trade liberalisation is not so much about lower prices, but about power within world trade – the power to dominate trade – and that the same governments that argue the case for trade liberalisation are equally capable of supporting protectionism or support of their businesses.

This manual explains what lies behind some of these questions and why the WTO and the way this institution operates infuriates so many people all over the world. It will do so by tracing what trade is, how trade evolved over the history of capitalism and what has changed under the new set of power relations in the world which people call 'globalisation'.

In looking at trade – particularly international trade – the manual will show that what underlies the debates about trade is the issue of investment – the movement of money seeking out opportunities for profit. Much of the talk about the benefits of free trade is an argument to persuade us that it is good that governments liberalise trade. But the language used causes confusion because much of what is classified as trade is actually about opportunities for large companies, called TNCs, to invest and move money and profits around the world without any kind of public accountability. Under the language of debating 'free trade', a change has happened in the world, a change known as globalisation. In this period governments and big capitalists have responded to the declining profit rates in the 1970s by seeking new areas for profitable investment and new ways for governments to help big businesses make profits. It is for that reason that we call our manual one on trade and investment.

FOR DISCUSSION

- Are imports cheaper as a result of trade liberalisation?
- Compare the price of shoes and the price of cars, both of which have been turned into industries where companies are encouraged by the government to import. (Can you name the measures used to the government to get these industries focusing on importing and exporting?)
- With regard to the 'Proudly South African' campaign – what is local? For instance the company Volkswagen is a signatory of the campaign. Is this an example of 'buying South African'?
- Do you think such campaigns save jobs? And what about prices?

CHAPTER 3

# Trade – then and now

*In this chapter we introduce what trade is and how trade between people has changed over the history of capitalism. We look at how long distance trade emerged and how international trade became a feature of capitalism more than 200 years ago. The chapter discusses how some countries are rich and others poor and how the rich countries try to defend their control and domination of world trade. The chapter takes this story right up until today – the period of globalisation and tells us that there are many things being said about world trade under globalisation which are not true.*

## WHAT IS TRADE?

Trade is the activity of buying and selling of goods. Trade is an ancient activity that spans the first act of bartering in ancient times and today includes trade in cars, sugar, oil and shares and bonds on the stock markets of the world.

**TARIFFS DISAPPEAR .... AND SO DO THE JOBS**

Trade can be between small local producers within regions or countries, and trade can be international when it crosses borders. This manual focuses on international trade and the system of power which shapes trade under the current period of globalisation.

The oldest form of this activity involved bartering – or exchange of an article, say an item of cloth, for another, say a cow. In very ancient societies, where people first created settled communities, most human wants were satisfied by taking from nature or by growing crops using very simple tools. Exchange happened occasionally when there was some surplus and was not an essential part of human survival.

As exchange became more generalised, people started producing goods specifically for exchange and evolved a means to do so – called money (although not in the form of banknotes that we know today). When goods began to be produced for sale, such goods came to be called commodities and forms of money had to become more generalised to make such an exchange of commodities possible. In time long-distance trade developed and there were many instances of such forms of trade in commodities before there were countries the way we know them today. Examples of long- distance trade include the salt trade across North Africa and the trade in gold and silver in South America and Southern Africa. As ancient societies developed sea travel, we now know that there was also trade relations between what is today India, China and parts of East Africa. Countries in Western Europe were also involved in the spice trade with India towards the end of this period.

The development of capitalism in what is today Western Europe – from the 15th century onwards – saw trade become not an occasional feature of human life, but a goal

of production. With the Industrial Revolution in Britain in the 17th century, this process accelerated as capitalists in Britain used their domination over the newly created working class to generalise commodity production and to cheapen production so much that they came to dominate not only domestic trade but also long-distance and international trade.

By the 19th century, Britain had become the workshop of the world – taking raw materials from all over the Empire and transforming these into manufactured goods which they then sold or imposed on their colonies. The late 19th century also saw the establishment of modern nation states in Europe – such as Germany, Italy etc. Some of these had had a history of colonialism, others 'scrambled' for Africa and Asia to join the imperial nations. Nation states and their governments began to shape economic life, including trade.

Trade in this period became:

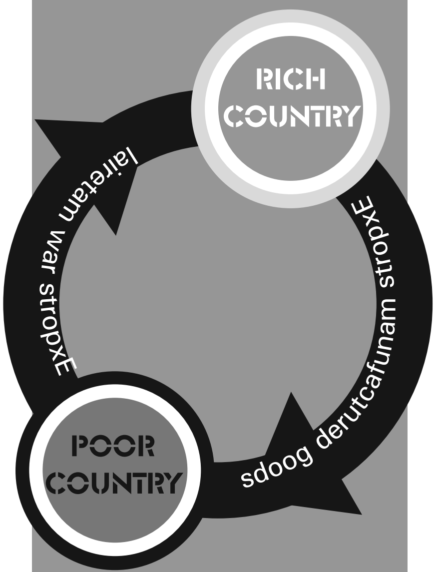
- generalised;
- the purpose of production;
- for the home market and for international trade.

Because of the extent of trade, money evolved to such an extent that an international standard was required to make international trade possible and first silver and then gold came to be used as the commodity against which all other currencies were measured.

## INTERNATIONAL TRADE AND THE BALANCE OF POWER IN THE WORLD[3]

Britain used its domination of the then world market to crush independent producers in India, China and Africa. The balance of trade in the world is one key factor for understanding why some countries, such as Britain, could dominate while others, such as India, fell behind in the race.

An example of the balance of trade which keeps poor countries poor and rich countries rich is:




- Poor counties produce raw materials and primary goods which they export.
- Rich countries produce manufactured goods by importing the raw materials from the poor countries

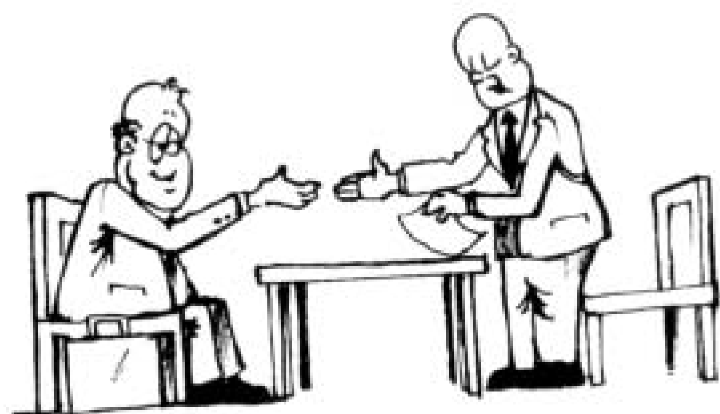
and then sell the processed goods, using their manufacturing superiority, back to the poor countries at a cheaper price than what the poor countries can themselves ensure.

In the 19th century, after what is today the USA achieved its independence from Britain, it tried to protect itself from British domination of trade by limiting trade in some goods with Britain. Other aspiring countries such as Germany did the same thing. In that century Britain was accused of free trade imperialism because it used its manufacturing superiority to win the trade war, while the emerging powers such as Germany and the USA used protectionism to help local industries develop against the British threat.

Trade protectionism took many forms – from taxing British goods to banning some imports entirely.

The rise of Germany and the USA as competing imperialist powers saw an enormous challenge to British control over world trade and investment. In both WW1 and particularly in World War 2 (WW2), the USA came to dominate world trade partly because Britain bore the burden of financing and fighting in two major wars and Germany was the loser in both wars.

World trade began to grow after the end of WW2 as capitalism regrouped. The setting up of new institutions, called the Bretton Woods Institutions – the World Bank



and the International Monetary Fund (IMF) – and the establishment of the US dollar as the new standard for exchange led to the domination of US companies over all international trade.

However, a number of countries began to look to various forms of trade protectionism – now to hold the USA at bay and to build their local industries against US domination. This was the case with the newly independent countries of Africa and Asia after WW2.

## THE NEWLY-INDEPENDENT COUNTRIES AND WORLD TRADE AFTER WW2

As Europe was rebuilt, some countries – particularly Germany – began to join the USA and Britain as major competitors in world trade. They were joined by Japan, particularly from the early 1960s. The industrialised countries now confronted the newly independent Third World states as threats in the same sense of the balance of trade in the 19th century – they were the producers of manufactured goods based on imported raw materials they got from the Third World.

The Third World countries in turn were mostly producers of agricultural goods or minerals and frequently they only had one major crop that they exported. Their destiny was to sell cheap and buy expensive, and so every newly-independent country sought a way out of this dilemma by setting up protectionist barriers and trying to diversify away from a single crop or mineral.

