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ABSTRACT

This paper, published in *Labour Focus on Eastern Europe* , Number 59, 1998. pp 74-93 and reproduced in a number of journals and books, examines the consequences for world trade of the restructuring – commonly termed 'globalisation' that arose out of the Uruguay round of the GATT and let to the reconstruction of the World Trade Organisation in its present form, beginning in 1982.

It establishes that the widely-held view of the system of world trade as a symmetric free trade system is largely mythical. It shows, on the basis of a study of the outcome of disputes within the GATT over the critical period in which the present world trading system was founded, that decisive non-market advantages were established by dominant continental trading blocs organised around NAFTA, the EEC and APEC, which as Stiglitz at the time explained, 'tilted the playing field' systematically in favour of these blocs.

FIXING UP THE WORLD: GATT AND THE WORLD TRADE ORGANISATION

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PRELUDE: THE SHORT SUCCESS STORY OF THE POLISH GOLF-CART INDUSTRY

A story told by World Bank chief economist Joseph Stiglitz aptly explains the new world economic order. It begins early this decade, with liberalisation the watchword of the moment. Polish industrialists, imbued with enthusiasm for the new free-market model, surveyed the options for exports and located a significant opportunity: the US golfing community. Poland, they discovered, could make cheap and robust carts which sold well; market reforms obviously had their up side.

Unfortunately, not for the US golf-cart industry.

A remedy was to hand: US dumping regulations outlaw the import of any good below its 'normal value' if it damages US producers. Normal value is defined as the sale price in the exporting country, but golf-carts were not a common item in a land where half the population was starving. A second possible approach, though a concession to heterodoxy, is to define normal value as the cost of production. However since Poland's market reforms were incomplete it was by definition not competitive, and therefore the domestic production cost could not be a benchmark.

Since Poland's economic advisors were busily explaining that Poland could only be efficient as a market economy, one might be excused for thinking this cost might be greater than its 'normal value'. However, Congress is a practical body, and applied its standard procedure, which was to identify a country with conditions comparable to Poland and ascertain the cost of producing golf-carts in that country. The choice, after careful consideration … Canada. Obvious, once one thinks about it, despite the minor drawback that Canada does not have a golf-cart industry.

Nothing daunted, Congress duly adopted the following definition: the normal value of a Polish golf cart is the price at which it would be produced in Canada, if it made golf-carts. It then applied a punitive tariff on all imports of Polish golf-carts equal to the difference between this, and their sale price in the USA.

And so ended the Polish export success that never was.

THE SLEEPING POLICEMAN OF THE NEW WORLD ORDER

In this brief anecdote we have, in a nutshell, the reality of modern world trade. Whatever the free-trade rhetoric, the reality is something very different. In order to understand both why and how this is, we focus neither on the abstract theory of world trade nor on the enormously complex system of exchanges which make it up. Instead, we look at the politics of it. When we do so, we find a radical restructuring not just of the extent of world trade but of the institutions that govern it and the rules by which they function. At the centre of this restructuring stands a new international organisation: this article is a brief encounter with the myths, and the realities, of that body.

Think of the world economy, and two household words come to mind: the International Monetary Fund and the World Bank, the two supranational bodies created by the Bretton Woods Treaty of 1947 when the allied powers constructed the postwar economic world order. It is less well-known that these two have been joined by another. The *World Trade Organisation* (WTO), formed in 1994 as a result of the 1986 'Uruguay Round' of negotiations under the General Agreement on Tariffs and Trade (GATT), has emerged as the third pillar of the postwar economic order. Although generally presented as a simple continuation of GATT, its has in fact inaugurated a fundamental change in the organisation of world trade.

The GATT has been transformed from an ineffectual chamber of commerce into a powerful device for restructuring the world market in the commercial and financial interests of the leading powers, the core requirement being to maintain the supremacy of the US economy in the face of the largest trade deficit in world history.

It is supposed to expand world trade, generally perceived as a positive and harmless general benefit to all nations. But whatever the free-trade rhetoric, its actual role is to integrate the non-aligned and former Eastern bloc nations into an unrestricted market for the products of a select club of advanced nations; to suppress national sovereignty in favour of institutional guarantees for the systematic plunder of this market, and to grant this same club immunity from every competitive threat which might result.

The control of trade has emerged from the entrails of the world market to claim its place, alongside financial blackmail and debt-slavery, as a primary instrument of advanced-country domination.

