

"Crush the World Trade Organization"

New trade theory for sustainable development

Interview with Dr. Atsushi Tsuchida, Meijou University, Department of Economics

Published by Japan Offspring Fund

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- WTO rules cater to the greed of powerful trading companies
 - Global "free trade" means loss of right to make national policy
 - Time to focus on public health and environmental protection
 - Introduce a public finance tariff to support developing countries
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The lack of understanding of "trader"

Q: Dr. Tsuchida, you have identified a problem with the current free trade system. Also, you have introduced a new theory for global trade and sustainable development. Please tell us more about it!

A: I was doing research on the destruction of environment and the connection to trade. This was how I noticed that there was no understanding of the role of the "trader" within the current international economics and trade theory.

In regular trade theory, what is discussed is trade between nations. However, in reality, it is always a trading company that is participating in trade. The examination of the role of the trader, the trading company, is missing from the academic discussion of the global trading system.

Sustainable development is defined as development that meets the needs of the people today without compromising the ability of future generations to meet their own needs. Recently, WTO members have agreed that "the aims of upholding and safeguarding an open and non-discriminatory multilateral trading system, and acting for the protection of the environment and the promotion of sustainable development can and must be mutually supportive."

Then, I tried to think of the role the trader plays in trade. You have to understand that profit is the main reason for a trading company to engage in "free trade". And, as for the developing countries, with this "free trade" their property is taken away in the trade, so it is easy to understand why their lands are reduced to deserts!

The right to make policy is lost by "free trade"

Q: These days, most people are taking "free trade" for granted and consider this term a correct expression. Tell us why you do not agree with this?

A: Currently, "free trade" means it is free for the trading companies to trade. However, for countries or for ordinary people, trade is completely un-free.

In the first place, countries and sovereign people should freely be able to make policies. However, the World Trade Organization has put up a sign that says "free trade" while not allowing countries and citizens to exercise their fundamental rights. On the other hand, trading companies are given a free hand to do almost anything they want.

The era of power, justice and "free trade"

Q: Have you considered how to make a fair system that protects the rights of countries and citizens? Since "free trade" is rejecting that people or nations have rights, what needs to be done?

Dr. Tsuchida: First of all, the misunderstanding concerns the term: "free trade". Free is good, restrictions are bad: this feeling is the reason it is called "free trade" as everyone wants to support that good idea. And then, in order to promote "free trade", each country thinks it is unavoidable that the freedom to make policy decisions is restricted.

Under current WTO rules, countries are prevented from protecting human, animal or plant life or health, or the environment, if rules or laws "are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, and are otherwise in accordance with the provisions of the WTO Agreements."

Certainly, countries and citizens will profit from trade. However, there is a limit to that. When going beyond the limit, you have on the one hand profit, and on the other hand many, many disadvantages.

A need for moral rules

As a trader, you don't have the freedom to be excessive in your purchasing, or excessive in your selling. It is assumed that such behaviour would be breaking the moral rules of trade.

There is a need for principles to guide trade. However, WTO is assuming that this un-free trade regime that they call "free trade" is based on justice. We need to challenge that false assumption.

You would not want trade friction to be the cause of a war. The threat is real, as traders use strong pressure and insist on trying to restrict what policies can be made. Thus, I think, WTO is an instrument for aggressive trade wars, which has followed the age of war through invasions.

Civil society and non-governmental organizations are demanding change in the direction towards sustainable development. NGOs want a push towards moral rules and fair trade. At the Seattle WTO Ministerial meeting in 1999, more than 50,000 protested against WTO, mostly peacefully. Since then, the debate about globalization has brought to light many problems with the current WTO agreement. The Doha Declaration from 2001 mentioned that "negotiations shall take fully into account the special needs and interests of developing and least-developed countries..." but there is growing concern regarding how WTO is challenging the rights of governments and citizens.

Is protectionism really betraying the citizens?

Q: What you are saying makes a lot of sense. So, why do people think "free trade" is so good?

A: Because there is so much propaganda, which makes people believe that the politicians who are opposed to "free trade" are not considering the welfare and profit of ordinary citizens.

It is also said: "According to economists, trade brings profit to everyone involved. If we are unable to trade, our manufacturing industry would make a loss, and consumer can not get cheap goods from abroad. People would be betrayed!"

For example, you may argue that in order to protect farmers, the degree of food self-sufficiency should be increased. To counter this, the economists who are all educated in the "free trade" way of thinking, will simply say it is foolish and that it ignores economic theory.

