Gavin Fridell; Kate Ervine

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Beyond Free Trade

Alternative Approaches to Trade, Politics and Power

Edited by
Kate Ervine
Gavin Fridell

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Introduction: Beyond Free Trade

Kate Ervine and *Gavin Fridell*

This book comes at a time when scarcely a day passes that major news outlets do not carry some coverage of free trade deals being negotiated and signed around the world. Unlike five or ten years ago, that coverage now arrives to many of us through a number of social media platforms. Weaving together the narrative of the journalist with that of the social commentator, the activist with that of the NGO, the policy maker with that of the social movement participant, such coverage and analysis reveal a complicated, power-laden, and contested landscape. Upon its terrain, critical observers pursue distinct 'wars of position' (Gramsci 1971), in order to destabilize monolithic techno-representations of free trade as common sense, good-for-all, strategies to support human development. As this introduction was being written, the following headline appeared in our Facebook newsfeeds: 'The truth behind the Transatlantic Trade and Investment Partnership' (TTIP), directing the observer to the Sierra Club's US website where the organization describes negotiations for the TTIP between the United States and European Union as 'cloaked in secrecy' and 'dominated by corporations', threatening, if approved, to 'put corporate rights on steroids', to 'open the floodgates for fossil fuel exports and fracking', and to 'revise law-making in favour of corporations' (Sierra Club 2014). Canada and the EU are working on a similar trade deal, the Comprehensive Economic and Trade Agreement (CETA), described by the Council of Canadians as an 'affront to democracy' and a 'corporate power grab' negotiated in secret. If approved, CETA would, among other things, ban 'buy local' policies, dramatically increase the cost of domestic drugs, and pressure governments to privatize common resources such as water, and energy and transport services (Council of Canadians 2014).

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Shifting focus, the same newsfeeds included the following headlines: 'Can the BRICS Build Something New?' (Milanovic 2014), 'BRICS Nations to Create $100bn Development Bank' (BBC 2014), and 'BRICS Nations to Form Development Bank to Rival World Bank, IMF' (Bevins 2014). Sharing the same virtual space, these news pieces remind us that 'tectonic shifts' are underway in the global political economy, involving new and expanding patterns of South–South trade and North–South trade (UNDP 2013). China (the world's second largest economy, and largest consumer of everything from cars to timber, gold, copper, and pork), along with other major developing economies like Brazil, India, and South Africa, has been at the forefront of new South–South trade relations that are altering world trade patterns, with the share of South–South trade of world merchandise trade increasing from 8 per cent in 1980 to 26 per cent in 2011. These changing trade patterns have been interwoven with new directions in international trade policy, including an array of new regional integration projects and increased action among wealthy countries to expand their relations with Southern trading partners. Emerging Southern trading giants have offered new opportunities for some – through trade, investment, and international cooperation – and challenges for others – in terms of fierce competition from Southern states and transnational corporations, much of it over these very same things (Girvan 2010, Shirotori and Molina 2009, UNDP 2013).

Seeking to account for the nature and prospects of the shifting sands of the global economy, Jan Nederveen Pieterse (2011, p. 27) has conceptualized the possibilities on the 'table' as ranging from a reformulated 'global plutocracy' with 'Anglo-American capitalism and financial markets in the West back in the lead and emerging markets joining the club', to an 'emancipatory multipolarity' in which 'countries representing the majority of the world population [have] come to the head table'. The former implies a world controlled by elite interests and continued polarization within and between countries; the latter offers a 'script' for possible emancipations, as previously silenced voices have space to redraw the game plan. The current nature of negotiations at the World Trade Organization (WTO), we would argue, lends strong support to those who fear that a 'global plutocracy' appears to be the most likely scenario, given that its rules are inherently structured in favour of the richest countries, and that the emerging powers like China, India, and Brazil have increasingly pursued the further neoliberalization of the world trading system through WTO negotiations and tribunals (Bello 2009, Hopewell 2014, Jones 2010, Rosset 2006).

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While one can never be certain of the direction things might head in international trade and trade negotiations and given that the contours of a reconfigured global order are only 'dimly visible on the horizon' (Nederveen Pieterse 2011, p. 26), what is more certain is that the global trade regime is likely to continue to be dominated by power and politics, rooted in contingent and sometimes contradictory social and historical structures, in a manner that offers little resemblance to anything akin to genuine 'free trade', despite its pervasiveness as the hegemonic public face of official trade policy. Recognizing and challenging the gap between official trade policy and the complex dynamics behind trade politics served as the conceptual starting point for this book, the product of a two-day workshop, 'Alternative Trade: Critical Approaches and New Directions in Trade and Development', hosted at Saint Mary's University in Halifax, Canada, in November 2013. During that workshop, the contributors to this volume presented papers that examined 'actually existing' trade as a historically specific and structurally contingent complex of social, political, and economic processes. This was done not only with the intent of mapping the contours of a rapidly changing global order and its implications, but also with the goal of initiating an interdisciplinary dialogue. Specifically, this volume takes aim at conventional trade economics and trade theory that, contrary to the cases presented in this book, continue to formulate their postulates such that their world of economic modelling and their conceptual foundations bear little trace of the actually existing circumstances under which trade and trade politics occur.