THE NEW TRADE AGENDA

The WTO enshrines a radical new agenda in world trade. Its cornerstones are:

(a) liberalising 'services' through GATS (General Agreements on Trade and Services) covering one-fifth of all world trade ($1 trillion). This is an *institutional* change masquerading as trade reform. Since financial services are treated as a 'commodity' it encapsulates a legal obligation to free capital movement, overriding the legitimate right to national economic sovereignty. Moreover the definition of exports has been extended in the case of services to include production by foreign-owned subsidiaries in the host country. Trade regulation has thus been extended for the first time to the internal market régimes of member states.

(b) a decisive new trade category of Intellectual Property Rights (IPRs). IPRs have as much to do with trade liberalisation as the free transport of slaves. They *outlaw* trade in products embodying any technology less than twenty years old – that is, almost everything – except as specified by the current owner of the technology. They are an absolute monopoly of the advanced countries: 0.16% of world patents are currently owned by third world residents.[1] They make the owner of a technical process a separate legal entity distinct not only from the labourer but also the factory or farm-owner and the original inventor. They transform the ownership and control of technology into a marketable instrument of domination. They set in concrete the principal market mechanism that impoverishes the third world, namely the transfer of technological super-profit through trade.

(c) large-scale anti-dumping (AD) actions as the preferred protectionist device of the USA, EEC and Australia/New Zealand, a practice baldly described by the World Bank as 'a packaging of protectionism to make it look like something different'.[2] As HK remark (p178): "AD is not about fair play. Its goal is to tilt the playing field". Before 1986, anti-dumping actions were exceptional events. By 1992 they were universal advanced-country practice. 1040 anti-dumping actions were initiated by the industrialised countries between 1985 to 1992, over half directed against either Eastern Europe (132), the third world (137) or the developing Asian countries (297). The non-industrialised countries – three-quarters of the world's people – initiated a grand total of 91.

(d) the consolidation of a system of trading blocks – 'Free Trade Areas' around the dominant capitalist countries – the EC, NAFTA and APEC – with specific exemption from the measures imposed on all other WTO members. Though article XXIV of the GATT proposes stringent conditions that a Free Trade Area must satisfy, these are never applied.

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[1] Mihevic 1995

[2] Hoekman and Kostecki (1995). From now on this is abbreviated to (HK)

> As of 1990, only four working parties (of a total of over fifty) could agree that any regional agreement satisfied Article XXIV, three of these before 1957. “The GATT’s experience in testing FTAs (free Trade Areas) and customs unions against Article has not been very encouraging...It is not much of an exaggeration to say that GATT rules [on regional agreements] were largely a dead letter” (HK 219). In short, the advanced countries do what the hell they like.

FROM CONSENSUS TO COMPULSION

This disparate series of changes is being cemented by converting a treaty organisation – the old GATT – into a supranational enforcement organisation that imposes and legislates not just trading relations but the internal property, tax and subsidy régimes of its members.

GATT held protracted ‘rounds’ of multi-party negotiations aimed at the mutual reduction of specific tariffs, subject to consensus. In effect, it was a brokering organisation for extending the bilateral arrangements which the big players would have made in any case to a slightly wider circle of participants. “In instances where the choice was between risking serious conflict and attempting to enforce the letter of GATT disciplines – for example on regional integration or subsidies – the contracting parties generally ‘blinked’. In large part this reflects the nature of the institution, which is basically a club. The club has rules, but its members can decide to waive them, or pretend not to see violations.” (HK:3)

Although historians see the GATT as the principal vehicle of trade liberalisation, this was in large measure because the major powers, under US hegemony, wanted to liberalise their own trade in any case to secure a share of exported US capital during the period when it still enjoyed industrial supremacy. GATT simply invited the others along for the ride.

The WTO marked two decisive changes. Firstly it moved from ‘result-orientation’ to ‘rule-orientation’; trade was now governed by laws and formulas instead of targetted commodities. This extends to legal trade regulations which the WTO obliges member governments to write into their own laws. Most significantly, these rules are now policed.

“Formerly the GATT was not an international organization (i.e. a legal entity in its own right) but an inter-governmental treaty. As a result, instead of ‘member states’ GATT had ‘contracting parties’...The WTO is an international organization that administers multilateral agreements pertaining to trade in goods (GATT), trade in services (GATS), and trade-related aspects of intellectual property rights.” (HK:23)

If a member country breaches a WTO regulation, an enforcement process is triggered and consensus is required not to implement sanctions but to *prevent* them. If a third-world country seeks exemption to protect its industries or agricultural producers from competition from the

technologically more advanced Northern countries, it faces co-ordinated, punitive trade sanctions from all WTO members.