Newly-independent Zambia tried to move away from being dependent on raw copper by nationalising their mines and protecting industries that produced food and basic goods. Ghana tried to move away from merely producing cacao and put tariffs on imported foodstuffs until they could establish their own manufacturing sector.

Across Asia, Latin America and Africa, the poor countries tried to promote their own industries and their governments intervened in domestic and international trade by putting tariffs on certain goods and subsidising basic foods.

After WW2, much of Europe and Asia – specifically the Soviet Union and its Eastern bloc countries and China – were largely outside world trade, with large nationalised industries.

At the beginning of the 1970s, much of the capitalist world entered an economic crisis of over-production – companies could no longer make profits in expanding markets – and governments in the rich countries began to look for ways of opening up markets. By the 1980s they began to do this in a number of ways:

- by opening up the pubic sector to profit-making (privatisation);
- by taking advantage of the increasing possibilities opened up by the dying Soviet bloc countries;
- by finding ways to break down the forms of protectionism that many poor countries had attempted to set up.

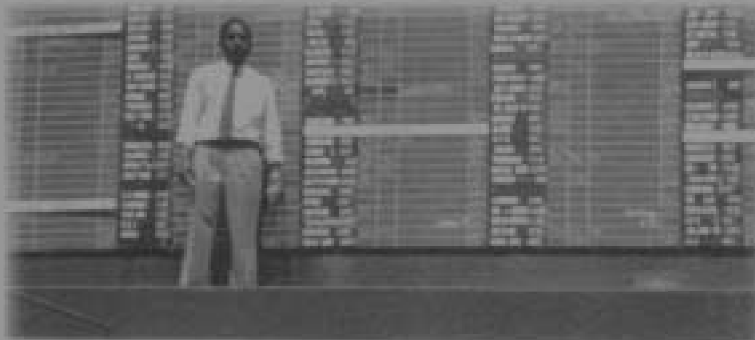
In the case of the last strategy, one of the biggest weapons that the rich countries used, starting in the late 1970s, was the debt crisis that many poor countries found themselves in. Using the Structural Adjustment Programmes, the USA, particularly, worked through institutions such as the IMF to force poor countries to liberalise trade and investment as a condition for lending them money.

From the beginning of the 1980s many governments had embraced an ideology called neo-liberalism and a strategy for responding to the crisis of over-production of the 1970s by freeing up capital markets called globalisation[4]. As a response to the crisis, a number of attempts have been made to find new sources for making profits – from trading in debt, to trading in services, to blurring the distinctions between what constitutes trade and what constitutes investment.

FOR DISCUSSION

- What are South Africa's main exports and imports? list THREE of each.
- Given the argument presented here about the balance of trade and why there are rich and poor countries today, do you think this applies in the case of South Africa?
- Did South Africa have a stage when it tried to protect certain industries against foreign competition? When did this change? Why?

# CHAPTER 4
# Investment



*Having looked at how international trade has changed over the last 200 years in chapter 3, in this chapter we look at how international investment has changed over that period. The chapter goes on to show that understanding how governments are defending or opening spaces for big businesses to make profitable investments is the key to understanding the world today. We show that behind all the talk in the media and amongst governments about "free trade" are actually attempts to open new areas of investment and this is how we define "globalisation". Since the Second World War the very rich countries have been seeking ways to stop governments from regulating investment and in the last 20 years their attempts at opening opportunities for profits without any considerations of public benefit have become more successful.*

## WHAT IS INVESTMENT?

Investment is about the use of money to buy a plant (factory, a farm, a shop or a mine), a company, or shares in a company. We call this money, capital, when it is used to invest in this way.

Classically investment was different to trade. The following example shows the difference between investment and trade:

If we buy a shoe factory or shares in a shoe factory, then we are investing. But our investment is only worthwhile if the shoe factory ends up selling shoes, which is about trade.

We shall later see how this has changes when trade is no longer only about the exchange of physical goods for money.

Investment is associated with capitalism and is not as old as the trade of goods. Capitalists invest for the purposes of making profits. Profits in turn are not, primarily, for the capitalists to buy food or houses for themselves, but for further investment. This process of re-investment to generate a continuous process we call accumulation.

## DOMESTIC AND FOREIGN INVESTMENT

Investment can either be within the borders of a country – as when companies from a particular country buy shares or set up factories within that country. We call this domestic investment. For most of the history of South Africa the big South African companies such as Anglo American and Rembrandt invested inside South Africa.

But investment can also be outside the border of a country as when a company buys shares or sets up plants inside another country. We call this foreign investment. Foreign investment can either be inward – as when a US company buys shares in South Africa – or outward as when a South African company moves money outside South Africa. A feature of South Africa after the 1994 victory of democracy has been the extent to which South African companies have invested outside South Africa. Today SA Breweries trades on the London stock market as SAB Millar and is the second biggest beer company in the world. Gencor took over a London-listed company, Billiton, and today is the largest minerals company in the world.

## WHO INVESTS?

Investment can be made by individuals, or companies or by the state. If businesses and companies invest we call this private sector investment, whereas we call the building of new schools and public buildings by the state public sector investment. A feature of globalisation is the extent to which governments have opened the way for the private sector to invest in the public sector in various forms of privatisation of ex-parastatals and the commercialisation of services.

An important variant of private sector investment is that of institutions which invest like private capitalists but do not necessarily consist of big firms. These can be pension funds, mutual societies or trade unions, and are called institutional investors. Under globalisation many of these institutional investors have become major players in foreign and domestic investment in stock markets.

## KINDS OF INVESTMENT

When a company sets up a factory, a mine or a farm, or spends money to change the machinery or infrastructure or scale of production, then we speak of real fixed investment. This kind of investment can be domestic or foreign direct investment but is about the production of goods and services. For workers, even though they may be exploited by this kind of investment there may be the spin-offs of more jobs and cheaper and more commodities available to buy.

Investment can also be in the form of buying shares in companies domestically or overseas. This kind of investment is called portfolio investment. Portfolio investment can be for the sake of long-term involvement in the actual managing of the company. But many companies buy shares not for the purposes of long-term involvement in the acquired company but for short-term possibilities of buying shares cheaply and selling them or trading with them at a profit. This kind of portfolio investment is called speculative because it is a form of gambling (although capitalists use many methods to minimise the risk). Speculative investment

“85% of the world’s consumers live in developing countries...
How much of your money is invested there?”
The Robertson Stephens
Developing Countries Fund
Michael Hoffman
Portfolio Manager
21.19%

is a feature of globalisation and underpins much of the changing role of the state and the clamour to deregulate the flows of money. This is because speculators must have the freedom to buy and sell shares and government bonds (strictly speaking government debt) as flexibly as possible so as to make profits wherever and whenever the opportunity arises.

## INVESTMENT UNDER GLOBALISATION

From the late 1970s, through the 1980s and 1990s, increased speculation became a global trend. In the early 1970s, 80% of the money that crossed international borders was for productive investment. By the late 1990s less than 3% of that money was going for productive investment. The remainder went to speculation.

By the year 2001 it was estimated that 1.2 trillion dollars a day changed hands in global currency markets. One week of trade in global currency markets exceeded the value of all the goods and services traded in the global economy in a year.[5]

This movement of speculative investment globally was a response to the fact that the capitalist world was in a crisis of over-production from the late 1960s and early 1970s and, rather than seeking to make profits out of increasing production, capitalism sought to make profits out of financial speculation.

In comparison with what investment meant for the late 19th and most of the 20th centuries, investment under globalisation saw the change from banks providing money

Under globalisation there has been:

- a shift from productive investment as the principle source of profits to investment in money markets;
- an unprecedented expansion of foreign investment. (This has, however, not occurred by new investment or an increase in the total amount of investment, but by share trading, mergers and acquisitions, privatisation and the opening up of services to foreign investment); and
- a change in the relation between speculative and portfolio investment (which has become global) and real fixed investment.

All countries in the world have to be involved in international trade, but only very few countries in the world are foreign investors. The bulk of the world's countries receive foreign investment, but do not themselves invest across boundaries.

to finance fixed investment to global speculators using money to make money through global speculative portfolio investment. This process reached its peak in the late 1990s with the rise of shareholder value and a financial bubble generated by high stock prices, particularly in the USA.
In comparison to trade, foreign investment is a much more politically sensitive issue since it essentially raises the question: who owns and exercises control over national assets and resources?