Beyond trade economics

Conventional trade economics and trade theory, central to the shaping of the 'official' international trade agenda and its neoliberal free trade policy prescriptions, draw heavily on the tradition of neoclassical economics. Within this tradition, it is assumed that rapid economic growth derives from a nation's pursuit of 'free trade' according to its 'comparative advantage' – in unison, the two are said to generate competition, technological innovation, and eventual specialization. Developed by British millionaire stockbroker David Ricardo in the nineteenth century, the theory of comparative advantage contends that, *relative* to other countries, each country ultimately enjoys or can construct an economic advantage in the production of certain goods. To draw from Ricardo's (1817) classic example of comparative advantage, while Countries A (England) and B (Portugal) both produce wine and cloth,

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Country A produces both more efficiently. Nevertheless, Country A may find the greatest efficiency in producing wine, meaning that, from the standpoint of comparative advantage, it is in the relative interest of both countries if Country A does what it does best, producing wine, allowing Country B to produce cloth which can then be traded for wine to the mutual benefit of both (Chang 2008, Fletcher 2010, Kemp 2008). While simplified, these assumptions are harnessed by contemporary proponents of free trade to argue that, in order to optimize their comparative advantage, developing countries must eliminate trade-distorting barriers that impede competition and distort domestic production; this further requires the opening of their economies to Northern technology, products, and investment that can and will aid in the process. According to free trade proponents, all boats will rise if countries dedicate their productive energies to those goods for which they enjoy a comparative advantage (Bhagwati 2002, Jones 2010, Sachs 2005).

While beyond the scope of this introductory chapter to fully elaborate on the genesis of the theory of comparative advantage, it is nevertheless critical to acknowledge that it continues to serve as the foundation upon which contemporary neoclassical trade theory is based (Chang 2008, Fletcher 2010, Kemp 2008). As such, interrogating its core assumptions, which remain highly speculative when measured against the history of global trade and development, is of particular importance. To begin, contemporary trade models assume near-perfect market information, and market actors are expected to anticipate their relative comparative advantage in its vast complexity, elaborating subsequent market decisions from this information. In reality, determinants of comparative advantage are so complex, while simultaneously socially and politically constructed, that obtaining near-perfect market information is largely impossible (Stiglitz 1994, Stiglitz and Walsh 2006). Moreover, given the freedom independent firms have to make their own market decisions within a capitalist economy, firms in Country A can and do choose to produce *both* wine and cloth based on firm-level choices, whether or not this aligns to the assumptions of a country-level theory of comparative advantage. Monopolistic and oligopolistic behaviour, moreover, among firms is well documented – Microsoft, Apple, and Intel are amongst some of the more well-known examples – positioning themselves to use their market share to influence economic outcomes in their favour, such that the very ideas of 'free market' and comparative advantage are undermined (Forbes 2001, Kemp 2008, pp. 197–198).

Furthermore, the assumptions of neoclassical trade theory, including that the transition from one industry to another is relatively easy, are

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further complicated by the legacies of historical path dependence and the comparative disadvantaging wrought by colonial occupation and domination, geography, the existing and available technology, the fixed cost of physical infrastructure, and the skills and training of the existing workforce (Chang 2008, Fletcher 2010, Kemp 2008, Krugman and Venables 1995, Robbins 2003). Even in cases where capitalists are able to shift investment from one industry (wine) to another (cloth) with relative ease, workers frequently lack the resources, skills, and mobility to make a similar transition, generating waves of unemployment and/or underemployment; comparative advantage for capital may not necessarily result in advantages for workers.