THE RECONSTRUCTION OF THE WORLD MARKET

What makes such threats effective is a systematic expansion of GATT and the WTO which has culminated in the re-establishment of a global world market previously sundered in two by the outcome of the Russian revolution, two World Wars and the Chinese revolution.

GATT was a minority club with a mere 23 signatories. The balance of forces was so weak that it proved impossible to establish the international trade organisation (ITO), called for in the Bretton Woods agreements. In the 1949 'Annecy' round of negotiations a mere 11 countries took part. China withdrew in 1950 and the US, which had followed a fiercely protectionist stance between the wars, abandoned the attempt to secure congressional ratification of the ITO. Though the initial 1947 agreement secured a 21% reduction in US tariffs, the next three rounds secured only a further 8.4% reduction.

The term 'free trade' has never appeared on GATT's formal agenda. The GATT-1947 preamble calls for 'raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, developing the full use of the resources of the world and expanding the production and exchange of goods'. The principal mechanism was to reduce tariffs and eliminate discriminatory treatment.

No planned economy took part until 1967 when Poland joined, and the third world countries succeeded in neutralising or blocking the application of the GATT trade agreements to themselves through the non-aligned movement and the 1964 establishment of UNCTAD – the United Nations Conference on Trade and Development – which was formed to press for trade measures to benefit developing countries. The 'Kennedy Round' of 1963 involved 74 countries and spun out for four years. The practice of picking and choosing which GATT regulations to implement was so widespread it was nicknamed 'GATT à la carte'. The 'Tokyo round' of 1973 involved 99 countries but lasted six years and was obliged to legalise preferential tariff and non-tariff treatment in favour of developing countries.

Thus though the developing countries were drawn into GATT's orbit, access to a separate economic system in the USSR and Warsaw Pact countries offered them an important degree of autonomy. Though governed (and impoverished) by the world market they could veto many imperialist proposals, imposing selective controls on trade to protect domestic producers, and limiting the drain of capital brought on by unequal exchange, because they could always resort to (or threaten) trade with the Soviet or Chinese blocs instead. The 'Third World' – a term coined by Mao Tse-Tung – took part in trade negotiations, but acted

collectively to veto or water down measures that damaged domestic producers, offsetting – though not overcoming – the impact of the world market on domestic accumulation.

By the end of the Uruguay round, which began in 1986 and ended a gruelling eight years later, the scene had changed utterly. There were now 128 member countries including most former Eastern European countries. The former USSR no longer presented an effective alternative outlet or supplier. Aggressive 'threat-based' US policies, the debt crisis and the draconian intervention of the IMF with its structural adjustment, export-oriented programmes, produced the 'neoclassical counter-revolution' (Todaro 1994:85). Keynesians were replaced on the leading world financial institutions, and wave after wave of neoliberal advisors and political regimes came to the fore in development economics and in the third world countries themselves. Resistance gave way to capitulation; the new order had arrived.

DIVERGENCE, BIG TIME

What are the material consequences of this new economic régime? The most fundamental point to grasp is that free trade produces inequality. The neo-classical doctrine of convergence predicts that in consequence of trade, the disparities between trading nations should disappear over time. The nearest adequate term for this idea is 'cretinous'. No serious known fact supports it.

Characterising 120 years of the world market as 'Divergence, big time', senior World Bank economist Lance Pritchett (1997:12) goes on to examine its more recent phase:

"From 1980-1994, growth per capita GDP averaged 1.5 per cent in the advanced countries and 0.34 percent in the less developed countries. There has been no acceleration of growth in most poor countries, either absolutely or relatively, and there is no obvious reversal in divergence...taken together, these findings imply that almost nothing that is true about the growth rates of advanced countries is true of the developing countries, either individually or on average." (Pritchett 1997:14)

The dogma which informs the notion of convergence – the theory of comparative advantage – is false. It predicts that all nations will gain from trade. In fact in all trade there are losers and winners, and the greater the extent of the market, the wider the divergences between them become.

This can be offset after a fashion by technical change, so that even with widening differences between nations, the absolute living standards of many nations can for certain periods improve, and this did happen to a degree after World War II. It was facilitated by the absence of generalised multilateral trade regulation, which meant individual nations could to a limited degree determine their own relation to the world market and offset some of its most damaging