In the post-WW2 period, regulations were imposed on foreign investment due to past experiences where foreign firms not only indulged in restrictive and predatory business practices, but also interfered in the domestic political affairs of the host countries. Consequently several countries undertook measures like nationalisation and appropriation of assets of foreign companies in the aftermath of their independence from colonial rule.

## INVESTMENT AGREEMENTS

Both trade agreements and investment agreements are about states negotiating deals with other states. Trade agreements have been about governments deciding with other governments to reduce barriers such as tariffs and subsidies on particular goods traded between the countries. Investment agreements have been about governments deciding with other governments to make it easier for companies in the other country to buy shares or set up companies and/or to take home the profits they make in the process.

It is possible to reduce tariffs and subsidies and thus liberalise trade and yet keep or even increase regulations on foreign investment between two or more countries. It is also possible to ease foreign investment requirements and yet put barriers on trade.

But the whole issue of the balance of power between countries in the world is one that can be summed up as follows: all countries in the world have to be involved in international trade, but only very few countries in the world are foreign investors. The bulk of the world's countries receive foreign investment, but do not themselves invest across boundaries.

## INVESTMENT AND THE NEWLY-INDEPENDENT COUNTRIES

With the rise of independence in the ex-colonies from the 1950s and the 1960s, poor countries not only tried to protect their share of trade (through tariffs and so on), but also attempted to regulate foreign investment. This regulation of foreign investment was done in a number of ways.

In general there have been two kinds of approaches to regulating investment:

- pre-admission requirements; and
- post admission restrictions.

In the case of rules of entry, foreign investors were only allowed to invest if they had satisfied conditions in advance – such as only being in certain sectors, having a percentage of domestic shareholders etc. In the case of post-admission restrictions, foreign companies were allowed to invest but they would have to leave a percentage of their profits domestically, or only source their components from local suppliers etc.

The following are some examples:

- Restrictions on what foreign companies could invest in. Here most governments identified strategic industries and simply made it impossible to have foreign investment either by passing laws that made this the case or by having a public utility. So sectors such as arms, telecommunications, public services (water, electricity, sewerage) were simply the exclusive domain of the state or of private domestic companies.
- Limitations on the degree to which private companies could have foreigners on their boards or limitations on the amount of shares a foreigner can own in a local company.

- Limitations on the degree to which foreign companies could repatriate profits. These measures often went hand in hand with limitations to which domestic companies could send money out of the country. In the case of the latter, most countries had exchange control laws which limited the amount of money its citizens could take out of the country or keep as foreign exchange inside the country.
- Foreign companies were compelled to adhere to all national laws including tax laws and labour laws so that developing countries could get revenue from the foreign investors and compel them to respect national legislation.

In general, poor countries tried to use the eagerness of foreign companies to invest, or the fact that they had existing investment in the ex-colonies which they feared losing, to impose such conditions on foreign investors. In some cases newly-independent countries nationalised foreign companies because they felt that the issue was an important strategic issue of development. An example is the case of newly-independent Zambia nationalising its copper mines after independence and Egypt nationalising the Suez Canal. In other cases, such as the oil-producing countries of the Middle East (e.g. Saudi Arabia), foreign companies were allowed investment but mineral rights were retained by the state, thus forcing the companies to pay a proportion of their revenue to the Saudi state.

Investment agreements arose when national governments negotiated more favourable conditions for the companies from particular countries. When, after the independence of colonies from Britain for instance, the newly independent countries agreed through negotiations with the British government to give special dispensation to British companies, these were examples of bilateral investment agreements. In many instances these kinds of agreement were called 'most-favoured nation' agreements and were awarded by government to the companies from certain countries for strategic reasons or as a trade-off for getting other benefits from these countries (e.g. access to oil, or military support or better trading conditions etc).

## HISTORY OF INVESTMENT AGREEMENTS[6]

While there have been many investment agreements between countries – particularly between rich and poor countries

– these have mostly been bilateral ones. Often the poor country tried to get the best it could out of a deal with its ex-colonial power and vice-versa. In general poor countries were reluctant to give too much freedom to investors from rich countries without some benefit for themselves.

The idea of having a comprehensive multilateral agreement was one generally resisted by poor countries as removing any bargaining power they may have to regulate foreign investors. Even some rich countries between themselves were reluctant to go so far, and have operated on a more voluntary basis by being members of the OECD – a kind of rich country club.

In the 1950s and 1960s bilateral investment agreements were the dominant instrument. In those decades the governments of the rich countries negotiated terms with particular Third World countries to protect foreign investors from expropriation and nationalisation. Under the auspices of the World Bank, the International Centre for Settlement on Investment Disputes (ICSID) was set up in 1966 to facilitate the settlement of disputes betweln the 1960s and 1970s the rich countries, led by the USA, shifted discussions on investment issues to the OECD whose member states were all rich countries in favour of investment liberalisation.

On the other hand, Third World countries fought against investment liberalisation and wanted the United Nations (UN) to judge instances of corporations abusing their control over investment. Two notorious cases of this abuse were the United Fruit Company's responsibility for the collapse of the economy of Guatemala, and the even more notorious efforts of the International Telephone and Telegraph's sponsoring of the military coup which overthrew the democratically-elected government of Salvador D'Allende in Chile.

As a result of the strength of the Third World lobby at the UN, the United Nations Commission on Transnational Corporations (UNCTC) and the Centre on Transnational Corporations were set up by the Economic and Social Council of the UN.

With the rise of neo-liberalism in Britain and the USA, however, the US government unleashed attacks on the

'bureaucracy' of the UN and blocked an attempt to establish a UN Code of Conduct for TNCs in 1977. By 1992 the US succeeded in getting the UNCTC abolished.

UN initiatives also lost momentum in the 1980s when many Third World countries got into a debt crisis. The debt crisis of the 1980s gave the space for rich countries to call for liberalisation of investment and for the Structural Adjustment Programmes. The drying up of commercial bank lending forced Third World countries to open their doors to foreign investment from a position of extreme weakness. As a result, Third World countries that once nationalised foreign companies now started wooing foreign companies with lax conditions for investment.

With the UN marginalised from regulating investment, and with many Third World governments in weak position to resist wooing foreign investment, the USA attempted to establish multilateral investment agreements under the banner of trade in the GATT and through the World Bank.

With the completion of the Uruguay Round and the setting up of the WTO, the USA succeeded in getting what it called 'trade-related' investment agreements onto the agenda of the WTO. The most notorious of these is the General Agreement on Trade in Services (GATS), which makes it necessary for governments to give equal access to foreign investors in services. In other words, neo-liberal governments not only privatise education, water, health etc, but should also open these services to foreign TNCs under the guise of 'free trade'.

In the World Bank, the discussion on investment disputes led to the establishment of a Multilateral Investment Guarantee Agency (MIGC) in 1998. The Agency was set up to encourage the flow of private investment to the developing countries by guaranteeing the investment of foreign corporations against risks such as civil war, currency restrictions, nationalisation etc.

## ATTEMPTS TO GET A MULTILATERAL AGREEMENT ON INVESTMENT (MAI)

Both these initiatives on the part of rich countries are driven by what is one of the cornerstones of globalisation – the need to free investment so that capitalists can seek to make profits wherever they want to and direct the profits back

to wherever the speculators and shareholders are located. Having bilateral investment agreements between a few countries and promising 'most-favoured nation' status is not good enough. The whole world needs to have restrictions on the movement of capital removed, and the policing of investment should be taken away from any kind of public accountability and transferred to where the balance of forces favours the rich – the WTO.

It was with this logic that the USA embarked on its most ambitious attempt to free up investment and take the process out of the hands of accountability to citizens. In the late 1990s the USA called within the OECD for a Multilateral Agreement on Investment (MAI) which went further than what the GATS, the Trade Related Aspects of Intellectual Property Rights Agreement (TRIPS) and the Trade Related Investment Measures Agreement (TRIMS) made possible through the WTO.

MAI included major provisions for comprehensive investment liberalisation, protection of foreign investors and, in anticipation of possible challenges from governments of poor countries, dispute resolution processes which favoured the rich countries. It contained all the dangerous principles of the bilateral investment agreements

For the first time, however, differences began to emerge within the rich countries. The USA wanted the OECD countries to agree first and then take a joint position to the WTO. Fearing US domination even over investment in its own backyard, the EU wanted to have everything associated with the MAI at the WTO. France wanted investment in culture deleted from a MAI. Japan and the EU wanted the USA to repeal laws that punished foreign companies for investing in Cuba.

When India refused to negotiate a MAI in the WTO, and widespread demonstrations by social movements, trade unions and NGOs occurred throughout the world, the MAI was defeated.