In response to the uneven outcomes emerging out of the quest for comparative advantage, conventional trade economists refer to the 'compensatory principle' to argue that the national gains accrued overall through trade generate sufficient wealth whereby the winners can always compensate the losers through taxation used to fund a national social safety net, including unemployment schemes, skills retraining programmes, and so forth. Nevertheless, the demise of the industrial and textile bases in much of North America, as companies sought to lower production costs in the 1980s and 1990s by relocating production to countries whose comparative advantage derives from drastically lower labour costs and weak regulatory systems, demonstrates that comparative advantage often times engenders increased joblessness and widening inequality, with poor quality, low-skilled jobs replacing those that were lost. Nor is comparative advantage of this kind a guarantor of high quality development, evidenced in tragic disasters such as the Rana Plaza garment factory collapse in Bangladesh in April 2013, with over 1,100 dead and more than 2,500 injured (Parveen 2014). Indeed, as the real world comes to bear on decisions surrounding economic policy, highly complex social, political, and ideological battles are waged, with little guarantee that a 'compensatory principle' will win out over the desires of the winners of comparative advantage to horde more wealth. As Fridell (2013, p. 16) has argued elsewhere, 'Free trade ideology can lead to a libertarian worldview among the winners of international trade, who are often fiercely resistant to compensating the losers and utilize their extensive economic and political power to fight against progressive taxation and redistribution' (see Chang 2008, pp. 65–83, Lefeber and Vietorisz 2007, Quiggin 2010, pp. 136–173).

From an ecological standpoint, Ricardian trade theory suffers from a relatively static short-term approach to economic decision making

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that, states Chang (2008, p. 47), is good 'for those who accept the *status quo* but not for those who want to change it'. This can be a particularly difficult bind for economies whose status quo involves dependence on non-renewable resources, high-energy-intensive industries, and a general reliance on a 'fossil energy regime' (Altvater 2007, p. 42). As the impacts of global warming become increasingly dire, ranging from rising sea levels, increasingly intense storms and droughts, and collapsing agricultural systems, all of which produce profound socio-ecological consequences (IPCC 2013), comparative advantage continues to encourage tar sands development in Canada, the dramatic spread of fracking to access cheaper natural gas in the United States, and the persistence of coal mining in Australia over investments in renewable energy.

Indeed, neoclassical trade theory is able to construct models for a highly complicated and complex global economic system only by neglecting critical variables that determine economic outcomes. This is evident when conventional trade economists, including those that are more critically oriented, begin discussions of comparative advantage by stating 'Let there be just two countries' (Kemp 2008, p. 50), when in fact states maintain countless trading partners from which they often derive the very same product (i.e., wine). In relation to this, there is little reason to assume that market shares and access are available to those attempting to develop their perceived comparative advantage, particularly given the highly competitive nature of the global economy (Akram-Lodhi 2000, Fridell 2011, Robbins 2003, Wells 2004). Conventional trade theory's omission of critical variables is further evident in the fact that the history of global trade is one whereby the powerful colonized much of the world to their advantage, using that power to construct a global trading system that favoured their interests. When in the nineteenth century the British Empire precipitated the collapse of the Indian textile industry by banning cotton textile imports from colonized India, in conjunction with rules allowing for the duty free importation of British textiles into the Indian market, and this despite the well-known superiority of Indian textiles relative to their British counterparts, colonial Britain was acting out of national self-interest, not on an impulse towards the free flow of goods and comparative advantage (Chang 2008, pp. 40–45). Ultimately, by reducing the world to a set of speculative and depoliticized models that neglect power as ever-present and actively constitutive, conventional trade theory contains within it a set of assumptions from which the powerful are able to maintain the conditions necessary for their continued reproduction.

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Seeing trade differently

In his seminal book *Seeing Like a State: How Certain Schemes to Improve the Human Condition Have Failed*, James C. Scott (1998, p. 2) begins his discussion by reflecting on how state efforts at sedentarization – to settle mobile peoples – served as a starting point from which to consider 'legibility as a central problem in statecraft'. Specifically, the modern state is confronted with a profoundly complex and impenetrable social landscape that simultaneously serves as the terrain upon which its impulse to govern, at least in part, emerges. Making sense of that landscape requires vast efforts at 'simplification' in order to render legible that which must be governed. The resulting 'standard grid' – 'permanent last names, the standardizations of weights and measures, the establishment of cadastral surveys and population registries, the invention of freehold tenure, the standardization of language and legal discourse, the design of cities, and the organization of transportation' – while simplifying the world, nevertheless offered only 'abridged maps' (Scott 1998, pp. 2–3). Through his analysis, Scott constructs an enduring argument about the violence of simplification where that which has been made legible responds to the interests and goals of those performing the operation, while failing to reflect actual conditions and social relations on the ground. Through simplification, an otherwise complex, unequal, and power-laden world is, as framed by Tania Li (2007), 'rendered technical', foreclosing on the possibilities offered by alternative narratives and lived experiences (see Braun and Wainwright 2001, p. 41, Scott 1998).