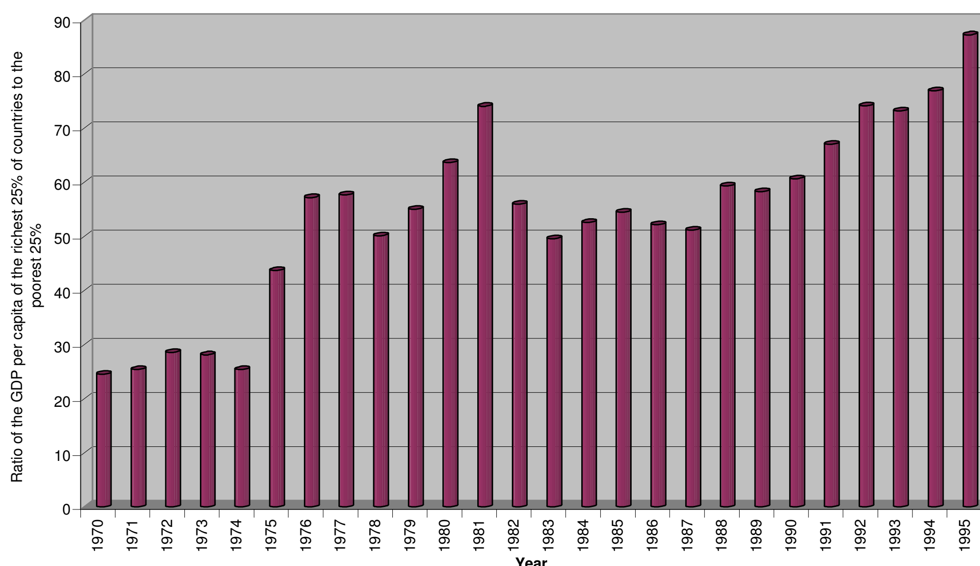
effects. A small number – the ‘four tigers’ for example – were even able, on the basis of large capital inflows and (ironically for free-trade dogma) highly-regulated internal markets, above all labour markets – to begin catching up with the advanced powers.

With the Reagan era and above all the arrival of the WTO, this window of opportunity vanished. Now, not only are relative differences between nations accelerating but a growing number of people face absolute declines in living standards, starvation, and ruin. Already in 1990 *Socialist Economic Bulletin* #3 calculated that:

- relative impoverishment had become the normal condition of three-quarters of the human race; by 1988 the proportion of the world population in market economies falling further behind the industrialised countries in GDP per capita, reached 75% compared with 46% in 1967;
- a striking rise in absolute impoverishment; over the same period, the number of people living in countries registering an absolute decline in GDP per capita had risen twelve-fold, from 71 million to 808 million.

Chart 1 below shows the ratio between the GDP per capita of the richest 25% and the poorest 25% of countries since 1970. It speaks for itself.

Chart 1: Rich and Poor since 1970



Source: World Bank *World Development Indicators* 1995. GDP per capita in $, Atlas exchange-rate method.

If unrestrained, the social conflicts generated by such an explosive differentiation would rapidly destabilise market relations. The nation-state provides an institutional framework to contain, ameliorate or suppress such antagonisms – fiscal redistribution, labour mobility, social solidarity in general or, if need be, repression. When conditions of relative uniformity

in living standards are found in a single nation, they thus arise not from the *extension* of the market but from the social and political counter-reactions which it generates and the external, political limits to which these give rise.

In world trade these institutional factors mitigating the destructive solvent effects of the unrestricted market are largely absent. Nor can they be overcome by the geographical expansion of the richer nations; the prodigious redistribution of wealth required to create a genuine social solidarity is far beyond the threshold acceptable to the holders of private wealth, or indeed the competitive survival of their business. The absorption of the very small territory of East Germany, with a mere 17 million not very poor people, has driven the richest country in Europe from surplus to deficit for over a decade, called forth one of the greatest fiscal transfers since Marshall Aid, and with more unemployed than in the Weimar Republic, has still not resolved the resulting rampant antagonisms.

The only ultimate solution is the abolition of all national barriers, but the market acts in the opposite direction, as is evident from the explosion of new nations that accompanied – and resulted from – the new trade era imposed by the USA via the WTO – as the disintegration of Yugoslavia and of the former Soviet Union bears vivid testimony.

The formation of any larger blocs or units of the rich nations is a consequence of, and depends on, the extent to which they can cement their own classes around the plunder of the poorer nations. What they require, therefore, is access to the markets of these nations without any reciprocation. Free Trade is not only a myth, but a lie.

The world market thus itself calls into being nation-states and just as surely pitches them into conflicts whose result, twice this century already, has been global war. This sets absolute limits on what it can achieve. It is therefore one of the principal modern forms in which the market throws up barriers to itself, alongside the creation of social classes. In particular, it leads to the division of the world of remarkable persistence, which has lasted more or less since the early 1870s to the present day, between a small bloc of very wealthy nations with a near-monopoly over technology, finance, commerce and the means of warfare, and everyone else in the world. This is the actual empirical consequence of the formation of a world market; what has to be grasped is that it is not an accident or deviation from the way the market works but on the contrary consists of the highest development to which the world market can attain.