However, despite these protests and divisions within the rich countries, the quest to free up investment and get governments to guarantee TNC profits – really the free movement of money and profits out of the hand of any public authority – has remained a dominant feature of the WTO and other multilateral and bilateral trade and investment agreements.

### The WTO and the 'Singapore issues'

At a meeting of WTO ministers in Singapore in 1996, the rich countries introduced ideas similar to the MAI about investment liberalisation and guarantees, via existing WTO protocols. These included multilateral negotiations on investment along with competition policy, government procurement and trade facilitation. However, strong resistance by some Third World countries (particularly India again) led to a compromise whereby a Working Group on Trade and Investment was set up under the WTO to examine relations between investment and trade issues.

At the next WTO meeting, at Doha, 2001, this reached the point where the rich countries traded off vaguely worded commitments to reducing agricultural subsidies in exchange for introducing the 'Singapore issues' for negotiation at the next WTO Ministerial meeting in Cancun, Mexico, in 2003. At Doha a declaration was also made that poor countries (who needed access to generic medicines for HIV/AIDS and infectious diseases) could prioritise health issues over patent rights of TNCs. These apparent concessions by the rich countries made some observers call Doha 'the Development Round' of the WTO. At Cancun, it was the refusal by some larger Third World countries (the so-called G20 countries) to discuss processes around the Singapore issues until the EU made concessions on agricultural subsidies and the US discussed the implementation of the Doha concessions on drugs that caused the talks to collapse.

FOR DISCUSSION

- Who are the largest companies in South Africa? Are they South African or foreign?
- Name some foreign investors in South Africa. In what sectors have they been investing?
- "Foreign Investment leads to jobs and better services for South Africans". Give THREE reasons why this may be true and then THREE reasons why this may NOT be true.
- Do you think there should be laws which regulate foreign investment? (If so WHY/if not WHY NOT?)

MARRAKECH
MARRAKECH

# CHAPTER 5

# Trade and investment and the World Trade Organization (WTO)

"By the time we got to the barricades the tension was high. The members of the crowd jeered at the police who at all times remained calm. Then out of the blue came this coffin decorated in yellow and pink ribbons and rosettes. The words inscribed upon it 'commemorated' the death of the WTO. It was a Korean group who marched forward. In the front was Comrade Lee, a member of the Korean Farmers' Association. Within seconds he was on the barricade and while we waited with bated breath in anticipation of the response from the police he jumped off on the other side. Minutes later he re-appeared on top of the barricade and without warning pierced a knife through his heart. Those near him say that his last words were that his death is in honour of all the women and men who suffer because of the WTO.

Lee's death left a definite mark not only the demonstrators but the delegations inside the Hotel Zone too. There was even a minute's silence before the proceedings the next day. Some say it affected the Italian delegation to the point that it changed their position on agriculture. The most significant impact was the way in which his death solidified efforts within the anti-globalisation movement against the WTO.

(anti-WTO activist, Cancun 2003)

*Images of protestors clashing with the police at meetings of the WTO have become commonplace in our newspapers and on the TV. The 1999 WTO Ministerial meeting in Seattle in the USA collapsed after thousands of young people, trade unionists, NGOs and various activists occupied the streets of Seattle and prevented the government Ministers from continuing with their negotiations. Since then, in Melbourne, Australia, in Genoa, Italy, in Stockholm, Sweden and in Cancun, Mexico … the negotiators of regional and WTO agreements have been confronted time and time again with increasing numbers of protestors; to which the police and the army have responded with barricades and violent beatings. To have a relatively undisturbed meeting the WTO has had to meet in Doha in 2001, in the desert kingdom of Qatar, and the 2003 Cancun meeting in Mexico was held in an easily-cordoned off peninsula.*

*This chapter outlines the history of the WTO and show how it expresses the power of rich countries and their TNCs. What drives these protestors and informs their passion and commitment and why has the WTO become such a symbol of the worst of globalisation and a site for ever-increasing struggles?*

## THE WORLD TRADE ORGANIZATION (WTO)[7]

The WTO is an international trade institution that was set up in 1995, after various rounds of GATT finally ended in a comprehensive agreement. There are currently 147 countries that are members of this organisation. Its main function is to regulate global trade and there are 550 people employed to do this

The WTO was formed to ensure that the rules and regulations that were agreed to for global trade during the Uruguay Rounds would be adhered to. During this trade round, which lasted for eight years (1986–1994), trade liberalisation became the new form of trade under globalisation. The GATT facilitated the liberalisation of trade through the reduction of industrial tariffs, and the removal of non-tariff barriers, such as import quotas and subsidies.

The WTO has mechanisms through which members can impose penalties and sanctions against other members if they violate the rules of the trade agreements.

Today the WTO is one of the most powerful institutions in the world and can override national governments' decisions in relation to matters of trade agreements. With its brief to ensure that trade liberalisation is adhered to, the WTO is the kind of 'government' of free trade.

### Reaching agreements in the WTO

Formally, the WTO is a democratic institution. Decisions are supposed to be made on the basis of consensus. However, the manner in which decisions are made or

agreements reached is manipulative and coercive, and does not ensure equal participation, partnership, transparency and democracy. Since its inception, no WTO decision has yet been put to a vote. In reality it is thus one of the most undemocratic institutions. The 'Friends of the Chair' and exclusive 'green rooms' with select groups of countries are where decisions are made. At the third ministerial meeting in Seattle, 30 countries out of the 151 member countries were part of the decision-making process.

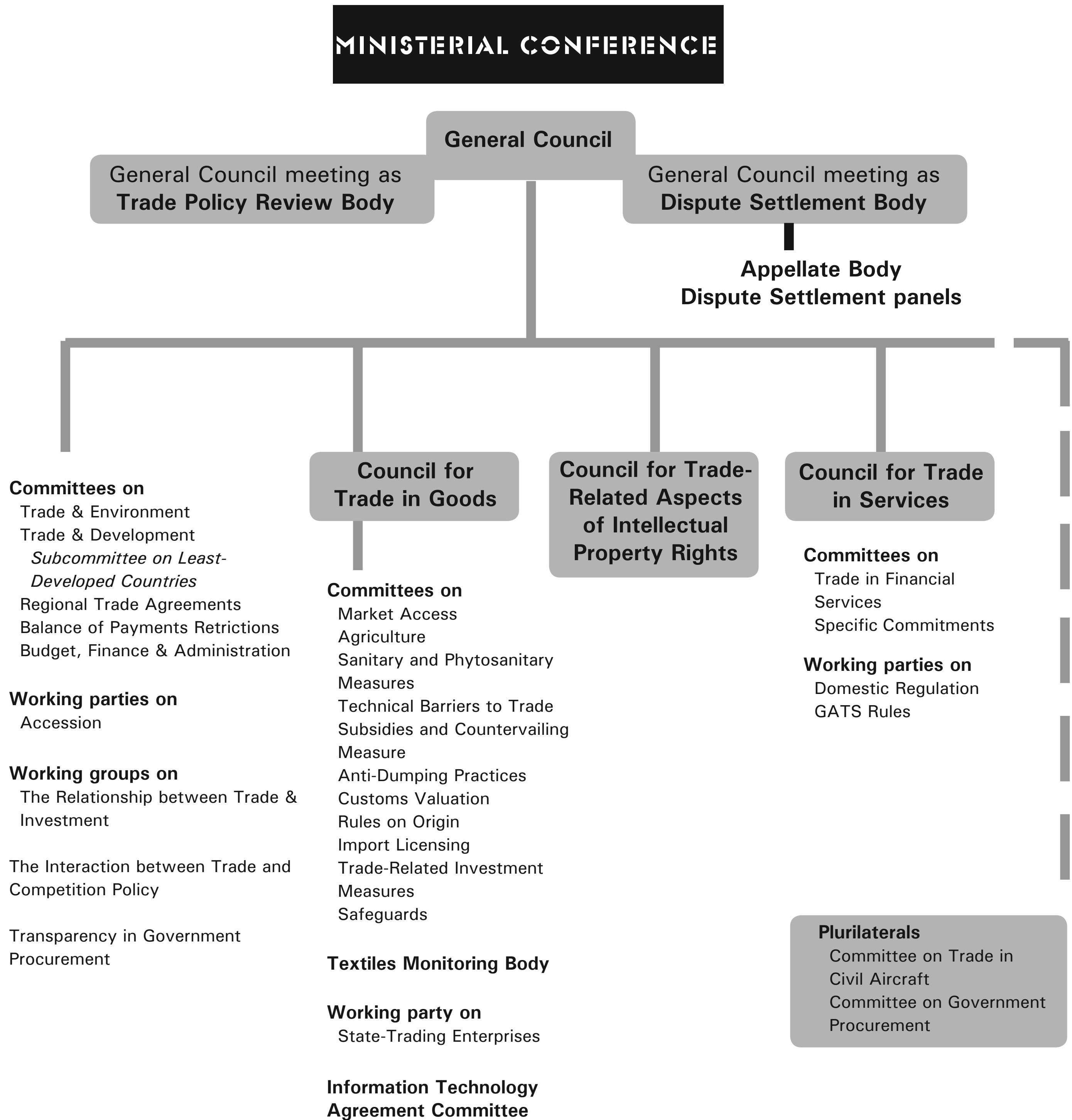
The USA, the EU countries, Japan and Canada dominate the WTO. Together they are called 'the Quad'. They have the greatest economies in the world. The Director-General, his deputies and chairpersons of the various WTO committees, carry out the mandate of promoting free trade and where countries violate free trade agreements they give the victim countries the right to carry out punitive sanctions. Countries may also take each other to the dispute mechanism panels of the WTO to seek a ruling and where countries violate free trade agreements the "victim" countries are given the right to carry out punitive sanctions.