Tying together the contributions to this volume is the contention that legibility similarly represents a central problem of tradecraft. In his path-breaking critique of a World Bank and Canadian International Development Agency-sponsored 'development' project in Lesotho, James Ferguson (1994, p. 67) argued that development experts constructed a 'strange and distorted picture of the country . . . that would be considered absurd in academic settings', this 'in the face of massive and well-known contradictory evidence'. In reducing poverty in Lesotho to a technical problem, while simplifying actually existing circumstances on the ground, the outcome becomes not a 'pragmatic' response to the need to govern, but in fact 'an exercise of power' (Ferguson 1994, p. 255). When conventional trade economists and policy makers exhort 'Let there be just two countries', and when they argue that the pursuit of free trade and comparative advantage produced growth and development in advanced capitalist countries – suggesting that the same recipe should be followed for all nations of the world, despite

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the historical record proving otherwise – they are imposing a distorted picture (Chang 2008, Stiglitz 2002). This distortion makes the world of trade 'manageable' for political leaders and policy makers, while serving the needs of the wealthy and powerful, by constituting a world in which their strategic interests are erased, naturalized, or taken to be the interests of everyone in the 'society'.

Outline of the book

As an alternative to conventional trade economics and its limitations, this book seeks to offer an innovative approach for understanding international trade, trade agreements, and trade policy based on historical, political, or sociological methods. Drawing on some of the most visible examples of a dramatically changing global trade landscape, the contributions to this volume aim to support the realization of two overarching objectives. First, and as noted above, the contours of a reconfigured global order is increasingly being reflected in fundamental shifts in global trading patterns and relations of power associated with the 'rise of the South'. This book makes an important contribution to a nascent body of academic work that is attempting to conceptualize and make sense of the changes currently taking place in the global political economy. This task is of critical importance given that it remains highly uncertain how the rise of new powers and shifting power relations will ultimately play out, with overlapping tendencies of emancipation and oppression clearly discernible.

Second, this volume seeks to destabilize the simplified world of conventional trade economics, which has generally been unable to account for the political and social forces driving new directions in international trade by state and non-state actors, giving rise to a growing interest among social scientists from a variety of disciplines in innovative methods for understanding the political, social, ecological, ideological, and economic dynamics of international trade. This volume seeks to advance these new methods, confronting the vision of trade offered by mainstream economics with ones rooted in a messier, more complicated, and power-laden world. Our approach to doing this begins with 'Historicizing Trade', in Part I of the book. Historian Steven Topik, in his chapter, draws on historical commodity chain analysis to weave together an expansive trade history of coffee to illustrate how one of the world's most ubiquitous goods was commodified, often responding to impulses outside of a naturalized economic rationality linked to profitability. Contrary to conventional scripts in trade economics, Topik contends that the construction of international coffee markets since 1500 has been a profoundly historical *process* involving hundreds of millions of people, and central to the very production of the world economy.

Next, John Talbot in his chapter utilizes food regime theory to examine how food import dependence in Jamaica was produced, to the significant detriment of the local population, through a set of international trade rules in place since the 1950s that, in their contemporary iteration, favour the interests of powerful Northern supermarket chains over those of local producers. Finally, Liam Campling's contribution explores African, Caribbean and Pacific group of states (ACP) – European Union (EU) trade preferences in canned tuna, with an eye towards geopolitical and world market dynamics. Against a widely held framing that has sought to break EU trade arrangements into those that are 'developmental' and those that are 'commercial', Campling argues that all phases of ACP–EU preferences have been dominated by commercial interests, with the EU exercising its 'macro-regional market power' in the interests of European capital.

Part II shifts the discussion towards 'Politicizing Trade: Shifting Alliances and New Trends'. Paul Bowles argues in his chapter that the proliferating number of regional trading agreements in East Asia is about much more than trade. In particular, he contends that participants are engaged in a scramble to strategically position themselves within the context of China's rise, offering us a window into the 'domestic interests, regional rivalries, geopolitics, [and] different conceptions of the region and development paths' envisaged by these actors. In the next chapter, Cecilia Green analyses the 'new Chinese presence in the Caribbean', with a specific focus on the Eastern Caribbean and Chinese entrepreneurial immigrants to the region. She reveals the multifaceted scope of this process, eschewing polarized arguments about the consequences of China's new global development role.

Turning the discussion towards Latin America, Henry Veltmeyer's chapter analyses how neoliberal capitalist development has allowed for the elaboration of a set of alternative economic models in the region. He argues, nevertheless, that their basis in extractivism maintains a North–South trade dynamic that is unlikely to engender more inclusive and sustainable forms of development given the make-up of the sector. In turn, Ricardo Grinspun and Jennifer Mills use their contribution to consider how Canada's development and hemispheric relations are increasingly dominated by primary resource extraction at home and abroad, fostering a process through which corporate interests are

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championed over those of the environment and civil society. In his chapter, James M. Cypher asks whether South America's commodities boom from 2002 to 2011 was a process of 'regressive restructuring', contending that, in line with the formulations of Raúl Prebisch, trade in primary products will necessarily lead to a decline in the region's terms of trade, calling into question the overall commodity-driven economic strategy being pursued by many governments in Latin America. Finally, Anna Zalik's chapter examines the emerging phenomenon of 'ocean grabbing' whereby corporate actors are attempting to secure access to the international seabed and its minerals, once envisaged as the 'common heritage of mankind'. Through her case study, Zalik argues that the 'tension between the interests of extractive capital and claims for economic equity will mark 21st century debates' over access to these resources.