THE WTO AS INSTITUTIONAL POLICEMAN

The re-consolidation of a universal world market is the surest guarantee of the impetuous descent into mass starvation and poverty of the mass of the world's peoples. The only escape for any nation except the small club of leaders is to except itself, in one way or another, from

the general functioning of the market. This is why the old GATT could not be an enforcement agency and why the new WTO *has* to be an enforcement agency.

The WTO is now the third arm of the IMF and the world Bank, who work in consort to impose a complete institutional policy framework on the world. The banks impose open markets and free trade as a condition of credit and debt relief. But free trade is defined to mean a definite institutional régime which overrides the economic sovereignty of all but the largest players. This includes not just full capitalist property rights and the free movement of capital but extends to taxes, subsidies or *any* measure that can be construed as 'unfair competition' – that is, any element of state provision.

The original GATT agenda sought to avert a repeat of the interwar breakup into hostile trading blocks, and prioritised 'non-discrimination' and 'reciprocity'. Non-discrimination states that members must make the same trade concessions to all others as to their 'most-favoured nations' (MFNs). Reciprocity states that there should be, in some (usually poorly-defined) sense, an equality of loss, which implies an exchange of reductions in barriers. These principles could apply in a small club where they extended essentially bilateral agreements to a wider circle. But in any wider reduction the losses and gains for all partners cannot possibly be the same; there are losers and winners. This is why GATT functioned as it did, as a negotiating forum whose decisions were quite easy to avoid or bypass.

With enforcement and 'rule-based' tariff reductions it becomes impossible to ensure that all parties benefit. Therefore, everyone seeks exceptions to the rules. The industrial powers have established two systematic procedures for imposing their exceptions. This is the recourse to anti-dumping legislation, coupled with the GATT provision that exempts 'trading blocs' from most GATT regulations. The third world and transition countries have in contrast lost almost all exceptions they could previously resort to. Moreover, the application of reciprocity is by nature asymmetrical between large and 'small' nations where 'small', it should be remembered, has to be translated into the language of money – in which India is one-fifth the size of the USA. As HK (163) note: "fundamentally, it is a fact of life that small economies (i.e. most developing countries) have little to bring to the negotiating table."

This is the background to two further principles which have risen to prominence with the WTO: 'fair competition' and 'market access'. Under fair competition any non-market production – or indeed, any element of subsidy – of any good for export is immediately in violation of WTO principles.

But the market access rule involves the most far-reaching consequences of institutional enforcement because of the role played by services, which characterise the new stage of capital exports. 50% of the global stock of foreign direct investment is now in services.

Most service activities can only be provided locally, so to reach foreign markets a service provider must locate in the host country. On US insistence, the WTO now provides that services provided by a foreign-owned subsidiary constitute exports and must be able to compete on a 'level playing field' with domestic producers. If generalised, this principle would mean, for example, that a US health company in the UK could initiate a GATT action against the UK for unfair competition by the NHS.

This position is not yet settled. The G-10 group of larger developing countries opposed it vigorously, supported by UNCTAD which proposed to define trade in services as occurring only when the majority of value added is produced by non-residents; a *labour*-, in fact *human*-based criterion. It embodies the simple principle that a nation's residents should determine what happens in their own economy. The US proposal, a *property*-based principle, asserts that the economic right of the owner overrules the political rights of the people.

In 1990 Martin Khor Kok Peng (p37) accurately predicted that: "the [Uruguay] round is an attempt by transnational companies to establish sets of international laws that would grant them unprecedented unfetttered freedoms and rights to operate at will and without fear of new competitors almost anywhere in the world." By 1994 the institutional structure for this vision was in place.

CAGING THE OWL OF MINERVA: INTELLECTUAL PROPERTY AND THE FREEDOM OF TRADE

There has been a global world market before – at the turn of the century. When history repeats itself, it either brings new elements into being or transforms old ones so much that they become something else. The reconstruction of the world market has brought with it a new development in property relations: TRIPS or Trade-related Intellectual Property Rights, which seek to establish a world-wide market in knowledge. In a notable new conflict between the forces and relations of production: the words 'extension of trade' for the first time take on the actual meaning 'restraint of trade'.

Intellectual Property Rights (IPRs) emerged as a central aspect of a general US campaign on trade which Bhagwati (1993) designates 'Aggressive Unilateralism'. This centred on section 301 of the Trade and Tariff Act of 1974, a keystone of US trade legislation. It was elaborated in sections 301 to 306 in 1984, and in sections 301 to 310 of the 'Omnibus Trade and Competitiveness Act' of 1988.

