

Are "free trade" deals for SA really free and are they fair?

By Wayne Visser

There was much hype recently about the progress being made in securing a "free trade deal" between South Africa and the European Union. As South Africa increasingly opens its markets and its money mechanisms to the world, it would do well for us to assess the social and ecological impacts of this process. In this first article in a series on Free Trade, we simply highlight some of the warnings which have been sounded by international critics of the popular ideology of "free trade". In a follow-up article, we will also explore the growing alternative movement which loosely describes its philosophy as "fair trade".

The concept of global free trade has its roots in the Bretton Woods conference of 1944 as one of the main visions of the proposed International Trade Organisation (ITO). As it turned out, the General Agreement on Tariffs and Trade (GATT) signed in 1947 was the only aspect of the ITO to be ratified. Various governing constraints which were originally designed to regulate the pure trade aspect of the envisaged global economic system were left out.

Today GATT is enshrined in the newly formed World Trade Organisation (WTO) which continues the crusade for free trade between all countries, claiming that any resistance to the process of tariff and exchange control reduction constitutes unfair trade. But the critics of this process claim that it is so-called "free trade" which is neither free nor fair. They cite the following reasons:

- 1) The theoretical economics foundation of free trade, namely the Theory of Comparative Advantage, is fundamentally flawed with its assumptions about the immobility of labour and capital, given the context of a modern global economy. Certainly this is no longer true of the \$1 trillion a day of capital which sloshes around the financial markets of the world.
- 2) Free trade does not always take into account the national values and objectives of all parties. For instance, whereas in South Africa, job-creating industry may be a priority, capital-intensive enterprise may win the day should it produce a higher return on investment. This free flow of money can also be the cause of capital drainage from decentralised or marginal areas such as the rural localities and the inner city.
- 3) Free trade often seeks out partners with the lowest constraints on profit-making (e.g. minimum working conditions or negligible environmental protection standards), resulting in what US ecological economist and author Herman Daly calls "standards

lowering competition". Hence, in economists jargon, it "externalises" social and environmental costs.

4) Trade between parties of unequal strength seldom results in an equitable exchange. Sophisticated "first world" economies are held to be on "a level playing field" to faltering developing countries reeling under debt and social upheaval. At another level, free trade often puts micro-enterprises up against powerful multinational companies and expects them to compete "on equal terms".

5) The World Trade Organisation (WTO) itself embodies an undemocratic process of making trade and economic decisions which affect the lives of millions of people without being subject to any governing body other than itself, nor providing channels for input or influence by its stakeholders. Even the International Labour Organisation was unsuccessful in its attempts to have a "social" clause included in the WTO constitution.

Among the proposed alternatives to pure free trade are "balanced trade" in which international capital movement is highly restricted, "sustainable trade" in which social and environmental costs are internalised in the price of goods and services and "fair trade" in which all exchanges are screened for their impact on all affected parties. The latter will be the subject of a subsequent article in this series on Free Trade.

Recommended reference:

Trading Off the Future (1993), Paul Ekins, New Economics Foundation, London.

Trading with the Environment (1995), Anderson, Folke & Nystrom, Earthscan, London.

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