In the final part of the book, 'Trading for Change?', Mark Moberg argues, in his chapter on fair trade bananas from Dominica, that the scheme intended to provide vulnerable rural producers with a social premium in the face of neoliberal structural adjustment has, ironically, left rural communities even more 'vulnerable to market vagaries' in the face of supermarket price wars, a severe recession in the United Kingdom, and subsequent declining social premiums. Gavin Fridell's contribution examines the case of ALBA and Petrocaribe in the Caribbean to argue that, in this case, South–South trade cooperation 'offers Caribbean states short-term lifelines' and long-term 'policy space' through which market volatility and comparative advantage can be constructed to the advantage of Caribbean populations. Ruth Felder's contribution, in turn, analyses Argentina's economic recovery in the early 2000s that included, amongst other things, a changing domestic and international economy and participation in regional cooperation initiatives such as MERCOSUR, UNASUR, and CELAC. Overall, Felder argues that while addressing the crisis of neoliberal reforms, Argentina's policy changes have failed to overcome Argentina's reliance on commodity exports.

Kate Ervine, in her chapter, uses the case of carbon trading to examine how distinct forms of regulation in global compliance and voluntary carbon markets lead to a disregard for human rights in the case of the global compliance market, one not found in the voluntary market. Nevertheless, she argues that both markets serve as neoliberal tools to address the climate crisis and, in so doing, respond primarily to profit signals over those of ecological limits. Finally, Nicola Phillips, in her chapter, contends that forced labour in global supply chains represents not a 'residual' phenomenon that will be eliminated with the continued

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globalization of trade and production, but rather a 'relational' phenomenon integral to the functioning and organization of the global economy. In failing to acknowledge this, private governance strategies intended to deal with forced labour are unable to address its root causes.

The volume concludes with a final reflection on the limits of comparative advantage and the welcome revival of 'dynamic comparative advantage' (Stiglitz et al. 2013). While the latter certainly offers a more rigorous and historically informed basis upon which to formulate trade *policy* than classical comparative advantage, in the end we argue that trade *politics* frequently look more like desperate or high-stakes 'gambles' than anything akin to rational processes aimed at 'optimizing' trade for society's benefit. While the notion of trade 'gambles' might be more elusive, less optimistic, and less suited to immediate policy dictates than conventional trade economics, we argue that it offers a more feasible road upon which to begin to envision and construct the conditions for more socially and ecologically beneficial trade – a necessarily complex, uncertain, messy, and contentious path.

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Part I
Historicizing Trade

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2

Trade History: From the Tree to the Futures Market, the Historical Process of Coffee Commodification, 1500–Today

Steven Topik

Introduction

Markets are not natural institutions, inherent in human nature, as Adam Smith suggested. Nor are all humans born as *homo economicus*, market-oriented, profit-maximizing individuals. Markets and international trade are social and historical products. This chapter will discuss the historical *process* of creating international markets by applying historical commodity chain analysis to coffee.

Why focus on coffee? As an internationally traded commodity, it is one of the few goods that date back to the days of the fifteenth-century spice trade. It came to connect Africa, the Middle East, Asia, Europe, and the Americas. Because hundreds of millions, if not billions, of people have been intimately involved in the growing, trading, transporting, processing, marketing, and consuming of coffee, we are dealing with more than just a case that is illustrative of broader trends. Rather, coffee itself has been central to the expansion of the world economy.

Ethiopia origins, Yemeni commodification

The coffee that became internationally popular, arabica, originated in what is today Ethiopia, where it grew wild natively. The popularity of arabica and its global diffusion were human decisions, which, as the name implies, began not in Ethiopia but across the Red Sea in Yemen.

In Ethiopia humans consumed coffee more as a food or as a stimulant than as a drink. Markets were little in evidence. Coffee cherries were plucked from naturally appearing trees; according to one source they were forbidden to plant stands of arabica trees because they were

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seen as a divine gift. Hence in the beginning coffee was not only *not* a commodity; it really was not a "crop."