Section 301 raised hackles because it provided for mandatory action in pursuit of the enforcement of GATT-agreed arrangements, even when GATT procedures had not been exhausted. The US thus set itself above the same international legal framework from which it

drew justification for its actions and the claims that its partners had trade obligations to it. The 'Super 301' and 'Special 301' provisions raised this to a new level. Bhagwati (1993) records that

> "Super 301 required the US Trade representative to prepare an inventory of foreign trade barriers, establish a priority list of countries and their unreasonable practices, and then set deadlines for their removal by the foreign countries, and, should they fail to comply, for decisions on retaliation by the United States. Special 301 is similar in its time-bound approach but is addressed specifically to intellectual property rights"

He goes on to remark that

> "Section 301 is characterised by the (wholly distinct) fact that it enables the United States to unilaterally make demands for trade concessions by others without offering any matching, reciprocal concessions of its own that others might demand in turn."

IPRs fall into three categories: trademark goods (designer and brand products), copyright goods (artistic materials) and patent goods (industrial processes and their products). Copyright law has been significantly extended to include software. Bringing these three categories together signifies, essentially, a generalised alienation of mental products and their transformation into a distinctly marketable entity. A patent, a copyright, or a trademark embodies the right to produce 'something' defined not by what it is or contains, but by the knowledge or information that distinguishes it. Software, the most advanced form of IPR, involves hardly any material product at all. What is actually sold is the legal right – or license – to use the software in your own production processes.

IPRs, like GATS, defined trade barriers in terms of the internal legal régime. The USA explicitly sought , and through the WTO achieved, changes in the internal structures of its trading partners and rivals to harmonise their copyright and patent laws with its own, with a view to stamping out what it characterised as 'piracy'; the production of copies. It abandoned the existing, bilateral structure for Intellectual Property safeguarded by the United Nations body known as the World International Property Organisation (WIPO) precisely because of this need. WIPO operated on the old GATT principle of non-discrimination; as Maskus (1993:82) delicately explains:

> "the prevailing policy principle in WIPO is national treatment, which requires countries not to discriminate between domestic and foreign firms in it IPRs. However, this principle does not prevent the level of protection from being weak if a particular country so desires."

The USA sought to ensure that the country's desires would not enter into the matter. Prior to the Uruguay round, India provided a seven-year patent protection for pharmaceutical production processes and none for pharmaceutical products; as a WTO member it becomes obliged to extend protection on both produces and processes to twenty. In plain English, the legislation makes it illegal for India to cure its sick, and deprives the Indian people of the sovereign right to do anything about it.

This illustrates our second point: this extension of the market demands a restriction of production. US manufacturers were concerned, not to protect the US markets against floods of fake Gucci watches and pirate CDs, but to prevent other countries making these same or comparable products themselves for their own use. In 1989 the US exported $58.8 billion worth of goods sensitive to IPR, being 16.1% of its total exports whilst Brazil exported $2.0 billion, that is, 0.2% of US imports, and imported $2.4 billion, that is 13.1% of its own imports.[3]

IPRs thus created a new category of commodity: knowledge itself. The US compelled the world to make the communication or application of privately-owned knowledge a crime. Imitation was transformed from the sincerest form of flattery into the newest form of theft.

The universal nature of this change, by no means restricted to a small hi-tech sector, is the transformation of agriculture, the occupation of more than half the people of the world. Among its profoundly reactionary consequences is an end to the self-sufficiency of world agricultural production. Producers are now obliged to abandon natural production from their own seed and pay premium prices for genetically engineered seeds; indeed these seeds are neutered so that do not reproduce.

IPRs are justified in terms of reward for the work of innovation. But there is no reason to suppose, even in terms of orthodox theory, that the granting of a monopoly in a product should generate a reward that is in any way related to the work of creating the product. IPRs are a legal monopoly: a license to print money. The language itself used to describe their motivation is quite explicit about this:

> "If an innovation has economic value but is also easily imitated, competing firms would copy and sell it, earning a share of the potential profits. In perfectly competitive markets, enough duplication would emerge to eliminate all profits…Intellectual property rights attempt to correct this problem by providing an exclusive right, or monopoly, to the innovative firm to sell or use the product or technology. Patents,

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[3] *UN Yearbook of International Trade Statistics* cited in Maskus (1993)

trademarks, copyrights, and other IPRs limit market access to the innovation and raise its price." (Maskus 1993:72)

THE MARKET IN DOMINANCE: IPR, TECHNICAL CHANGE AND THE SOURCE OF INEQUALITY

The new legislation is a product of a distinct phase in the development of technology, which is in principle no longer embedded in particular objects and processes. When the diffusion of knowledge was restricted by physical constraints, industrial knowledge did not pass rapidly from one producer to another because the real secrets of an industrial process were tied up in expensive equipment, specialist training, in 'know-how'. The mere invention of a process was really only a tiny part of the creation of a new technology.

