CAFOD Just one world

factsheet

Trade

So Hoeung, whose basket-making business is supported by CAFOD partner, Salvation Centre Cambodia.

What is trade?

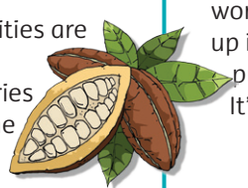
When you buy a computer game or a bar of chocolate, you are 'trading': exchanging money for goods. Workers, companies, countries and consumers take part in trade. Workers make or grow the goods. Companies pay the workers and sell what they produce. Governments encourage companies to set up; they create jobs, generate taxes and earn foreign currency. Consumers buy the end product.

Who sells what?

Some developing countries, particularly in Asia, are major manufacturing powers; others, mainly African countries, sell commodities, like coffee, cocoa and cotton, and raw materials like copper. For most it's a mix; Brazil sells aircraft but is still the world's largest coffee producer. In developing countries costs are lower, especially wages, so their factories can make goods more cheaply.

Raw materials

Countries that produce only raw materials and commodities are at a disadvantage.



- They don't gain from processing, for example if countries which export cocoa beans made chocolate, more of the final price for chocolate paid by consumers in the UK would stay in the country of origin.
- The price of raw materials and commodities often change, making it hard to plan.
- Prices for raw materials and commodities are often very low.

Manufactured goods

Factories and other industries mean jobs, but there are downsides too:

- It can be hard for some countries to move on to making more valuable manufactured goods like cars. They may have the raw materials, but may not have the technology or the infrastructure. Established manufacturers in other countries have a huge lead.
- Jobs may not be secure. Competition is fierce and companies will fail if they cannot produce the quality and price that international buyers want.
- Producing the best product at the cheapest prices can mean cutting corners on health and safety, paying low wages and pressurising people to work long hours.

"We cannot proceed to increase the wealth and power of the rich while we entrench the needy in their poverty and add to the woes of the oppressed." Pope Paul VI

TRY THIS Look at the labels in your clothes. Decide why you think the clothes were made in these countries.

Choose a product and draw a diagram of how you think trade works for this product.

Tariffs

Tariffs are taxes on imported goods. High tariffs can be used to protect domestic producers from foreign competition. Developing countries want the freedom to raise tariffs because their industries cannot compete with established manufacturers in more advanced countries. Trade rules prevent them from doing this. The UK and other rich countries preach free trade, that is, a world of low tariffs, but when the UK was building up its own industries in the 19th century, it protected them from foreign competition. It's a case of "Do as we say," not "Do as we did".

Tariffs on manufactured goods imported into rich countries are generally very low[1] but are much higher for agricultural imports.[2] This hurts the poorest countries where more than half the population works in agriculture. Some allowances have been made for the very poorest countries but the global economic crisis is making any benefits more difficult to achieve. Poor countries have suffered more from a decline in exports than rich (Millennium Development Report 2010).

There are also non-tariff barriers, for example quality and food safety controls which are very strict, setting standards which are often difficult for producers in developing countries to achieve.

[1] 1.51% for the European Union and 3.03% for the United States (see nationsencyclopedia.com/WorldStats/UNCTAD-import-rates-manufactured-goods.html)

[2] 18% in the European Union (2007) – (International Herald Tribune 26 Feb 2007)

