

# Impacts of trade deals

The European Union<sup>1</sup> is currently negotiating a new wave of trade deals that will benefit European corporations at the expense of the world's poorest people.

These trade deals are unfair. They will reduce the ability of developing countries to use important policy tools to boost their own development and to support local industries. The evidence shows that these deals will not benefit the poor in these countries but will benefit a few multinational companies.

The World Development Movement (WDM) is calling for these trade deals to be stopped. We need to learn from the negative impacts of past trade deals and campaign for a trading system that prioritises the needs of the poor.



PHOTOLARTE

*Farmers protest in Mexico against the falling price of maize as a result of a trade deal with North America*

## Case study: Mexico

Mexico is heavily dependent on the United States (US) as a trading partner and trade with Europe is also important. In 1994, Mexico signed a trade deal with the US and Canada (the North American Free Trade Agreement or NAFTA) and in 2000 it signed a trade deal with Europe. At the time, the

expectations of these deals were high but several years down the line they have not been realised.

Since these deals have been signed, economic growth has fallen in Mexico, employment has not increased, wages have remained low and profits made by multinational corporations that are taken out of the country have risen from £1.2 billion to £2.3 billion each year.

<sup>1</sup>The European Union will be referred to as Europe from this point on

---

**Mexico's trade treaty with the EU "serves as an example for Latin America of the wrong route to follow with Europe."**

Manuel Perez, Mexican Action Network on Free Trade

## Agriculture

*"For many Mexicans, the tortilla is a question of life and death."*

Manuel Janregui, journalist

A key problem with both of the trade deals was that neither addressed US or European agricultural subsidies. Since the signing of NAFTA, subsidised maize from the US has flooded Mexico's markets and the price that farmers receive for their goods has collapsed. One-quarter of the Mexican workforce live off the land and these cheap maize imports have been disastrous for the smallest and poorest farmers.

Since NAFTA began, two million jobs have been lost in Mexican agriculture. As a result, people have left the land and moved to the cities in search of work. This increased competition for jobs has kept urban wage rates low. Farmers who have stayed on their land have responded to the falling price of maize by growing more of the crop but this has only led to the price falling further. Deforestation in southern Mexico has risen to 630,000 hectares a year as the need for more productive land has intensified.

Not even the consumer has benefited from cheaper maize. The two companies that control the tortilla flour market have gobbled up profits gained from the falling price of maize, rather than passing benefits on to customers. Over the first ten years of NAFTA, tortilla prices rose by 279 per cent for the consumer, partly as a result of the deal. Civil unrest is growing in response to this crisis and in 2007 there were protests across Mexico at the high price of tortillas.

## Banking services

*"Countries that have opened up their banking sectors to large international banks have found that those banks prefer to deal with other multinationals like Coca Cola, IBM and Microsoft. While ... the local banks appeared to be the losers, the real losers were the local small businesses that depended on them."*

Joseph Stiglitz, former Chief Economist at the World Bank

Since the Europe-Mexico trade deal came into force, over 7,700 European companies are operating in Mexico. The banking sector is now dominated by foreign banks and in 2006 financial services raked in £3 billion in profits. UK bank HSBC, for example, is now the fourth largest bank in Mexico and it has 1400 branches and six million customers.

There is strong evidence that the dominance of these big, foreign owned banks has led to reduced lending to small and medium enterprises and their productive activities. Loans to small farmers, for example, have dried up which has made it *even harder* for them to compete with the cheap imports of maize and other agricultural goods.

## Tourism

*"The local population is increasingly unemployed. This leads to pauperisation, social breakdown and marginalisation."*

Grassroots cultural movement

The tourism market is yet another sector that has been opened to foreign companies as a result of these deals. European travel companies now control the vast majority of tourist hot-spots running along the Caribbean coast. It is estimated that over 90 per cent of profits from these European controlled resorts go to Europe.

Local campaigners say that these travel companies have bankrupted local businesses and pushed up the cost of living. Furthermore, the impacts are broader than just tourism, as provision of 'all inclusive packages' means that tourists do not even buy from local traders.

---

## Case study: South Africa

South Africa is one of the countries in the world where inequality is most extreme. 34 per cent of South Africans live on less than £1 a day and unemployment levels are at a staggering 33 per cent. The post-apartheid South African government was keen to sign the trade deal with Europe as 47 per cent of its exports end up there.

But since this deal was signed in 1999, South African people have suffered from job losses, poorer wages and worsening working conditions. Many local fledgling industries have been unable to compete with increased imports from Europe and have been unable to take advantage of new opportunities to access European markets.

Overall, the deal is unfair on South Africa and in many ways reflects its weaker negotiating position. While South Africa agreed to cut tariffs on 40 per cent of European exports, Europe only agreed to cut its tariffs on 25 per cent of South Africa's exports. To make matters worse, this cut in tariffs did not include key export products for South Africa, such as wine, which is one of its main agricultural exports to Europe.

## Agriculture

*"We have been flooded with low price canned goods from Europe ... sold below cost and undercutting our industries."*

Ben Turok MP

Not only does the trade deal fail to address European agricultural subsidies but it also demands that South Africa make larger cuts in agricultural tariffs. This has enabled Europe to export higher levels of subsidised produce to South Africa. South Africa's processed food industry is now under threat due to the sudden increase in cheap canned goods from Europe. The industry employs 27,000 people that face wage cuts, a decrease in labour standards and ultimately job losses. As women workers make up a large part of the processed food industry, they suffer disproportionately from the impacts of the European trade agreement.

**"The Europe-South Africa trade agreement is not a good agreement. It has not brought benefit to South Africa. Europe has been the beneficiary."**

Ben Turok MP, South African Parliament's Trade and Industry Committee



*Tinned tomato imports from subsidised producers in Europe are threatening the local processed food industry*

## Electronics industries

*“We need to protect infant industries and bring in a dynamic of decent work and wages. Our trade negotiation strategy needs to be informed by our development policy.”*

Rudi Dicks, Congress of South African Trade Unions

Europe’s electronic exports to South Africa have increased by 50 per cent in the last few years and are set to keep increasing. The South African electronics industry is not ready to compete against European electronics and the removal of tariffs on incoming goods will impede future development of the industry.



*Imports of cheap electronics from Europe are damaging South Africa's ability to develop its own competitive electronics industry*

## Clothing

*“One garment worker has been documented to have worked in 6 factories over the last 5 years – not through choice but because the textiles sector has been so weakened in recent years. This has had an incredibly destabilising impact on her life, home life and children”.*

Lebohang Pheku, Gender and Trade Network for Africa

In recent years, Chinese exporters have flooded the South African market with cheap clothing goods. Since the Europe-South Africa trade deal, Europe has also increased its export of clothes to South Africa. This influx of clothing has led to the loss of 60,000 jobs in this sector and it is the vulnerable, temporary workers including women who are likely to suffer the most.

In theory, since the trade deal was signed, South African clothing exporters should have increased opportunities to access the European market. However, South African clothing exports to Europe have actually fallen.

### Did you know?

- 1. Europe seeks to boost its trade at the expense of the poor in developing countries**
- 2. Europe uses its political and economic power to secure good deals for its companies**
- 3. Deals covering agriculture will always be unfair until Europe tackles its own subsidies**
- 4. Impacts in developing countries include job losses, declining tax income for governments and reduced opportunities to develop local industries**