Increasingly, however, the governance of automated systems resides in reproducible components – a piece of software or indeed a genome, which even reproduces itself. The divorce between the knowledge of a process, and the process itself, has turned technical innovation into an easily transmissible thing. The cost of reproducing a technical advance is an ever-smaller proportion of the cost of producing it in the first place.

This interferes with an essential element of the motor of capitalist development. Technological change under capitalist conditions gives advanced industrial producers, selling into the same market as a backward producer, an excess or 'super-profit'. If it costs me $20 to produce a product, and it costs you $5 to make the same product on account of your access to advanced machinery or software, then since we both sell our product for the same world price, you make $15 more than me for each item sold. The motor force of capital movement is the search for these surplus profits, and this is what drives innovation.

The root cause of inequality is that given a free market in goods and capital, this surplus profit accumulates in the advanced nations. Clearly, if I do succeed in making my $15 excess profit, unless I am particularly profligate, I can re-invest it in further innovation so that by the time you have employed my new technology, I am already installing even more advanced equipment. This unequal exchange is the root of the growing gap between rich and poor, particularly when the state in the advanced nations acts as a military and legal guarantor of such capital transfers. The process of accumulation and technical change literally sucks the lifeblood from the poor nations.

But if the technology can be passed on in a disc or a seed, the physical guarantees of this capital transfer are removed. The natural basis of superprofit is eroded and must be supplanted by a new, legal basis.

This world market in knowledge is a major and profoundly anti-democratic new stage of capitalist development. In this new and chilling stage, the application or even the communication of knowledge itself a violation of property rights. The WTO is transforming what was previously a universal resource of the human race – its collectively, historically and freely-developed knowledge of itself and nature – into a private and marketable force of production and, with the general imposition of IPRs in genetic material, removing the natural basis of the reproduction of food and with it the independent self-sufficiency of the planet.

HUMAN RIGHTS VS PROPERTY RIGHTS: THE WORLD TRADING SYSTEM AND ITS CONTRADICTIONS

Much of the policy debate has little contact with reality. It is widely assumed that :

(a) universal free trade is inevitable;

(b) globalisation is synonymous with it;

(c) trade can be extended without limit.

This gives many policy debates a very peculiar aspect, since they revolve around whether to endorse or reject something that is not actually happening. Whatever is going on, it is not free trade. No rich country chooses it, and no poor country is offered it. Insofar as the barriers to trade are destroyed, the basis of trade is undermined because the accelerated concentration of wealth which results incessantly destabilises the political and social order.

Universal dogma to the contrary, all parties do not gain from it, not even the whole of a single nation. On the contrary, as Pritchett shows, the winners are few and the losers are many; and even in the winner states, the beneficiaries are unable to form a social class capable of advancing the nation as a whole.[4] A striking proof is the very fact that the rich have erected such an armoury of defences against competition from their poorer rivals. *If* the gains from trade are so universal, why do even those who gain the most, circumvent it on such a scale?

The terms in which the policy dilemma is always presented – as a choice between free trade or autarky – is thus simply out of touch with the real options. A reaction against autarky is both justified and understandable – it was directly responsible for the collapse of the Soviet Union. But, in the new world order at least, autarky is not a choice but a punishment. Rule-based, enforceable trade regulation means that sanctions – cutting a country off from the

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[4] The Institute for Policy research (1997) reports that of the largest 100 economic entities in the world (counting nation states), 58 are global corporations and the sales of one alone – Wal-Mart Inc –exceeds the GDP of 158 nations including Poland, Greece and Israel. Yet the combined employment of the top 200 corporations amounts to only 18.8 million people.

world market – are a regular instrument of policy. The very nations which for decades rejected sanctions against Apartheid as an unworkable infringement on commerce, now deploy them both as regular policy – for example against Iraq and Serbia – and use the threat of them, alongside debt servitude, as an instrument for securing favourable terms in trade negotiations.