Unfortunately the chances of, for example, a poor country like Tanzania instituting sanctions against the USA for being in violation of an agreement are nil, whereas the rich countries have the economic power to threaten poor countries. This means that although the WTO is formally equal the rich countries are dominant

### Important WTO agreements

The underlying rationale for all WTO agreements is to remove trade barriers and create conditions that allow the major corporate powers of the world to trade freely. This implies the reduction and removal of tariff barriers to trade in goods and all aspects of 'non-tariff' trade barriers and trade-related instruments. Non-tariff barriers are things like health, environmental and labour regulations, etc. There are more than 20 trade agreements administered and en-forced by the WTO.

# The structure of the WTO




**Key**

Reporting to General Council (or a subsidiary)

Reporting to Dispute Settlement Body

Plurilateral committees inform the General Council of their activities, although these agreements are not signed by all WTO members

The General Council also meets as the Trade Policy Review Body and Dispute Settlement Body. For the cuttent negotiations, the Services Council and Agriculture Committee meet in “special sessions” and report directly to the General Council.

Not all of them are about trade in goods and some of them are about investments. Some of the important agreements reached are:

- The Trade Related Aspects of Intellectual Property Rights Agreement (TRIPS), which is an agreement that deals with intellectual property rights and the patent of life forms and knowledge;
- The Trade Related Investment Measures Agreement, or TRIMS, which deals with aspects of investment; The General Agreement on Trade in Services (GATS), which is an agreement that calls for the liberalisation of all services. In practice this means foreign investment in services like water, health education, banking, transport etc.

The WTO is a multilateral rules-based system where agreements are accepted legally by parliaments after secret negotiations and upheld through WTO dispute mechanisms. To ensure that countries abide, various tactics are used including coercion. As such the WTO is not an institution that regulates trade but rather regulates the obedience of the developing countries to unfair trade rules.

## FOR DISCUSSION

- Have you seen pictures or heard about demonstrations at WTO meetings? Why are these people demonstrating and do you think their protests achieve anything?
- From the viewpoint of poor countries give THREE possible benefits of having an institution like the WTO and THREE possible disadvantages.
- Do you think the decision-making processes of the WTO are fair? If not how, if at all, could this be changed to be fair to ordinary people?
- Who represents South Africa at the WTO meetings? Discuss the extent to which your community and /or trade union is aware of the decisions taken there.

ZIMBABWE STOCK EXCHANGE

CHAPTER 6

# Important trade and investment agreements involving South Africa

The noble aim of the European Union to help the RDP is purely coincidental and the proposal favours the EU's economic interest.
(Rob Davies, ANC MP)

Southern African Customs Unions (SACU) countries stand to lose much of their revenue through free-trade agreements proposed with the US, South American members of Mercosur, India, Nigeria and other regions.
(Business Day 29 April 2003)

"Given the concerns in different parts of the world, we must ask whether there should be a fundamental rethinking of the inclusion of education in GATS. We must engage GATS in a way that holds promise for our own agendas and needs. We must avoid at all costs a GATS in education that puts our education, our culture and our future in peril."
(Kadar Asmal, ex-Minister of Education)

*This chapter looks at some of the trade and investment agreements that South Africa has signed. It briefly sketches out some of the main details of the agreements. Some of them have been conducted between South Africa and one group (as in the case of the EU), and some are products of deals with countries which are members of the WTO.*

## THE EU-SOUTH AFRICA AGREEMENT[8]

This agreement between the South African government and the countries of the EU was signed in July 1999, after negotiations that began in 1995. In terms of the agreement, South Africa and the EU established a Free Trade Area (FTA) in which tariffs would be reduced and or done away with:

- immediately, for some goods and services;
- over time for others; and
- not at all for others.

The FTA will be established, on the South African side, over a maximum period of 12 years, and over a maximum period of 10 years on the EU side. The FTA makes it clear that the agreement is about tariff reduction of goods, trade liberalisation in services and the free movement of capital. In other words, it is also an investment agreement making it possible for both South African companies and EU companies to freely invest and take back their profits across countries.

The FTA has a number of accompanying documents, called Annexes, which say which goods are immediately tariffs-free, which are reduced in tariffs and over what time, and which are excluded from such deals. The FTA does not address the issue of subsidies which the EU gives to some of its farmers to make their exports competitive.

Over the years of negotiations the agreement illustrates the relative power of EU companies and their demands over those of the South Africans. Critically, some 40% of South Africa's agriculture is excluded from the FTA because these farming goods were simply too sensitive for the EU governments to trade off.

And even though tariffs are reduced on certain goods – such as wines for instance – the EU has come back and argued that some wines produced in South Africa – such as port and sherry – are breaking old traditions which specify that port can only come from Portugal and sherry from Spain and therefore South Africa has been given time to stop labelling these wines 'port' and 'sherry'.

In terms of the freeing of investment in services and the free movement of capital, the EU-SA agreement has seen a number of EU companies become dominant in South Africa – for example, Parmalat in the dairy industry – while big South African countries have been able to re-invent themselves as European to take advantage of tax concessions (so, for example, SAB Millar registers itself as a Dutch company).

## THE AFRICAN GROWTH AND OPPORTUNITIES ACT

The African Growth and Opportunities Act (AGOA) was not a negotiated agreement as such, but was an initiative of the Clinton Presidency in the USA in May 2000. The United States government wanted to use a political lever to reward

African countries who followed neo-liberal prescriptions of governance.

Countries in Africa which satisfied the criteria set by the US Senate for AGOA would be given tariff reductions to sell their goods in US domestic markets. South Africa is one of the African countries who have been given the green light for its economic and political policies by the USA, and been rewarded with access to US markets for industries such as the textile and clothing industries.

Poorer countries than South Africa have been given the right to source raw materials from outside the region and still qualify for the market access promised by AGOA. South Africa, however, is regarded by the US Senate as too advanced for this concession.

## THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)

After WW2, in 1947, 23 countries signed the General Agreement on Tariffs and Trade (GATT). The GATT has gone through a number of 'rounds' with more and more countries joining and more and more issues being negotiated. The trade rounds were: (i) Geneva (1947), (ii) Annecy (1948), (iii) Torquay (1950), (iv) Geneva (1956), (v) Dillon (1960–61), (vi) Kennedy (1964–67), (vii) Tokyo (1973–79) and (viii) Uruguay During the first six rounds the main focus was on the reduction of tariffs, but the last two rounds (Tokyo and Uruguay) included other areas. During the Tokyo round, issues that came to be known as non-tariff barriers were put on the table, and these were known as the Tokyo Round Codes. They included issues like:

- subsidy
- dumping
- government procurement
- technical barriers to trade
- customs valuation
- import licensing
- civil aircraft
- dairy products
- bovine meat.

Between concluding the Tokyo round (1979) and the start of the Uruguay round (1986) – the period of the beginnings of globalisation – the rich countries began to think that the trade system of negotiations needed to be widened even more. The key issues that were important were those related to:

- services
- intellectual property rights
- investment.

These were the key issues leading to the launch of the Uruguay Round in 1986. The agreements of the Uruguay round came into force on 1 January 1995 in the form of the WTO. A delegation from the Government of National Unity signed the final GATT agreement after a task team of apartheid ministers and ANC and COSATU officials attended negotiations sessions prior to the democratic elections of 1994.