In my opinion, the "free trade" economic scholars are mistaken. These days, the economists all assume that "free trade" will benefit countries, but really, the only ones who profit directly are the trading companies. The fact that the profit of the trading companies is missing from trade theory means that we cannot call it scholarly.

Dr. Tsuchida has revealed the "great trick" that economic scholars failed to notice. What is needed is increased awareness and information about the forces that shape our societies. However, the WTO is not committed to openness, but rather to an opaque and secretive way of functioning.

This fact, that only trading companies are making profit, is really "a great trick". This is what I want to reveal to everyone. When I discovered this, I thought it was too obvious, even ingenious, and I even wondered if it was not some kind of mistake.

How trading companies are profiting from "free trade"

Q: So, you think there is no profit for the countries that engage in "free trade"?

A: Indeed, there is no profit. To understand this "free trade" mechanism, let us consider the example of coffee. This is a simple example, to illustrate how global trade can work.

Let us say 1 kilo coffee has a value of 1 dollar for the producing country. In the consuming country, let us say the value is 10 dollars.

This difference, the 9 dollars, is called "comparative advantage". According to international economic theory, the profit, in this case 9 dollars, is supposed to be divided between the producing country and the consuming country. But, in the real world of trade, it is the trading company that will get the entire profit.

The trading company buys the 1 kilo coffee for the price of 1 dollar, and it is sold in the consuming country for the price of 10 dollars. It is the trading company that makes 9 dollars worth of profit, which is the comparative

advantage. Of course there are some other expenses such as shipping, but we will not include that in our discussion.

Fair trade organizations have emerged as a strong partner for farmers in developing countries to reach consumers in developed countries. Fair trade rules and fair-trade labelling are strategies for poverty alleviation and sustainable development. A growing movement, its purpose is to help producers who have been marginalized by the conventional "free-trade" system.

In this case, the producing country has simply exchanged 1 kilo of coffee for 1 dollar. There has been no real profit that can be considered a comparative advantage. Also, in the consuming country, the 1 kilo has become worth 10 dollars, but that also cannot be considered a comparative advantage. In other words, only the trading company is benefiting from trade, not the exporting or importing countries.

No profit for countries

Q: Isn't it similar to what happens when people travel abroad: When a Japanese tourist goes to France, let us say she buys a bag that would cost 300,000 yen in Japan, for the price 200,000 yen. If we exclude the consumption tax that goes to the French government, there is really no profit to any of the two countries...?

A: That's correct. It is even more evident when the discussion involves a trading company from a third country. The comparative advantage again means that the trading company takes the entire profit of 9 dollars. For the exporting country or the importing country, there is no profit at all, as the profit goes elsewhere.

This fact, that "only the trading company makes profit", is hidden by economists. It can be said to have been hidden by the economists, because 200 years have passed since economic theory was invented by Ricardo, and it is hard to believe that such an easy idea was never noticed before. To be an

economic scholar seems to mean to be a servant or a pawn of the trading companies!

Sustainable production and sustainable consumption are concepts that were introduced at the United Nations Rio Summit in 1992. At Rio, Agenda 21 was produced, a major action agenda on worldwide sustainable development. However, such concepts are still not really taken seriously by WTO or global trading companies, whose only main goal appears to be short-term greed.

The benefit of a corporate tax for the country of origin of trading companies

Today, trading companies are transnational enterprises. According to the business magazine Fortune, 75-80% of the largest 500 trading companies are distributed in only 5 countries (Chart 1):

Chart 1:

Location of major trading companies:	
Country:	Number of companies:
USA	167
Japan	111
UK	43
Germany	32
France	29

Consequently, these are the 5 countries that will profit from "free trade". It will be impossible for developing countries to benefit from "free trade", since they have virtually no trading companies. As the head office of the major trading companies are almost all located in only 5 developed countries, the investments and profit of trade will go where those 5 countries will gain added benefit.

It should be noted that trading companies have to declare their profit in their home country, and pay a corporate tax. Thus the country of origin of such trading companies can gain from their activities. But if the trading company has no country of origin, it will pay no taxes, and the profit from "free trade" is nowhere to be seen.

The function of overseas affiliated firms of multinational trading companies

Q: How about the large transnational corporations, when they move in to a new country, they have to co-operate with the locals, don't they?

A: Sure, but for the head office, there are four aspects to consider: 1) Procuring natural resources, 2) Production of parts, 3) Manufacturing, and 4) Sales in the local country.

