

# SCIAF factsheets

## trade...

### What is trade?

Trade is - buying and selling. When you buy a CD or a pair of trainers you are taking part in TRADE. You exchange money for goods or services.

Countries, companies, workers and consumers take part in trade. Workers make the goods e.g. clothes, or grow the crops e.g. pineapples. Companies pay the workers and sell the goods or crops. Other companies might also be involved in a more indirect way e.g. in advertising, transport, or market research. Trade can involve more than one country - a shirt might be sewn in Mexico, have the buttons put on in the United States, then be sold in France.

Countries try to attract companies to set up business (invest) because this brings jobs, and earns foreign currency. Countries and companies import and export goods and services. People who buy the goods are called consumers.

### Fact file

- From 1980 - 1997 world trade in goods tripled from £1 trillion to over £3 trillion
- From 1960 - 1990 the poorest 20 per cent of the world's people saw their share of world trade fall from four per cent to one per cent
- When you buy a pair of trainers that costs £44 only £1.71 goes to the workers in Asia who made them

### TRY THIS:

- Look up all the words in bold in a dictionary
- Draw a diagram of how trade works
- Find out where some of your clothes were made

### Who sells what? - Global trade

Third World countries used to sell mainly raw materials (e.g. fruit, cotton, copper). Today they also sell manufactured goods; especially those that need a lot of workers to make (labour intensive). Third world countries have an advantage over rich countries because wages are lower - it costs less to make a pair of shoes in a poor country than in a rich country.

### Raw materials

Good - you don't need complex technology and you can earn money selling raw materials abroad.

### Problems for the Third World

- The price of raw materials changes a lot and often. This makes it hard to plan
- Prices for raw materials are often very low. You have to sell a lot of pineapples to be able to afford a computer
- It is difficult for third world countries to start making hi-tech goods like cars. They do not have the technology. Rich countries sometimes try to stop them - they don't want the competition in case they lose out

### Manufactured goods

Good - industry often brings jobs. If you have a job you earn money to live on.

### Problems for the Third World

- Companies move from country to country looking for the cheapest work force
- Countries and companies are under a lot of pressure to compete - to make the best product at the cheapest prices. This can mean cutting corners on health and safety, paying low wages, and working long hours

### Trade - free or fair?

When countries import goods they charge a special tax called a tariff. In recent years the trend in world trade has been to reduce tariffs.

Some countries have signed free trade agreements with each other - this means that they promise to reduce tariffs to goods from countries which have signed up to the agreement. For example, Mexico has a free trade agreement with the United States and Canada (NAFTA) that began in 1994.

The World Trade Organisation (WTO) is the biggest organisation promoting tariff reductions on global trade.

### Free trade

Good - low tariffs should mean cheaper goods and more trade

Problems for the Third World - when trade rules are agreed rich countries try to make sure they benefit

e.g. Tariffs will be removed from US maize sold in Mexico. US maize is cheaper than Mexican maize - farmers in Mexico could go out of business.

e.g. The US government has used the WTO to stop Europe giving preference to Caribbean bananas. Caribbean economies will suffer because they depend heavily on banana exports.

#### **Fair trade**

Fair trade guarantees higher, more stable prices for Third World producers. SCIAF supports the Fairtrade Foundation, which works with Third World producers. Look out for these fairly traded products:

- Cafédirect
- Clipper Tea
- Divine chocolate

#### **Ethical trade**

Large supermarkets, clothes and shoe shops buy more and more of their goods from the Third World. Consumers are worried by stories they hear about the low wages paid to workers, and the bad working conditions. Some companies have introduced "codes of conduct" for their suppliers - these set out minimum standards on wages and working conditions.

The Ethical Trading Initiative (ETI) brings together companies, aid agencies like SCIAF, and trade unions to try to develop effective ways of introducing codes of conduct so that workers really benefit.

Members of the ETI include:

- Sainsbury
- Tesco
- Marks and Spencer Who sells what? - Transnational corporations (TNCs)

TNCs are international companies. They may have their headquarters in Hong Kong but their factories in Wales or China. You would recognise the brand names that they own, but might not know the name of the TNC.

#### **Fact file**

TNC - Unilever

Brands include - Blue Band, Flora, I can't believe it's not butter

Brooke Bond, PG Tips, Red Label, Chicken Tonight, Oxo, Bird's Eye, Cornetto, Feast, Magnum, Solero

TNC - Nestlé

Brands include - Nescafé, Crosse & Blackwell, Findus, Perrier, Aero, KitKat, Rolo, Smarties, Quality Street

#### **TRY THIS:**

Why not visit company websites - e.g. Nestlé, Unilever, Shell and find out more about their brands?

#### **Fact file**

- TNCs account for two-thirds of world trade
- Of the world's 100 largest economic entities 51 are TNCs and 49 are countries. Shell's sales are the same size as the economy of South Africa

#### **What's the problem?**

It is hard for governments to control TNCs because a TNC can move business and factories around the world. Governments need to attract TNCs to create jobs, but they may have to offer incentives like lower tax bills, or build special roads or transport systems. The Multilateral Agreement on Investment (MAI) could make it even more difficult to control TNCs. Visit WDM's website for more information.

#### **Additional information**

##### **Useful websites**

<http://www.wdm.org.uk> - Information from the World Development Movement (WDM) about TNCs, and the proposed Multilateral Agreement on Investment (MAI)

<http://www.eti.org.uk> - Ethical Trading Initiative

<http://www.wto.org/> - World Trade Organisation

<http://www.fairtrade.org.uk> - Fairtrade Foundation

<http://www.divinechocolate.com>

<http://www.dubble.co.uk> Day Chocolate Company

[www.greencity.co.uk](http://www.greencity.co.uk) Greencity Fairtrade Suppliers

##### **Useful reports**

(available from libraries or try UN websites)

UNCTAD Trade and Development Report 1998

World Investment Report 1998

UNDP Human Development Report 1999

SCIAF would like to express its gratitude to CAFOD for giving permission to reproduce this factsheet