We would not be discussing coffee had not the coffee *drink* gained popularity in Yemen before 1500 where coffee was planted in the mountains and became a trade good (Tuchscherer 2003). Coffee became closely associated with Islam where it substituted for the social role of alcohol which Mohammed had revealed was forbidden. The new drink became acceptable only after weathering theological battles with Muslim Ulamas who sometimes ruled that the new beverage was forbidden by the Quran and after secular fights with Ottoman officials who sometimes enforced their edicts (Hattox 1985). Eventually the secular pleasure of coffee sociability and the profits and revenue this demand promised overcame religious objections. Coffeehouses replaced proscribed taverns in the urban Middle East. Still, coffee provided a limited market in the Ottoman Empire because it was mainly a luxury beverage for the urban affluent.

Initially, the coffee chain was neither producer driven nor buyer driven. Both the growing and the brewing ends were fragmented with little knowledge of each other or control of the chain. It became an international trader-driven chain only when mercantile- minded Arabs and Indians with much experience in the long-distance market-oriented commerce of the spice trade incorporated it into the circuits of the Red Sea, Mediterranean Sea, Indian Ocean, and Middle Eastern shipping and caravan commerce. For over two centuries, Eastern trade diasporas and Arabs, not Europeans, dominated caffeinated cross-cultural commerce (Curtin 1984).

Coffee became a commercial commodity, but trade was slow to convert growers into full-time market-oriented profit seekers. They had harnessed nature by growing the arabica in the irrigated terraces they had built in Yemen's mountains where they grew it in small plots that included subsistence crops. Surplus production was slowly brought down the mountains to market towns where Arab and Indian merchants purchased small batches and dispatched them overseas and/or overland. Cairo was the major center from which large-scale merchants distributed Yemeni coffee to key cities in North Africa and the Middle East (Faroqhi 1994).

Only after more than a century of the Arab-centered international market did British, Dutch, and French monopoly companies become involved as an extension of their spice trade (Cowan 2005, Glamann, 1981). A growing taste for coffee in Europe and the desire for a profitable commodity and for self-financing colonies led Dutch, French, and British

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merchant companies to first trade with Arabic and Indian merchants. They then expanded from commerce and transport to cultivation by overseeing coffee planting in their newly conquered colonial enclaves. Whereas 90 per cent of Amsterdam's imports in 1721 were from Yemen, by 1726, 90 per cent were from the Dutch colony in Java where peasants were coerced into cultivating and selling coffee to the Dutch East India Trade Company (Multatuli 1982). As in the Middle East, the coffeehouse became a new social space in Western Europe.

By 1750 coffee production had spread to the Americas. Initially American coffee was mostly colonial production from Dutch Guyana grown by African slaves on land owned by Dutchmen. But soon the price of French production from Haiti turned it into the world's wealthiest colony. Coffee came to rival sugar as Haiti's and the Caribbean's leading export. By the 1770s over 80 per cent of the world's production originated in the Americas (Clarence-Smith 2003). While emerging as dominant producers for a relatively short time period, by the middle of the nineteenth century, European states no longer played a major role in the development of coffee production. Dutch Java's production fell sharply because of the attack of leaf rust after the 1880s (Fernando 2003). In the Americas, the Dutch preferred to serve as traders and shippers; they never developed or expanded their small colonies. The British preferred the mercantilist possibilities of exploiting the tea trade. The Spanish and Portuguese preferred cacao so that Iberian Americans had to wait until well after independence to become significant coffee producers. When states asserted their control over the world coffee market in the twentieth century, the schemes were enforced by newly independent American states, not by colonial regimes.

Brazil changes the world coffee economy

Coffee was treated differently than sugar, tea, and rubber in the nineteenth-century age of empire because its low technological demands meant that an independent former colony, Brazil, could begin producing on an unprecedented scale. Cheap fertile land and abundant and relatively inexpensive slave labor allowed Brazil to reduce world coffee prices after 1820 and to keep them low until the last quarter of the century thereby stimulating demand. Brazil's success came not so much because of European colonial know-how nor because of natural resource endowment. Rather, coffee exports grew because of its independence in 1822 which allowed Brazilians to exploit exogenous changes in the world market: the collapse of Haitian production because of its revolution,

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swelling European and later US urban markets, and capital and transportation revolutions brought by industrialization.

Brazilian production not only largely satisfied growing world demand, Brazilians also stimulated and transformed the place of coffee on overseas tables. The dependency view of agricultural producers as servants or providers of brute labor power, willingly serving up their produce to thirsty European buyers who were the masters of the trade, misrepresents the nature of the relationship. Brazilians developed new production techniques, discovered productive cultivars, constructed an elaborate domestic transportation network, and developed market standards and financial instruments as well. They were able to outproduce all the European colonial growers in this age of empire.

