The Global Trading System: Assessing its effects on developing countries

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Abstract: This paper examines the rise of the neoliberal global trading order that began in the 1980s. It is argued that the shift away from a protectionist trading regime has afforded developing countries certain opportunities, especially with regard to GDP growth and agricultural output. These benefits, however, are far outweighed by the economic, social, and environmental costs that disproportionately affect developing countries. Though civil society has made impressive strides in mitigating such costs, only with state-driven efforts and a rejection of market fundamentalism will substantial change in developing countries be realized.

"The usefulness of wealth lies in the things that it allows us to do—the substantive freedoms it helps us to achieve."[1]

Since the late 1970s, the global trading system has shifted towards a more neo-liberal framework, with expanded and open trade being seen as synonymous with development. As the hegemonic body determining much of the world's trade relations, the global trading system's thorough adoption of this neo-liberal trade regime has had a profound influence on developing and developed countries alike. The effects of this system, however, are much more damaging to the already-vulnerable developing countries than to developed countries. In order to demonstrate both the opportunities and challenges that developing countries face as a result of the global trading order, I will provide a brief history of the rise of neo-liberalism and the World Trade Organization (WTO), followed by an examination of the economic, environmental, and social costs encountered through this system. As it is my view that the accumulative costs presented to developing countries by this global trading system far outweigh any potential opportunities, I will then speak about some measures being taken to counteract the negative ramifications of the hegemonic trading regime.

Following the Second World War, one debate on global trade policies centered on whether the international trading order was beneficial or detrimental to the world's poorest countries. In light of this, the primary economic activity of developing countries, the production and export of raw commodities and the import of foreign manufactured goods, was called into question. [2] The trade activities of developing countries were deemed dangerous due to a number of overarching factors, such as: (1) the fragility of the global economic system, as was demonstrated with the collapse of international trade following the Great Depression of the 1930s, (2) the volatility of prices, making primary commodity exports a highly unstable source of foreign exchange, (3) the falling terms of trade faced by developing countries in the period between the turn of the twentieth century and WWII, and (4) the marginal opportunity to increase exports, due to the low-income elasticity of demand of primary commodities.[3]

In an effort to stabilize the international economy, the 1944 Bretton Woods conference gave rise to the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD), and the General Agreement on Tariffs and Trade (GATT); all of which were designed, in theory, to help foster a stable and flowing international trading environment. Specifically, GATT was an organization that aimed to reduce taxes or tariffs on imports over time, and thus lower the barriers and impediments to trade among member countries.[4] Implicit in these institutions was the adherence to Keynesian economics, whereby economic growth in a smoothly running capitalist economy involves a much greater role for the state than had been advocated for in more free-market-based classical and neo-classical models of development.[5]

By the late 1970s and early 1980s, however, the mainstream understanding of the state's vital role in facilitating trade was beginning to dissolve, as the positive relationship between trade openness and growth was gaining credence in development discourse.[6] The shift back to individualist capitalism and free market economics was quickly embraced by the World Bank and the IMF, as "countries were recommended to adopt a free-trade regime with neutral incentive system, which in practice means low and uniform rate of tariff and minimal quantitative restrictions."[7] Emerging out of this throwback to classical economic policy was the establishment of the new international trading order, a regime that was solidified at the Uruguay Round of talks by GATT in 1995. Resulting from the Uruguay Round of talks, policies were crafted to ensure worldwide tariff cuts, tighter restrictions on trade-related subsidies, strengthening of trade-related intellectually property rights (TRIPS), and the transformation of GATT into the WTO.[8]

On paper, the purpose of the WTO is to raise global living standards; *not* to maximize trade. This is clear when observing the agreement that established the WTO, as stated goals of "raising standards of living,"[9] and "aspirations to protect and preserve the environment …in a manner consistent with the respective needs

1 Amartya Sen. "The Perspective of Freedom." Development As Freedom. (New York: KNOPF, 1999) 14.
2 Ha-Joon Chang. "Trade and Industrial Policy Issues." Rethinking Development Economics. (London: Anthem Press, 2003) 257.
3 Chang 258.