For the head office of large corporations, all they care about is the way they can get resources, and produce the parts, and manufacture the products, and sell the finished goods. They always have to consider how to make a profit while engaging in these activities, even though the head office is in a different place from any of the places where the four aspects mentioned above take place.

In addition, the head office makes a profit from other service activities that local offices are required to pay for, such as training and technical guidance. As a result, almost no profit will remain in the local country, and because of that there will be virtually no tax paid to local authorities.

Q: So, why are different countries trying to attract corporations?

A: The main reason is to guarantee employment. This is the way authorities can collect income taxes - from the workers. However, since the income is low, the income tax revenue is actually quite small.

The systematic plundering of property from developing countries

This is not the only problem. Again, let's look at the 1 kg coffee example. If the trading company is from the same country as the coffee, it can obtain 10 dollars of foreign currency. But, when the trader is from a consumption country and the exporter is from a developing country, the developing country will only obtain 1 dollar of foreign currency.

In order to try to obtain 10 dollars worth of foreign currency, 10 kg of coffee has to be exported. What this means is that unilaterally, developing countries are being plundered by trading with trading companies from foreign countries.

Since almost no trading companies are based in developing countries, the "free trade" of advanced countries will unilaterally plunder the property of developing countries. Thus, the poor developing countries are becoming poorer, while the rich advanced nations are becoming more and more rich.

For food, the WTO specifically refers to the need for global standards to avoid trade barriers. Rules and guidelines for international food trade are since the early 1960s set by a FAO/WHO Commission called Codex Alimentarius. The meetings of Codex are dominated by the major exporting countries, and often the agenda is influenced by trading companies and multinational food companies. Consumer organizations seek to ensure that consumers' interests are properly represented at Codex meetings.

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Unfair competition from farmers in developed countries

Advanced countries are using "free trade" to sell grain in large quantities to developing countries. Chart 2 shows how the United States and European Union have a food self-sufficiency ratio around 140% and 116% respectively. Chart 3 shows the export of the left-over wheat. Six developed countries dominate the global grain trade, and their wheat is usually sold cheaply to developing countries, often as food aid or assistance.

One result of this is that the farmers in developing countries are not able to compete with the cheap imports, so they abandon the farmland. In many cases, they move to the poorest areas of large cities, the slums. The farmland which is abandoned is tragically ruined, perhaps forever, unless farmers are given incentives to return.

Chart 2:

Grain self-sufficiency ratio of countries with a population of over 100 million people (1998):	
(Source: MAFF) (%)	
USA	140
EU	116
India	99
Pakistan	99
China	98
Indonesia	90
Bangladesh	90
Nigeria	87
Brazil	77
Russia	76
Average % of the countries listed above: 97	
Japan	27

Chart 3:

6 developed countries are the main exporters of wheat (2001) (Unit 1,000,000 ton):	
USA	25.8
Canada	17.7
France	15.6
Australia	15.5
Argentina	10.8
Germany	5.7
Total:	91.1
Global exports	113.7
6 countries' share of global exports: 80.1 %	

Unemployment: the increasingly serious problem

When cheap goods are imported from a foreign country, another serious problem occurs. The unemployment of people who used to make such goods is regarded as a non-issue to the "free trade" economists.

To illustrate how trade is the cause of the unemployment problem, we can take the example of TVs. Theoretically, a country exports TV sets because of a comparative advantage, such as a low price. The same country will import food because of a comparative disadvantage. However, making TV sets will require fewer workers than making food. Thus, the industry favoured by the theory of comparative advantage is the cause of the unemployment problem.

Labour rules based on labour rights have been debated in the WTO, but with few results. It has been said that "one can keep labour out of the WTO, but one cannot keep WTO out of labour". Improving labour standards world-wide seems to be one of the most controversial proposals that WTO must deal with. Many developing-country governments say the efforts to bring labour into WTO "represent a smokescreen for undermining the comparative advantage of lower-wage developing countries".

As the theory of comparative advantage is presently so predominant, if we engage in "free trade", the number of workers will have to decrease.

By the way, unemployment has also always been a serious domestic problem, even in the era when "free trade" was not as predominant. However, it has always been possible for workers to move within a country and find work elsewhere. But, with "free trade" this is impossible.

"Free trade" means goods and money can move freely across borders. Workers can not move freely and settle in a different country. To insist on talking about "free trade" is thus unfair and dishonest.

Changing "free trade" is a necessity

Q: Until now, we have been talking about "free trade" as something convenient for developed countries. Isn't it the case that if "free trade" was stopped, developed countries like Japan would no longer be affluent?