Even with Brazil, Ceylon, and Java greatly expanding world coffee production in the first half of the nineteenth century, the essential nature of the commodity chain remained the same. All the coffee exported was still green arabica sent overseas by consignment merchants who represented factors who in turn provided planters (though not peasants) with the working capital to bring crops to port. Larger plantations set the standards for cultivation, though smaller scale slave-worked holdings in Brazil and coerced peasant production in Java successfully competed. Unscheduled sail ships carried coffee to major markets where it was often sold at auction to wholesalers. Roasting, grinding, and brewing were still done in the home or in the coffeehouse.

Brazil, which produced over half the world's coffee by 1850, was responsible for about 80 per cent of the unprecedented expansion of world coffee production in the nineteenth century (calculated from Brazil, I.G.B.E. 1986, Greenhill 1993, Ocampo 1984). And this was no marginal market. At the dawn of the twentieth century the value of internationally traded coffee trailed only grains and sugar.

How did this happen? Brazil's remarkable expansion of the world coffee economy and the increase in the chain's length and complexity resulted from a unique confluence: its internal natural endowment; such externalities as the availability of foreign laborers in Africa until the Atlantic slave trade was abolished in 1850 and in Southern Europe after Brazilian slavery was outlawed in 1888; economies brought by revolutionary advances in transportation and communication technology; and vast transformations in the coffee business in the United States and Western Europe.

The explosion of the global coffee market in the nineteenth century was not brought about by new growing methods (Wickizer 1951). Until the last quarter of the century cultivating, harvesting, and processing

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continued to be done manually by the same sort of slave labor Brazilian planters had previously used for sugar and French coffee planters had worked on Réunion and on a greater scale in Haiti. But the vastness of some Brazilian plantations and industrial-scale picking, which lowered both the cost and the quality of coffee, were new.

The remarkable increase in cultivation in Brazil did not create a monopoly, even if in 1906 Brazil produced some 90 per cent of the world's coffee. The institutionalization of the market with scheduled large steamers, railroads, warehouses, standards, futures market, and new convenience coffee products opened North American and European ports to other Latin American producers. Large, inexpensive Latin American production combined with plentiful sugar production allowed coffee to overshadow its competing caffeinated drinks such as cocoa, tea, and *mate*, and substitutes such as chicory and grains. Brazil was not just a passive bystander in the world market; it was a market maker and would become a price maker beginning in 1906 with government price intervention (Abreu and Bevilaqua 2000).

The transformation of consumption

Coffee's heroic nineteenth century occurred not only because of Brazilian and gradually other Latin American production, but also because of burgeoning US and Western European consumption. US government policy also helped by making coffee imports tax-free for the entire period after 1832 except during one decade. Low taxes and the US population's 15-fold explosion in that century meant that total coffee imports grew 2,400 per cent (calculated from Greenhill 1977, Wakeman 1914, Walsh 1902). Almost all the rest of the growth in the coffee market was in Western Europe, especially in the north, despite high import duties (Samper and Fernando, 2003).

At the turn of the twentieth century the international coffee economy underwent structural transformations. Exporters ceased being consignment agents, instead becoming agents of importers who controlled the trade and set the prices. Traders expanded their commercial business to other ports and countries and moved up-country. They invested in complementary activities such as insurance companies, banks, warehouses, and reluctantly in plantations (Greenhill 1993, 1995, Zimmerman 1969). Rarely did they become roasters. Coffee had to be processed to the point of green or parchment coffee in the cultivating countries because the cherries spoiled too fast to be exported. At the same time, until the twentieth century, the roasting and grinding had

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to be done in the end-consuming countries because the final processed product quickly lost its flavor and aroma (Talbot 1997, 2004). So different areas of the world coffee market had different comparative advantages and controlled different aspects of the coffee trade.

As the trade grew, so did the size of the largest exporters, most of whom were Western European or North American with ample capital, control of shipping fleets, and branches, partners, or associates in the major overseas coffee markets. The growth of the trade brought merchants to found the Le Havre exchange and then the New York Coffee Exchange in 1882 to attract trade to their ports and capital in the form of a futures market. They were also concerned with preventing commercial corners from provoking rapid and unpredictable price fluctuations. So they sought a frictionless transparent market where transactions were safe and capital available. The exchanges institutionalized access to standardized information. Hamburg and London, also major coffee entrepôts, soon followed with major coffee exchanges. Prices and grades thereby became more standardized though this was, and still is, a fairly artisanal undertaking that reflected personal relations and tastes.

Social practices in the largest markets, the United States and Germany, very much affected the nature of demand and the ability of roasters to respond to it and to modify it. Since coffee in the United States was overwhelmingly sold in grocery stores, for example, a few roasting companies took advantage of the invention of industrial-scale roasters in the late nineteenth century to create brand names. The proliferation of brands meant that roasters were no longer selling a commodity – the green bean – but were selling a trademarked product such as Arbuckle's *Yuban*.