While the GATT was initially an agreement covering the reduction of tariffs, it ended up in the establishment of the WTO with a wide range of agreements. Since 1995, the WTO has been operating as an international trade organisation, of which the GATT is one of its founding agreements. Two basic principles which were originally part of the principles of GATT have now become the main basic principles of the WTO. These are the clauses pertaining to:

- most-favoured nation treatment
- national treatment

## SOUTH AFRICA AND WTO INVESTMENT AGREEMENTS

Although there is no comprehensive multilateral agreement on foreign investment under the WTO as envisaged by the MAI, investment-related provisions are contained in a number of existing agreements. These provisions were introduced during the Uruguay round of GATT negotiations. South Africa is party to these agreements. These are the TRIMS Agreement, the TRIPS Agreement and the GATS Agreement.

## THE TRADE RELATED INVESTMENT MEASURES (TRIMS) AGREEMENT

This agreement is about international trade in goods where governments have intervened to protect domestic investment. TRIMS compels governments to do away with or reduce local content requirements for goods produced for export. It argues that this is interference in free trade as espoused by GATT.

An example in South Africa which is affected by this agreement is the car industry. In the past, South African car manufacturers were compelled by the state to have a certain percentage of the weight of the car (later the value of the car) made in South Africa. Under TRIMS this local content requirement had to be done away with because the Agreement interprets this local content requirement for investment as a 'trade related' issue.

Because of poor countries' concerns that TRIMS would have a negative impact, different countries were given a time period to phase in the abolition of local content requirements and other trade-related investment measures. Rich countries were given two years, developing countries five years, and very poor countries seven years to phase in the TRIMS Agreement.

Since 1995 a number of countries, including Argentina, Malaysia, Chile and Pakistan, have applied to the WTO to have the phasing-in period extended. New countries joining the WTO after 1995 have to comply with TRIMS on entry without any grace period.

## THE GENERAL AGREEMENT ON TRADE IN SERVICES (GATS)

This is the first multilateral, comprehensive and enforceable agreement covering trade and investment in services. GATS covers over 160 "service" activities including education, health, water, energy and financial services. The GATS is aimed at doing away with any government measures that can hamper foreign investors from investing across national boundaries in water provision, schooling, transport etc. It implies that governments who privatise social services and agree to bring these under the GATS rules, but do not

allow TNCs to buy or invest in these services are being discriminatory and are therefore guilty of putting up barriers to free trade.

Under the GATS the three most important principles are:

- most-favoured nation treatment, applied to all services
- market access, applied to services listed by each country
- national treatment, applied to services listed by a country.

In reality these words mean quite the opposite of what they suggest in English.

"Most-favoured nation treatment" (MFN) actually means that a government of a country has to treat all service companies of other countries in the WTO no less favourably than any other. This means that South Africa cannot give special trade and investment treatment to a country, say Mozambique, with which it may be building a strategic relationship. If it does so a US company can claim that it is being discriminated against because there is a 'most-favoured nation' granted by the SA Government to Mozambique.

Market access means that a country cannot stop a foreign investor from investing in providing services. So the South African government would be denying a French water company 'market access' in terms of the GATS if it privatises water services, lists this service under GATS and then only allows South African companies to invest.

National treatment means that governments cannot favour domestic investors – e.g. that privatised South African water services must have a certain percentage of products produced by South African companies (as opposed to foreign companies) when it comes to the provision of services.

In terms of the GATS, countries can keep some services within public ownership because they have to negotiate lists of sectors subject to GATS principles. The arrangement is called 'positive listing'. They can exclude sectors from the lists and also specify which services are to be exempted from MFN and market access principles. If a country fails to specify which service is exempted then under GATS that

service is open to foreign investment and privatisation. This pushes governments into deals whereby they open some services in return for deals agreed by other countries. In practice poor countries get pressurised into offering basic services as their bargaining power at the WTO is very weak. And once a country has privatised and agreed to open a service it cannot then stop the process without flouting the WTO processes and suffering the consequences.

Examples of communities reversing privatisation and water concessions exist, such as Cochibamba in Bolivia and Fort Beaufort in the Eastern Cape in South Africa. In terms of the GATS the water companies concerned can and do take action against the national governments through the WTO panels.

The GATS is an important instance of how the rich countries have used the ideology of free trade – i.e. the international trade of goods – to liberalise investment – the hallmark of globalisation. To allow companies to invest in new areas and reap profits in sectors that were formerly part of the public service.

**GATS and the Finance Sector**[9]

In addition to turning public services into areas of profit for big Transnational Corporations, GATS is consistent with and promotes another major feature of globalisation – the domination of large banking empires. By defining investment of banks as services which must be freely traded across the world GATS promotes the interests of financial monopolies.

One most important worldwide trends in the last 10 years has been the growing consolidation by major financial firms. This consolidation means that banks, insurance companies and other financial service providers are more and more being owned by a few financial firms. This consolidation has taken place through mergers and acquisitions in many countries. It has taken the forms of:

- cross-sector consolidation whereby different kind of financial services - banking and insurance, for example - are provided by one financial firm; and
- cross-border consolidation that results in internationally operating financial firms fully or partly owning banks, insurance companies or other financial services providers in many countries all over the world, often offering different kinds of financial services through the same subsidiaries.

The result has been that the major players in the consolidation race are: Citigroup, Bank of America, HSBC Holdings, American International Group, Royal Bank of Scotland, ING Group, Barclays, BNP Parisbas and Morgan Stanley.

Even big national banks in South Africa, like Standard or FNB, will be too small too compete against the international financial conglomerates. Experts predict that only a few international will be left over within a decade. These might lead to financial firms that can manipulate governments and make or break economies while even the international regulatory bodies have no good rules to deal with such situation.

By opening markets and providing rules that guarantees profit making for large banking monopolies, the GATS negotiations are reinforcing this trend.

## THE TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS (TRIPS) AGREEMENT

This agreement is in many senses the opposite of the ideology of free trade and the practice of liberalising investment of the WTO. As opposed to TRIMS and GATS which are about opening the spaces for investment, TRIPS is about closing spaces and protecting the existing large investors. This is because TRIPS is about protecting the

patents and copyright of companies who own such patents or copyrights (the so-called ‘intellectual property’).

Patents have been the most powerful tool used, particularly by pharmaceutical companies, to protect their investment and guarantee levels of profits. A major drug company such as Glaxo SmithKlein will patent an anti-depressant drug – meaning that, even though everyone else thereafter knows the chemical composition of the drug and can manufacture it, they are prevented from doing so by law and have to pay royalties and prices determined by Glaxo SmithKlein. Without such patent rights drug companies would not make the profits they do and they would face competition from newer companies who could produce the same drug cheaper (these are then called ‘generic’ drugs). TRIPS protects the investment of such companies from competition and TRIPS has been the means through the WTO of continuing that protection – ironically in an organisation founded to promote ‘free trade’.

This example of protectionism in an organisation dedicated to preserving and extending the power of the rich countries is particularly significant in the case of the HIV/AIDS pandemic. India has for some years now been producing anti-retroviral drugs at something like a tenth of the cost of the major drug companies. And yet it is only popular pressure around the horror of the AIDS pandemic that has kept the WTO and the drug companies from taking action against India in terms of the TRIPS.

# CHAPTER 7

# What alternatives are there to the liberalisation of trade and investment? Debates amongst trade unions and social movements

"Our act of protest today is one that is meant to symbolize the fact that peoples throughout the world have turned their backs on an institution that has become a source of global poverty, inequality, disempowerment, and environmental crisis.

Once represented as the premier institution of economic global governance of the 21st century, the actions of the WTO over the last eight years – moves taken at the behest of the powerful corporate interests in the United States and the European Union – have revealed it to be nothing but an instrument of corporate power."
(Press release by participants in the peaceful protest at the Cancun Convention Centre, Mexico, 2003)

"The WTO kills farmers"
(Placard worn by Lee Kyung Hae, Korean demonstrator who took his own life on a barricade at Cancun)

*With all the evidence of increasing poverty, job losses and the collapse of social services under globalisation, and with so much of the anger and protests of the global justice movement focused on the WTO, defenders of the current dispensation have responded: what is your alternative?*

*Within the many social movements in the world activists are also debating: what can we do about this world of trade and investment liberalisation?*

There are many views on these questions and we summarise them as follows:

- **Localism**

Some analysts point to some of the myths of international trade – how much of it is actually highly regulated, how much of it actually consists of transfers across borders within the same TNC – and argue that it is both possible and desirable to become locally self-sufficient. These analysts point to large parts of Africa and Asia where local communities actually live outside the global trade networks and produce and consume locally.