4 John Rapley. Understanding Development. 2nd ed. (Boulder: Lynne Rienner, 2002) 5.
5 Rapely 7.
6 Rapley 62.
7 Chang 258.
8 Chang 267.
9 Dani Rodrik. "The Global Governance of Trade As If Development Really Mattered." (New York: UNDP, 2001) 9.

and concerns at different levels of economic development"[10] frame trade as a means of achieving desired ends, not as an end in itself.[11] However, the WTO, alongside multilateral lending agencies such as the IMF, have come to promote expanded and unrestricted trade as a lens though which to view development, not the other way around[12]:

Although the WTO charter formally commits it to poverty alleviation and the promotion of sustainable development, these are not seen by anyone as primary WTO objectives. Despite a certain amount of rhetoric and symbolism to that effect, development was not a primary purpose of the Uruguay Round.[13]

Thus, the role played by the WTO is not so much determined by its original mandate as it is by the highly influential interests who emphasize neo-liberal economics and trade at the *expense* of poverty reduction and growth.

Arguably the greatest opportunity provided to developing countries by the current neo-liberal global trading order regards economic development. In "Trade, Growth, and Poverty," David Dollar and Aart Kraay assert that increases in international trade will invariably result in increases in the quality of life for poor people in developing countries.[14] With well over half of the world's developing countries subsumed in the global trading system, or living in "globalizing economies,"[15] Dollar and Kraay argue that some developing countries are 'catching up' to developed countries, as the developing countries with the highest ratios of trade to GDP have more than doubled their amount of trade in the last twenty years, from 16% to 33%, as compared to only a 70% increase from 29% to 50% in developed countries: "[W]hat we have in the 1990s is an important group of countries growing faster than the rich countries, and hence gradually catching up, while the non-globalizing part of the developing world is falling further and further behind."[16] Thus, based on the top developing countries, referred to as the 'post-1980 globalizers,' there is an assumption that increased integration and participation in the global trading system will lead to poverty elimination and improvements in the material lives of the poor.

Ironically, the aforementioned pro-free-trade argument highlights the single largest challenge regarding economic development in developing countries: economic integration in the global trading order is splitting developing countries and transition economies into those that are benefiting, and those that are being disenfranchised.[17] Furthermore, some of those being left behind are *not* de-linked from the global trading system, as the pro-free-trade position often argues, but are instead heavily integrated, for example

Sub-Saharan Africa has a higher export-to-GDP ratio (29% in the 1990s) than Latin America (15%). But Africa's exports are still mainly in primary commodities, and foreign direct investment is concentrated in mineral-extraction—so the region's apparent integration is actually a vulnerability to the whims of the primary commodity markets."[18]

Furthermore, the intensified focus on integration into the global economy via exporting primary commodities, as is espoused by the WTO, is not only harmful to the national economies of developing countries, but is exceedingly damaging to the micro-economic well-being of the agricultural-based communities who feed the system. In Mexico, for example, the suffocating trade policies found in the North American Free Trade Agreement (NAFTA), which brutally favour exports, resulted in a flood of American and European imports causing extremely harmful repercussions to local economies in Mexico. In little over 18 months after adopting NAFTA policies, the economy of Mexico crashed, as 2.2 million Mexicans had lost their jobs, and 40 million had fallen into extreme poverty.[19]

With regards to environmental development, advocates of the global trading order claim the free-market holds within its logic the key to rectifying all environmental problems.[20] According to the environmental Kuznets curve there needs not be a trade-off between economic growth and the environment in the long run. Essentially, such 'liberal environmentalism' argues that growing economies will produce greater and greater amounts of pollution, until they begin to shift away from heavy industrialization and towards more capital- and knowledge-intensive forms of production.[21] At a certain point in this transformation, environmental efficiency will become feasible and profitable, thus allowing developing countries to 'grow' their way out of environmental crises: "the substitutability of human-made for natural capital, coupled with technological innovation, will allow for the human community to overcome the 'alleged' environmental constraints."[22]