A: I never suggested trade should be stopped. Trade, in the sense of a commercial activity, is useful. Because of trade you can deliver the necessary goods to others, and as a result of this, money is also moving around the world. Goods and services will certainly continue to be increasingly globalized.

However, my point is that "free trade" is getting extreme. To use another expression, it is leading to over-production of goods as well as over-consumption of resources.

Corporate Social Responsibility (CSR) is the focus on the social, environmental, and financial success of a company. The goal is to positively impact society while achieving business success. Companies that are serious about CSR are increasingly making use of the ISO 14001 standard for environmental protection, and adopt the SA8000 labour standard. The time has come also for companies in developing countries to start paying serious attention to such issues.

Moderate trading is good for maintaining the affluence of developed countries. The problem is the excessive trade, the plundering of the developing countries' property. This is what is turning the lands of developing countries into deserts.

The result of this is that there will be no resources left in developing countries, so, developed countries will also suffer together with developing countries.

At this point, let us think more about how to modify and change "free trade" so that it benefits both developed and developing countries.

Making countries rich with optimum tariffs

First of all, the decision to trade or not to trade should be made by the country and its sovereign citizens. After all, it is up to the country where trade is taking place to make sure that it is not being plundered by trade.

For that purpose, there should be the freedom to put protective tariffs on imports, in order to protect the domestic industry.

Next, in order to prevent excessive trade, it should be possible to put a tariff both on imports and exports. We can call this original revenue tariff a "public finance tariff". This is the way other taxes work, such as income taxes and corporate taxes. The purpose is to manage the nation.

By introducing a public finance tariff, the quantity of trade would be controlled, and reduced to a more proper and fair scale. When the tariff rate is low, the tax revenue will decrease. However, if the rate is too high, it can decrease the commercial activity, and the tariff earnings will also be adjusted.

"If a thousand men were not to pay their tax bills this year..." Taxes are one way to change production and consumption to become more sustainable, for example by increasing the cost of producing a polluting substance. Other tools are to introduce tradeable permits, for example for greenhouse gases, in order to combat global warming. Since most public health and environmental problems today are global, new thinking is needed to make impact on a large scale.

Sharing the profit

A so-called "optimum tariff" will be reached, as the commercial activity reaches an optimal level. This is the level where all countries as well as the trading companies involved can share the profit from the commercial activity.

Using the method of a "public finance tariff", both countries that are involved in the commercial activity can obtain the same amount of tax revenue. These earnings can be used for example to reduce the unemployment that otherwise is a result of trade.

I see "public finance tariffs" or revenue tariffs as a solution to the current "free trade" problem. For example, a developing country with high unemployment, can start to recover using the tariff earnings. It can employ workers to turn the fields into fertile farms again. In this way, each country can trade freely, and wealth can be fairly distributed.

I repeat: trading companies should pay a tariff when they are involved in commercial activities with other countries, in the same way that they have to pay corporate taxes in their home country.

Global WTO rules, and other regional trade agreements such as Free Trade Area (FTA) agreements, should be changed to become fully compatible with sustainable development. Moreover, production patterns and consumption patterns can be increasingly linked to human consciousness development, to develop the full potential of each individual in society. Education and training for eco-friendly living must become part of the school system, and available to all citizens, young and old. This should include the dimensions of supporting traditional lifestyles and cultural values.

"Crush WTO!" "Shrink or sink" Such battle-calls have been heard since Seattle, 1999. Are national governments losing their right to make policy? What will happen to attempts to protect consumer rights and the Earth's precious environment? Why are poor countries getting poorer? The World Trade Organization allows their wealth to be plundered by trading companies, according to the Japanese researcher Dr. Atsushi Tsuchida. In announcing his new theory for global trade and sustainable development, we go to attack against current trading regimes: the WTO is exposed as an agreement for un-free trade. Let's challenge the WTO with a fresh understanding of global economic reality.

Japan Offspring Fund was established in 1984 as a Non-Governmental Organization (NGO). JOF activities include testing the safety of food and campaigning about safety issues regarding "living", a concept based on the Japanese word "kurashi". The Japanese name, "Shokuhin to Kurashi no Anzen Kikin" literally means "Fund for Safe Food and Living". Since 1999, Japan Offspring Fund has participated at the international level at FAO/WHO Codex Alimentarius conferences regarding food safety standards. We have represented consumers also at other international meetings, including the World Trade Organization, OECD and UNEP/CBD. Reporting from such meetings in the monthly magazine is one way of empowering consumers and increasing awareness about the effects of globalization.

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