Trade rules

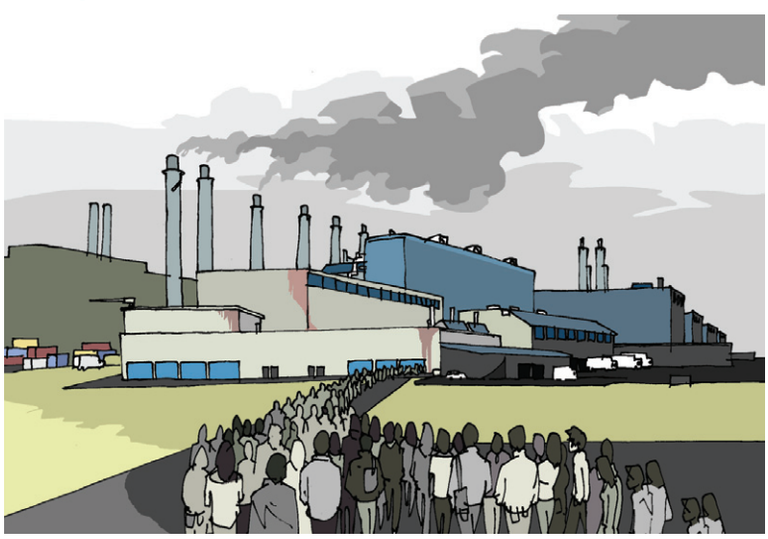
The World Trade Organisation (WTO) sets the trade rules, but still uses rules negotiated in 1994 which allow rich countries to support or subsidise their farmers. This means that farmers often produce more than they can sell in their own country. The surplus may be sent to poor countries and sold there at an artificially low price that local people cannot match. Poor countries want to be allowed to raise tariffs to keep out cheap imported food that threaten their farmers' livelihoods. But rich countries won't agree.

Case study – Cotton crisis

Benin, Burkino Faso, Chad and Mali are able to produce the cheapest cotton in the world. Exports should be propelling 10 million African farmers out of poverty. But subsidies to US cotton farmers mean that West African farmers can't make any money from exporting their cotton because they can't compete with the artificially cheap price. Production in Africa has halved since 2005.

Although China, India and other large developing countries, known as 'emerging economies', have now become major trading powers, the poorest countries are still at a disadvantage. They can't afford expert delegations at the WTO so cannot participate effectively in negotiations which could affect them.

The power of multinationals



World trade is dominated by 80,000 multinational corporations (MNCs), large companies with a presence in many parts of the world. MNCs account for 70 per cent of world trade. The top 100 MNCs employ over 15 million people. MNCs employ lawyers and lobbyists to influence governments as they negotiate for trade rules favourable to them.

Governments keen to benefit from international trade encourage foreign companies to invest in their countries. However, factories producing goods for sale in rich countries, especially garment factories, are increasingly owned by developing country firms. Huge companies like Nike and Marks and Spencer do not own the factories producing their goods, but local companies make the products to their specification. If the factory fails to reach the required standard, the company can always find one that will.

Photograph: Annie Bungeroth Illustration: Dylan Gibson Registered charity no. 285776

FACT

In 2008 Fairtrade chocolate made up less than 1 per cent of the market in the UK. By the end of 2010, it made up around 10 per cent and reached the milestone of £1bn in sales.

The future

CAFOD and many other organisations campaign for trade justice - for development issues to be taken into consideration in trade agreements. Trade justice would guarantee higher, more stable prices for producers in developing countries. Meanwhile, voluntary schemes can make a difference:

- **The Fairtrade Foundation**, which CAFOD helped to create, works with producers in developing countries, guaranteeing them a fair price. This means that the price paid will always cover the costs of production, however low the international price. The Fairtrade label identifies goods belonging to this scheme.
- **The Ethical Trading Initiative (ETI)** sets minimum standards on wages and working conditions. Companies buying manufactured goods from developing countries work with the ETI to try and ensure that the workers are treated fairly and paid properly.

FACT

US retail giant Wal-Mart employs more than 2 million people worldwide (UNTACD 2008). The ranking list of top multinational companies in the world includes: Vodafone, Ford, Nestle, Wal-Mart, Sony, and Proctor and Gamble.

TRY THIS Guess the names of five other top 40 companies. Check if you are right by going to unctad.org and look at the table on 'The world`s top 100 non-financial TNCs, ranked by foreign assets'. Find the home country of the top ten companies.

Useful websites

fairtrade.org.uk
Fairtrade Foundation

wto.org
World Trade Organisation

www.eti.org.uk
Ethical Trading Initiative

un.org/millenniumgoals
UN Millennium Development Goals

tjm.org.uk
Trade Justice Movement – a coalition of 60 organisations, including CAFOD

tradingvisions.org
'Trading Visions' focuses on the voices of small-scale producers in developing countries

All facts correct May 2011