Sanctions can be an effective threat because it is today almost impossible to survive outside of the world economy. But it is currently impossible to take part in the world economy except through trade. Thus when any nation takes practical steps to defend the welfare of its people against the new world economic order, its immediate need is not to leave the world market, but to avoid being thrown out of it. Nations are no longer free to determine for themselves what relation they will have to the rest of the world. Multilateral trade treaties obligation have deprived them of a vital freedom: *economic sovereignty.*

The fundamental choice is therefore not whether to orient the domestic economy into or out of the world market, but to find a foreign policy which defends the right to an independent domestic policy regardless of trade obligations.

In the old GATT days the G-10 countries, at least, could to a limited degree choose how to take part in the world market. The rich nations were not cohesive enough to dictate to them. The non-aligned movement, UNCTAD, GATT 'á la carte' and the very fact that trade agreements were bilateral, all gave them limited freedom of action which let them offset, though not overcome, the destructive impact of trading from behind.

This freedom of action has been removed. Thus whatever its economic form, the new world order is essentially a new *political* order. Though measured in money, its true cost of its restructuring is human, social and environmental. The doctrine of free trade, especially when extended to services, finances and knowledge, amounts to the following: that humans do not have the right to intervene in, and control, any aspect of their lives which has become a marketable instrument. But as everything becomes a commodity, *all* human and social relations are being marketed. The recent world conference on global warming shipwrecked on precisely the USA's insistence on its right to trade in pollution. It is only a matter of time before the human genome itself is patented and, if the literal meaning of IPRs is applied, the commercial ownership of a human and all her descendants in perpetuity will become a legally-enforceable right. In short, the general extension of trade, quite contrary to Hayekian utopia, is synonymous with a general loss of freedom.

Twenty years ago such human rights as care when ill, dignified old age, employment rights, education, and unfettered access to knowledge were so widely accepted that they entered

constitutions and charters of universal rights. Today they are unfair competition. The universal market is in direct formal contradiction with human rights.

To produce one dollar's worth of output, an Indian worker must now on average work eighty times longer than her or his American counterpart – twice as long, incidentally, as in 1980. If a band of military adventurers arrived on India's shores, set up a prison camp and forced the local people to work under these conditions, it would probably provoke armed rebellion. Now the Indian government is obliged to impose the very same relations in the name of freedom.

This principle, of the unequal exchange of labour, has always underpinned trade on account of concentration of advanced technique in the hands of the advanced producers. However a new factor is the remarkable extension of the commodity relation into spheres previously limited by the directness of human interaction – services, communication, and technical knowledge, or by the directness of the relation to nature and its reproductive processes – agriculture. This among other factors has propelled education, health, the care of the young and the old, the environment, and access to the fruits of knowledge, into the frontline of resistance.

As long as the battle is kept out of the political terrain, these rights are surrendered without a shot. If it is *illegal* for a nation to determine its relation to the market, then it has no choice but to surrender human rights, because the market overrides its sovereign right to provide them. The conversion of social relations governed by politics into economic relations governed by private contracts has a paralysing effect on resistance because it hides the true relations of constraint which the contracts embody, making these contracts appear as the fruit of uncontrollable and impersonal forces offering no option but surrender.

But one cannot opt for something that isn't there. The problem facing most actual trading nations, above all the poorer ones, is to decide their relation to a world market which the WTO has transformed into a weapon against them.

The choice on offer from the WTO, the World Bank and the IMF is liberalisation, that is, surrender. It means:

(a) opening the domestic economy to demolition by the cheap products of the dominant powers regardless of the consequences for local environment and industry, with no reciprocal rights to sell into the advanced countries;

(b) surrendering collectivised welfare provision in the interests of free competition;

(c) dismantling all protection for people and lands which might be deemed in restraint of the free movement of capital;

(d) dismantling all protection over conditions of work or pay;

(e) abandoning any public claims on the intellectual heritage of humanity.

Resistance is not only feasible, but no other option is practical, as country after country discovers, usually to its cost. Ironically the countries held up as examples of market success – the 'Four Tigers' – are now suffering its most destructive effects. On the other hand when an economy as small as Cuba has managed to hold out, against all the odds and for a remarkably long time, against the destruction of its social policies at the hands of the market, why should it be so difficult for any larger countries?

The alternative in the first instance does not lie in the adoption of any economic nostrum but in re-asserting sovereign *political* rights of all humans over their own activities and their results: to decide for themselves how they will arrange their production, their welfare, their lands, their education, and their means of informing themselves.

But this in turn requires a political effort, since it calls for an alliance with sufficient weight to counter the rich and powerful nations. The basis for such an alliance is not the imposition of a specific economic strategy or nostrum, since each nation needs the right to determine its own economic strategy. The basis for an alliance is the defence of this right itself: the placing of the *right of economic self-determination* squarely on the agenda of free and equal relations between peoples.

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