These people take as their source of inspiration that many local producers get forced into international trade as a result of the policies of IMF structural adjustment programmes and false aspirations created by the media. Without these impositions, these protagonists argue, most trade will be local and will be sustainable because people have for centuries learnt how to use local resources in ways that do not damage the environment irrevocably.

*"Ownership and control must be rooted in real people and communities; this means reducing or eliminating the various forms of absentee ownership that are promoted by globalisation. It means promoting real investment and minimising financial speculation. It also means favouring local self-reliance, wherever it is possible, over the creation of global dependence based on failed abstract theories."*
*(The International Forum on Globalisation,2001)*

- **Partial de-linking**

However, many analysts do not disagree with international trading networks and note that international trade is a feature of capitalism since its inception. They argue that not only is this an old feature but it is also a desirable human activity. They point out that international trade has allowed people to share in the access to goods which could never have been developed locally.

But they point out that the terms of trade are unequal and that poor countries are poor because they get the bad end of the stick of international trade and the rich countries are rich because they are favoured by those terms. The key for these analysts is to champion what many poor

countries were trying to do after independence – to protect certain industries from international competition until they can become strong. They also argue that some industries may never become competitive internationally and should be protected as part of a development commitment of governments to their people.

Some of these analysts, particularly an African scholar, Samir Amin, have called the approach ‘partial de-linking’.

- **Fair trade**

There are a whole range of NGOs and analysts who argue that not only is international trade desirable and inevitable but that the problem in the world today is not free trade or trade liberalisation but the inconsistency of this free trade. They point out that the very rich countries which proclaim free trade from the rooftops do not themselves practise free trade when it doesn’t suit them.

A powerful voice in the NGO world is Oxfam, which points out that subsidies to European farmers in terms of the Common Agricultural Policy mean that public money is used to enable “uncompetitive” French farmers to outsell African agricultural producers even though the costs of production in Africa are lower than the EU. Yet it was the EU and the USA which forced African states to reduce subsidies to their farmers under the IMF structural adjustment programmes of the 1980s. Oxfam and many Third World governments have been campaigning for the EU and the USA to reduce subsidies to their farmers so that international trade is ‘fair’.

Similarly, campaigners for fair trade have attacked cartels such as OPEC in the oil industry, and the US government when it imposes tariffs on imports of steel to protect US steel companies.

Many NGO and Third World governments also argue that poor countries should be given special and differential rights in the WTO if trade is to be fair. Arguing that the terms of trade favour the rich, these activists and governments want poor countries to be given the right to protect certain industries even if the rich countries are not, and they believe that where trade liberalisation is agreed it should be applied at a different speed in poor countries in comparison with rich countries.

Not all those who call for fair trade are necessarily themselves in favour of free trade but they share a concern about the hypocrisy of the rich countries.

- **Attaching labour standards to trade agreements**

The International Confederation of Free Trade Unions (ICFTU) has adopted the position that one way of responding to trade liberalisation is to fight the differences in labour costs between various countries as the basis for competition. Without arguing the issue of whether trade should be free or not or whether trade liberalisation is good or bad, the ICFTU has started from the point of view of protecting jobs.

It champions the idea of having what are called 'labour standards' attached to trade agreements. In this regard, countries which enter into international trade agreements would have to jointly sign that the labour standards set by the International Labour Organization (ILO) would be respected. The ILO labour standards include the right to form trade unions, the illegality of child labour and so on.

The idea behind the campaign is that countries which trade cheap goods by using cheap labour would no longer get the benefits of having cheap labour (because trade unions would grow and equalise wages across the world).

*"We call … for the World Trade Organisation to recognise the link between trade and labour rights, and to ensure that all countries participating in the world trading system abide by a rules-based system which includes labour rules – namely compliance with the core ILO conventions. This should be a minimum requirement for countries to receive the benefits of membership of the WTO."*
*(From the Maputo Declaration of 12 trade unions, including SACTWU and NULAW)*

- **Debates on the WTO: Fix or Nix it**

Cutting across the various views on international trade and whether trade liberalisation should be fair or otherwise are different views amongst analysts and activists about what should happen to the WTO itself.

Many of those (but not all) who support the idea of fair trade argue that an institution to regulate trade is necessary, given that the terms of trade in the world is inherently in favour

of the rich countries. Noting that the current structure, governance and rules of the WTO favour the rich countries therefore means that the WTO must be reformed to make it more democratically representative and that its brief must change to include development concerns. These activists would call for the WTO to be 'fixed'.

The protagonists of this view span those who merely want the WTO to provide the means to help Third World negotiators to be more aware of the nuances of trade deals to those who would want the WTO to be radically overhauled.

Other activists, however, note what they believe are inherent inequities of the WTO and that with a brief of removing 'restrictions' to free trade and its evolution out of the GATT, the WTO is inextricably tied up with the current power relations in the world. Therefore the WTO should be 'nixed'. There may be a number of different views within this grouping; from those who are in favour of localism and therefore do not want an external regulating body to those who want and external authority but believe the current one is so much a manifestation of the domination of the rich countries that an entirely new regime will have to be created.

## CURRENT STRUGGLES IN SOUTH AFRICA

### Struggles by organised labour

These vary from fighting against the policies of trade and investment liberalisation to tripartite agreements with government and employers to try and grow the South African market.

On the one hand the South African Municipal Workers' Union (SAMWU) has been fighting the GATS and water privatisation through campaigns and legal action. In Nelspruit in Mpumalanga and the Dolphin Coast in Kwazulu Natal, SAMWU has been fighting the concessions given to French and British TNCs investing in water provision for some time. SAMWU was also instrumental in starting a broad forum of trade unions and social movements called the Anti-Privatisation Forum (APF). The union has also fought privatisation and commercialisation of services through the courts, challenging the government to negotiate the terms of service delivery restructuring as required in legislation such

as the Municipal Systems Act and the Municipal Structures Act.

On the other hand some unions have been seeking to ride out the impact of trade liberalisation by getting government support to expand the local market. The WTO has impacted most heavily on the clothing, leather, footwear, auto, agricultural sectors. One response has been the 'Buy South Africa Campaign', initiated by the Southern African Clothing and Textile Workers Union (SACTWU) and taken on board by COSATU and some South African employers. The campaign encourages customers to buy products made in South Africa.

### NGO campaigns

Under the TRIPS, companies can take any living organism, modify it and then patent it as their own. An area in which TNCs like Monsanto is operating is the patenting of genetically modified organisms (GMOs) in the form of seeds. TRIPS allows for these companies to sign agreements and sell these GMO seeds to farmers, particularly in developing countries. South Africa is the first country to have GMO seeds for a staple food crop like white maize.
The TNC Monsanto supplies GMO seeds for cotton and since viruses are used in the production of GMOs, the use of this cotton for nappies, swabs and medical equipment raises health issues. Since South Africa's law on disclosure of the GMO content in foods etc is vague on non-compliance, an NGO, Biowatch, took legal action against the Department of Agriculture, using the Access to Information Act. However, before the court case Monsanto intervened using the TRIPS to deny South Africans the right to information pertaining to GMOs. It stated that its contract with the Department is confidential and conforms to the TRIPS.

### Social movement campaigns

HIV/AIDS is an epidemic in South Africa, yet, despite the right offered under Clause 15 of the TRIPS for countries facing life-threatening diseases to declare an emergency and either manufacture generic medication or purchase it low at cost, the South African government has chosen not to invoke this clause. As a result pharmaceutical companies were maximising profits and selling the medication at monopolistic prices.
The Treatment Action Campaign (TAC) took up this fight and challenged the South African government on its position

on generic medication. They are also targeting the two pharmaceutical companies that benefited – GlaxoSmith Kline, which manufactures AZT and Boehringer Ingelheim which manufactures Neviropine. The TAC not only won the case against the pharmaceutical companies but also went on a programme of civil disobedience against the South African government. After a two-year struggle the TAC has won concessions in that the government has now declared that they will embark on a programme of rolling out anti-retrovirals for HIV-positive people in South Africa.

The APF, the Anti-Evictions Campaign, the Soweto Electricity Crisis Committee and the Phantsi WTO coalition are all fighting against the privatisation of services which are currently under offer in terms of the GATS. These formations want to build a mass campaign against the privatisation of essential services, as well as to try to stop the South African government from offering them up for privatisation under the GATS

More recently, in preparation for Cancun, in September 2003 organisations met in Cape Town and Johannesburg to build a Phantsi WTO Coalition. They formulated a common platform document that captured the main aspirations, aims and concerns of the group and launched the Phantsi WTO coalition.