Though the evidence in support of environmental Kuznets curve, and its theoretical underpinnings, is weak,[23] economic globalization does provide increased opportunity for environmental protection and management through the spread of new technologies, standards, and public pressures. The global trading order, however, also presents many challenges to environmental sustainability. For example, efforts to meet the growing demands of the global markets are resulting in the rapid and unsustainable depletion of renewable resources such as fish stocks, water availability, and forest coverage—all of which threaten the economic, food, and health security of the world's poorest and more vulnerable peoples.[24] Furthermore, in *Stolen Harvest,* Vandana Shiva speaks to the serious ecological risks involved with genetically engineered crops as manufactured by agricultural corporations.[25] Crops such as Monsanto's 'Roundup Ready' soybeans, for example, are genetically designed to resist herbicides, and thus result in the increased use of agrochemicals and the destruction of biodiversity. Furthermore, by transferring the genes for herbicide resistance and pesticide resistance to weeds and pests, "superweeds" and "superpests" are inadvertently created; posing a grave threat to various plant and insect species.

10 Rodrik 9.
11 Rodrik 9.
12 Rodrik 10.
13 Gerald K. Helleiner. "Markets, Politics, and Globalization: Can the Global Economy Be Civilized?" Global Governance. (2001) 258.
14 David Dollar and Aart Kraay. "Trade, Growth, and Poverty." The Economic Journal. (2004) 29.
15 Dollar 22.
16 Dollar 24.
17 UNDP. "Human Development in this Age of Globalization." Human Development Report 1999. (New York: UNDP, 1999) 31.
18 UNDP 31.
19 Vandana Shiva. "The Hijacking of the Global Food Supply. Stolen Harvest. (South End Press, 2001) 9.
20 Rapley 169.
21 Rapley 169.
22 David Reed. "The Environmental Legacy of Bretton Woods: The World Bank." Global Governance: Drawing Insights from the Enivronmental Experience. Ed. O.R. Young. (MIT Press, 1997) 244.
23 Rapley 169.
24 UNDP 43.
25 Shiva 17.

In a plea to an 'ecological worldview,' Shiva declares: "what we are seeing is the emergence of food totalitarianism, in which a handful of corporations control the entire food chain and destroy alternatives so that people do not have access to diverse, safe foods produced ecologically. Local markets are being deliberately destroyed to establish monopolies over seed and food systems."[26] For these reasons, some might argue that the opportunities offered by economic globalization are negated in the face of corporate food production and food trade.

Finally, the global trading system poses many opportunities as well as many constraints to social development in developing countries. First and foremost, many see the 'openness' advocated in the neo-liberal global trading system as a key instrument in strengthening, networking, and expanding of 'civil society' internationally. While the increasing ability to trade not only resources, but also ideas and information, has undeniably led to much positive growth within civil society, one must not assume all civil society growth is beneficial to developing countries. Civil society organizations (CSOs) and non-governmental organizations (NGOs), are, after all, often funded, co-opted, and proliferated by Western donors with hopes of promoting a neo-liberal understanding of civil society and the spread of market economies.[27] Another key opportunity offered by the global trading system is the lessened reliance on state policy and the removal of centralized state power. Such political realignment is potentially beneficial, as government corruption, as well as the failure of governments to properly integrate their economies into the global trading order, are often cited as prime reasons for the stunted social development characteristic of developing countries.

However, according to Gerald K. Helleiner in "Markets, Politics, and Globalization," the opportunities offered by state reduction are up for debate, as the activities of the highly influential business lobby groups constitute a more serious threat to democratic and accountable global economic governance than the threat posed by governments.[28] This is due largely to the fact that developing countries—totaling approximately eighty-five percent of the world's population—are severely underrepresented in decision-making processes on key global economic issues, which remain highly concentrated in the hands of international financial institutions (IFIs), and the industrial powers of the west. In fact, despite being founded on a democratic 'one country, one vote' guiding principle, the WTO seldom ever votes, and thus virtually places veto power in the hands of the western superpowers.[29] Alongside such de facto exclusion, developing countries are also de jure excluded from decision-making power within the WTO, as there exists no equivalent to the G7 Economic Summit, or anything resembling the developed countries' Organization for Economic Co-operation and Development (OECD).[30]

