

Trade

What is trade?

When we buy a DVD or a bar of chocolate, or use a service like the internet, we are 'trading': swapping money for goods. Workers produce goods and services. Companies pay workers and sell their products. Countries encourage companies to set up; companies create jobs, generate taxes and earn foreign currency. Consumers – that's us – buy the product or the service.

Who sells what?

Some developing countries, particularly in Asia, are major manufacturers. Others sell commodities, like cotton, cocoa, or copper. For most it's a mix: Brazil sells aircraft but is still the world's largest coffee producer.

Selling raw materials

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

- They lose out on processing. If countries which grow cocoa beans made them into chocolate, they'd make more profit.
- The price of raw materials and commodities changes fast, making it hard to plan. The prices are often very low.



Selling manufactured goods

Factories and industry mean jobs, but there are downsides:

- Although costs are lower in developing countries, it can be hard for them to move up to making manufactured goods like cars. They may have raw materials, but not technology or infrastructure. Established industries in richer countries have a huge lead.
- Jobs may not be secure. Companies will fail if they cannot offer the quality and price that international buyers want.
- Producing products for cheap prices often means poor health and safety and low wages for workers.

But we in the rich world go on wanting ever more things to buy, at ever lower prices. This has a terrible impact on poorer countries and our planet. As Pope Francis has often said, we can't go on like this.

“ A minority believes that it has the right to consume in a way that can never be universalised. ” DISCUSS Pope Francis, *Laudato Si'*, #50.

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.



Coffee farmers around the world face very unreliable prices for their crops.

Trade rules – unfair for some

International trade has the potential to lift millions of people out of poverty, but the rules are stacked in favour of rich companies and countries.

Tariffs

These are taxes on goods one country buys from another. High tariffs can be used to protect producers at home from foreign competition. Developing countries want to raise their tariffs because they can't compete with manufacturers and farmers in more advanced countries. Global trade rules prevent them from doing this.



The UK and other rich countries protected their own industries from foreign competition when they were building up, but now won't let poor countries do the same. They flood developing economies with their own subsidised goods at prices that locals can't hope to match, a tactic known as 'dumping'.

There are other non-tariff barriers like quality and food safety controls which are very strict, and can be difficult for producers in developing countries to achieve.

FACT

WHILE INTERNATIONAL TRADE IS WORTH \$17 TRILLION A YEAR (2017), THE POOREST COUNTRIES ACCOUNT FOR LESS THAN 1% OF THIS. (WTO)

The power of multinationals

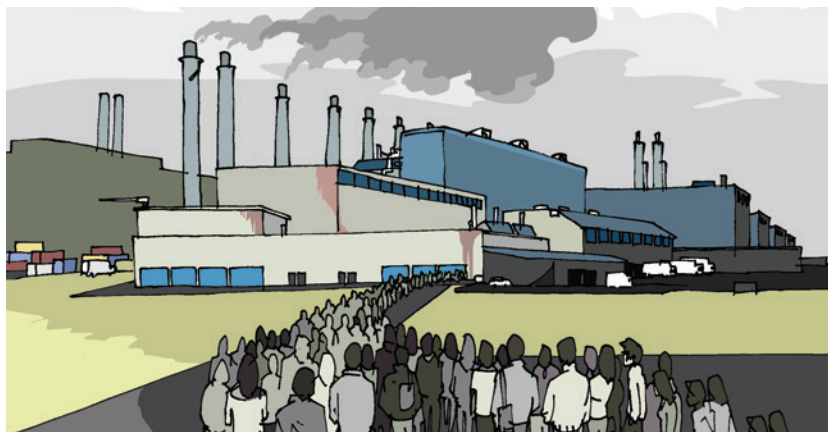
World trade is dominated by multinational enterprises (MNEs), large companies active across many countries. UNCTAD estimates that up to 80 per cent of global trade involves MNEs.

Their sheer size gives them huge power to influence governments to make trade rules favourable for them. Governments may oblige, keen to encourage companies to invest in their countries. MNEs often find ways to pay very low taxes, and may bend rules on workers' rights or environmental protection.

FACT

VALUED AT \$1 TRILLION IN 2018, APPLE WAS WORTH 1.25% OF THE ENTIRE WORLD'S ECONOMIC OUTPUT.

Trade rules and climate change



Faced with climate change, in 2015 world leaders signed a new agreement to limit greenhouse gas emissions. This means radically changing the kinds of energy we use. Frustratingly, trade agreements contain rules which can actually restrict countries from doing this.

Under current rules that protect investors, companies investing in say, oil or gas, can sue governments who pass new laws that harm their profits – for example, policies favouring greener energy. The world urgently needs to redesign trade and investment rules to help reach our climate goals.

Global goals to end poverty

In 2015 world leaders agreed 17 steps to end world poverty and protect the planet. These are the Sustainable Development Goals, or SDGs (see *SDG factsheet*). Helping poorer countries benefit more from global trade is a key theme across many goals, since trade can tackle poverty and promote long-term development. However, it can also add to consumption and increase climate change. The following goals all mention ways in which a fairer trading system can help poorer countries to grow:

- SDG 2: Zero hunger
- SDG 3: Good health and well-being
- SDG 8: Decent work and economic growth
- SDG 10: Reduced inequalities
- SDG 14: Life below water
- SDG 17: Partnership for the goals, contains a section on trade, with a promise to create a fair and universal trading system under the World Trade Organisation (WTO).

Sources: Fairtrade Foundation; Trade Justice Movement; UNCTAD; WTO.
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What is CAFOD doing?



The Fairtrade Foundation, which CAFOD helped create, works with producers in developing countries and UK companies to guarantee a fair price. Fairtrade has been shown to increase living standards and reduce vulnerability for farmers and workers.

FACT

OVER 4,500 PRODUCTS NOW CARRY THE FAIRTRADE MARK IN THE UK: FROM CHOCOLATE AND BANANAS TO GOLD AND PLATINUM. OVER 1.66 MILLION WORKERS AND FARMERS BENEFIT FROM THE SCHEME.

TRY THIS

Check the price of two Fairtrade products against alternatives in your local supermarket. Discuss your findings in class, bearing in mind the price guarantee that Fairtrade gives to producers.

CAFOD campaigns for businesses to respect human rights and the environment. CAFOD helped press for the UK Modern Slavery Act 2015, which includes a rule that businesses must ensure good conditions for workers right down their supply chains.

CAFOD has also campaigned for fairer global tax rules so that big international companies pay tax in the countries where they sell their goods and services, instead of shifting their profits to tax havens.

The Ethical Trading Initiative (ETI) sets minimum standards on wages and working conditions. CAFOD is a member. Companies buying manufactured goods from developing countries work with the ETI to try and ensure that the workers are treated fairly and paid properly.

TRY THIS

Divide into two groups, one representing a developing country trying to get fair trade rules and one representing a rich country protecting its own interests. Develop your arguments, appoint a judge, then put your case.

Useful websites



fairtrade.org.uk
Fairtrade Foundation

tjm.org.uk
Trade Justice Movement (includes CAFOD)

unctad.org
UN Conference on Trade and Development

wto.org
World Trade Organisation

CAFOD is not responsible for the content of external websites.