### Lobbying

In addition to the above campaigns, a number of NGOs also lobby the South African government and are part of networks of African NGOs lobbying African governments to be wary of the effects of trade and investment liberalisation. Networks such as the Gender and Economic Reforms in Africa (GERA) and the Southern and East African Trade and Industry Network Initiative (SEATINI) work with governments of African countries who lack information and research. NGOs have also taken advantage of access to parliamentary committees in South Africa to brief parliamentarians.

COSATU, NACTU and FEDUSA – the major trade union federations in South Africa – also engage government and employers on trade and industry matters through the National Economic Development and Labour Council (NEDLAC). As result of their participation in this tripartite structure, the labour movement is also part of the civil society delegation that accompanies the South African government when it embarks on trade negotiations in the WTO Ministerial meetings.

# Where can I find out more?

# Appendix:

There are a number of NGOs and social movements in South Africa that are either active in advocacy around trade and investment issues or supply information to the trade union movement. These are useful in either supplying more information or in having resource centres themselves or in publishing booklets and journals which can assist activists in understanding current debates.

### Alternative Information and Development Centre (AIDC)

The AIDC is part of a number of campaigns, including the Phantsi WTO campaign, and publishes a quarterly newsletter Alternative Information and can be found at PO Box 12943, Mowbray, Cape Town. Ph: 021 4475770 and on www.aidc.org.za

### Biowatch

Biowatch is an NGO that tracks government and corporate policies and practises and their impact on the environment. Biowatch has been contesting a legal battle with the South Africa government on the issue of access to information on Genetically Modified Organisms in the food chain in South Africa. Biowatch can be found at 41 Community House, Salt River Road, Salt River, Cape Town and Ph: 021 447 5918.

### The Centre for Civil Society (CCS)

The CCS is based at the University of Natal in Durban and publishes widely on matters of civil society including on the emergence and significance of new social movements. The CCS can be found at the University of Kwazulu-Natal on Tel: 031260 3577, Fax: 031 260 2502 and www.ukzn.ac.za/ccs

### The COSATU Parliamentary Office

The Parliamentary Office of the Congress of South African Trade Unions (COSATU) monitors developments in Parliament and advises COSATU and lobbies MPs. It therefore often gleans information about trade and investment agreements and their status. The Office can be telephoned at 021 461 3835.

### Economic Justice Network (EJN)

The EJN is an NGO network working with a number of ecumenical organisations looking at the impact of trade liberalisation on poor communities. The EJN can be found at ejnetwork@mweb.co.za

### Ecumenical Service for Socio Economic Transformation (ESSET)

ESSET lobbies governments on issues of the impact of trade liberalisation on poor communities and publishes its research findings. ESSET can be found at PO Box 62098 Marshalltown Johannesburg. Tel: 011 8331190 and Fax: 011 833 1076.

### Environmental Justice Networking Forum (EJNF)

The EJNF is a network of NGOs and social movements campaigning on environmental issues. It has been active on the impact of trade liberalisation on the human and biological environment. The EJNF has a national office in Johannesburg which can be found at ace@ejnf.org.za and thabo@ejnf.org.za The EJNF Western Cape, which is also a link with a number of other networks, including the Land and Food Security Network and the Western Cape Water Caucus, can be found at Community House, 41 Salt River Road, Salt River, Cape Town and Email: thabang@ejnf.org.

### Fairshare

Fairshare is an NGO looking mainly at the process and content of the national Budget in South Africa but it also addresses the impact of trade agreements on progressive budgeting possibilities. Fairshare is at Private bag X17, Bellville, Cape Town. Ph: 021 9593802 and on www.uwc.ac.za/fairshare

# Where can I find out more?

### International Labour Research and Information Group (ILRIG)

ILRIG focuses on issues relevant for the labour movement, including research and trade and investment matters, and publishes its Alternative Series of popular booklets on various topics related to globalisation. ILRIG serves on a number of networks which contest the current neo-liberal order. ILRIG publishes its quarterly Workers' World News and can be found at 41 Community House, Salt River Road, Salt River, Cape Town. Ph: 021 4476375. Fax: 021 4482282 and on email: ntswaki@ilrig.org.za and www.ilrigsa.org.za

### Jubilee SA

Jubilee South Africa is a national organisation campaigning against the Apartheid debt. Jubilee publishes a quarterly newsletter Jubilee SA, which looks at international issues including the effects on the current trade and investment regime. Jubilee SA can be found at 9th Floor, Auckland House, 185 Smit Street, Johannesburg. Phone: 011 403 7624. Email: j2000sec@sn.apc.org and Web: www.aidc.org.za/2000

### Khanya College

Khanya works with the emerging social movements in South Africa and publishes a quarterly journal Khanya. Khanya College can be found at 52 Jeppe Street Newtown Johannesburg. Phone 011 832 2447. Fax: 011 832 2874. Email: info@khanyacollege.org.za and Web: www.khanyacollege.org.za

### The Labour Research Service (LRS)

The LRS includes the Trade Union Library which is both a reference and a lending library on issues affecting trade unions and social movements and can be found at Community House, Salt River Road, Salt River, Cape Town. Ph: 021 4471677 and on www.lrs.org.za

### Labour Research and Resources Institute (LARRI)

Although LARRI's offices are in Windhoek, Namibia, and the NGO works with the Namibian labour movement, it also works closely with South African NGOs on trade-related research and popular education matters. LARRI can be found at Herbert@larri.com.na

### National Labour Education and Development Institute (NALEDI)

NALEDI is the research arm of COSATU and produces research material on all matters affecting the labour movement, including trade and investment agreements. NALEDI publishes a quarterly Policy Bulletin and can be found at 6th Floor, Cosatu House, 1 Leydt Street Braamfontein, Johannesburg. Ph: 011 4032122 and on www.naledi.org.za

### Phantsi WTO Campaign

This is a network of NGOs and social movements who come together from time to time against the World Trade Organisation (WTO). The network can be found at info@aidc.org.za

### Southern and East African Trade and Industry Network Initiative (SEATINI)

SEATINI is Harare-based and was set up specifically to look at the impact of trade and investment agreements in Africa and elsewhere. SEATINI lobbies African governments and advises NGOs and social movements about the current global trade and investment architecture. SEATINI also produces a quarterly newsletter. SEATINI's Johannesburg offices can be accessed at riazt@iafrica.com

### The Trade Strategy Group

This is a network of individuals and NGOs who do research and lobby around trade agreements. They can be found at TSG@topica.com

# Endnotes:

[1] This case study comes from C van der Westhuizen & H Deedat (2003) Trade liberalisation and its effect on women workers.

[2] This case study can be found in D McDonald & J Pape (2002) Cost recovery and the crisis of service delivery in South Africa.

[3] For additional information on the terms of trade see D Ransom (2001) No nonsense guide to fair trade.

[4] For an elaboration of this analysis see the ILRIG (1999) Alternative series on globalisation.

[5] Much of this analysis is owed to H. Wachtel (1990), The money mandarins: The making of a supranational economic order as updated in the financial press.

[6] Much of this history is taken from K Singh (2003) Issues, implications and illusions of a multilateral investment agreement in the WTO.

[7] All information on the WTO comes from its website http://www.wto.org/english.

[8] All information on this agreement comes from the Agreement on Trade, Development and Cooperation between the European Union and its member states, on the one part, and the Republic of South Africa, on the other part (EU, Brussels, 9 July 1999).

[9] Much of this information is based on research undertaken by Myriam vander Stichele of the Netherlands-based Centre for Research on Multinationals (SOMO).

Every day we are told by our government, by employers and in the media that our quality of life will be determined by whether we get foreign investment into South Africa. TV news, radio programmes and newspaper editors tell us about the strength of the Rand, and call on us to be as excited about the strength of the Rand as we are about Bafana Bafana. Sometimes, between this world of business and investment we see images on the TV of people demonstrating against big businesses at the World Economic Forum or the government negotiators at World Trade Organization (WTO) meetings.

Yet through our union or our community organisation we are struggling to defend the most basic human rights – like jobs, like our water and electricity supplyRights that seem far removed from the things the experts drone on and on about – about the economy and the value of the Rand – and even what the demonstrators are fighting about at international meetings. But every time we demonstrate or are militant we are told that our actions are "irresponsible" and will "scare investors away".

This booklet is for worker educators and activists – from shop stewards in the trade unions to activists in the community and youth social movements. It is called a manual because it attempts to act as a guide for activists struggling to defend their jobs and the living standards of their communities rather than a work of academic research.