The UNDP, in "Human Development in This Age of Globalization," speaks of some of the social shortcomings that have resulted from the highly undemocratic and highly inequitable system of global trade, arguing that trends such as growing global GDP—from $3 trillion to $30 trillion in the past 50 years—and growing 'medium human development' rates—from 55% in 1975 to 66% in 1997—serve to mask the existing disparities and extremities.[31] Despite tremendous progress made during the twentieth century, the UNDP, using the human poverty index (HPI-1), estimated in 1999 that over 840 million people remain malnourished, 1.3 billion people have no access to clean water, one in seven children of primary school age is out of school, and 1.3 billion people live on less than $1 (1987 PPP$) a day.[32] Thus, while certain statistics can be used to demonstrate the growing degrees of social development accrued under the neo-liberal trading regime; other statistics can paint quite a different picture.

While it is my view that the global trading system generates more challenges and negative ramifications to developing countries than it offers opportunities, the steps being taken to combat this 'unfairness' in developing and developed countries alike are quite hopeful. One of the most successful movements challenging the global trading system is 'Fair Trade,' "an international system of doing business based on dialogue, transparency and respect."[33] Though not perfect, this initiative, and others like it, strives to promote sustainable development by offering more beneficial trading conditions for the producers and workers in developing countries. Furthermore, 'global civil society' movements and NGO networks have flourished with the increased ability to access new forms of information and communication. Working both inside and outside state apparatuses, CSOs tackle issues ranging from human rights protection to land mine removal, and are increasingly being seen as vehicles with which to inject "values and moral pressure into the global marketplace."[34] Though civil society movements are not perfect, especially when considering their unelected representatives, lack of public accountability, and susceptibility to co-option,[35] their widespread emergence alongside the global trading system clearly demonstrates a growing voice of dissent. "Civilizing" the global trading system, however, will require much more than civil society alone. What is needed is a multi-faceted and long-term approach including appropriate visions and levels of involvement by the state, civil society, and the market.[36] Specifically, the responsibility for effecting change within the global trading system should be placed primarily on the developed countries, as it is they who exercise the greatest degrees of control and influence.[37]

Thus, out of the dissolution of the post-WWII developmentalist state and the subsequent revival of neo-classical economics in the late 1970s and early 1980s, a neo-liberal global trading system emerged. The highly influential trading order, officially embodied in the creation of the WTO in 1995, powerfully echoes neo-liberal policies of market fundamentalism and minimal state protectionism. Though it is undeniable that free-flowing markets provide new opportunities for developing countries, these opportunities are increasingly offset by the economic, environmental, and social challenges that arise out of the global trading system. While figures such as global GDP, agricultural outputs, and 'human development' may have grown in developing countries as a result

26 Shiva 17.
27 Mary Kaldor. "Globalization and civil society." *Exploring Civil Society: Political and Cultural Contexts.* Ed. Marlies Glasius et al. (Abingdon: Routledge, 2004) 191.
28 Helleiner 248.
29 Chang 268.
30 Helleiner 251.
31 UNDP 25.
32 UNDP 28.
33 *TransFair Canada: About Fair Trade*. 2006. 17 Dec. 2006 <http://www.transfair.ca/en/fairtrade/>
34 John D. Clark. "Ethnic Globalization: The Dilemmas and Challenges of Internationalizing Civil Society." *Global Citizen Action.* Ed. Edwards, Michael and John Gaventa. (Boulder: Lynne Rienner, 2001) 19.
35 Clark 25.
36 Helleiner 261.
37 Helleiner 261.

of the neo-liberal trading regime, so has the economic disparity between and within developing countries, the instability of national and local economies, the unsustainable levels of resource depletion, the seizure of cultural and agricultural knowledge, and the inability of developing countries to adequately address issues of social underdevelopment due to the highly undemocratic structure of the global trade regime. In response to the crises caused by the global trading system, invaluable civil society action has flourished, yet increased government and market support is needed if more equitable global trade relations are to manifest. Consequently, what will determine the lot of developing countries in the future is not the global ability to look to the market, but the global ability to look beyond it.

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