A technical breakthrough and new government oversight allowed the ever larger roasters to overtake the thousands of grocers and small roasters who sold green beans or custom roasted ones. Vacuum sealing was invented in 1900 though two decades passed before vacuum packing gained wide acceptance. It lagged because the questionable quality of canned beans required government interventions to take command of the market away from importers who often adulterated coffee stocks. In the United States, the Pure Food and Drug Act of 1906 set standards and decreed that imported coffee be marked according to its port of exit which reduced the arbitrary power of shippers and merchants while strengthening the position of processors and wholesalers.

By gaining the confidence of consumers and providing mass-produced roasted coffee, large industrial roasting firms began to control the market and the chain in the United States (*Spice Mill* 1912). Western

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Europe followed later. They lengthened the chain by industrializing and commoditizing roasting and grinding, formerly the domain of the housewife. Brands segmented the market by selling various roasts and blends depending upon region. By 1935, 90 per cent of all coffee sold in the United States was sold roasted in branded packages. The branded coffee that housewives purchased at their neighborhood grocery store was not a commodity; it was a proprietary product.

The manufacturers of the largest brands also integrated vertically, sometimes even buying plantations in growing countries, certainly sending their agents into the coffee interior to purchase directly from producers (Goetzinger 1921, Zimmerman 1969). The increasing concentration of supermarket companies after the war allowed them to assert ever greater governance over the coffee commodity chain as the power of independent merchants, small-scale roasters, and shippers declined. Ever larger regional or national roasters governed coffee chains, taking an ever greater share of global value. John Talbot has calculated that the value added in consuming countries grew from 47 per cent of the final price in 1975–1976 to 79 per cent by 2000–2001 (Talbot 2004). Consequently, coffee-consuming countries can rightfully be thought of as producing countries as well.

State intervention

Government intervention, which characterized the world coffee market more than any other commodity for most of the twentieth century, brought some governance of the chain back to the growing countries. Beginning in 1906 some of Brazil's provinces held stocks off the world market to "valorize" them. This led to a federal price support program, the Inter-American Coffee Agreement, and finally, in 1962 under the United Nations' auspices, the International Coffee Agreement (ICA) which created the International Coffee Organization (ICO). Since the main objective of these cartels was to stabilize prices rather than to corner the market, roasters in the consuming countries grudgingly joined.

After initially strenuously opposing valorization, the governments of the consuming countries signed on to create the ICO though their reasons were less economic than political. Coffee was a pawn in the Cold War. It was no coincidence that the United States came on board three years after the Cuban Revolution. Concern with social revolution in the 1960s also led Latin American and African governments to push state-led economic development, undertake some land reforms,

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and intervene in the market by creating coffee institutes and marketing boards. These public agencies provided credit and infrastructure for the trade. Governance of the chain was now largely in the hands of state agencies in the cultivating and consuming countries. Participating coffee-growing countries were given annual export quotas to maintain coffee's international price, and large warehouses were built to regulate coffee's flow to overseas markets. Studies of the ICO tend to agree that it maintained relatively high coffee prices and permitted exporting countries to enjoy a substantial share of the final consumer price (Bates 1997, Daviron and Ponte 2005, Fridell 2013, Talbot 2004). Steady and relatively attractive prices to the farmers and guaranteed markets encouraged ever greater production. A "green revolution" for coffee, developed in good part in the coffee-growing countries such as Brazil and Costa Rica, allowed new chemical techniques and mechanization to intensify productivity; in many countries this information was so widespread that landholding became less concentrated as many small holders entered into cultivation. Unfortunately, overproduction resulted.

This form of state capitalism provided conditions for rapid consolidation and vertical integration in the consuming countries while usually protecting smaller scale coffee farmers in the Global South. As coffee processing became increasingly industrialized, economies to scale grew and an ever larger share of the value was added in importing countries. Roasting, transporting, weighing, and packaging were mechanized and centralized. New products were created: decaffeinated coffee and, after World War II, instant coffee in which processing added increased value (Talbot 1997, 2004). The main exception to this trend was in the few coffee-growing countries that also greatly expanded domestic coffee consumption such as Brazil and Costa Rica. The chain bifurcated with the best quality beans going abroad and the lower quality ones supplying the growing number of domestic consumers. A few cultivating countries like Brazil, Ecuador, the Ivory Coast, Colombia, and India began producing and exporting instant coffee as well, though in all the cases except Brazil the soluble coffee was produced by multinationals rather than by domestically owned factories. The United States raised tariffs on this industrialized product to protect the home market for American instant coffee producers. At the same time, by 1976, Nestlé, with a small home market in Switzerland but with international imperial aspirations, had founded instant coffee factories in 21 different Third World countries (Talbot 2004).

Instant coffee consumption grew to the point that it provided a third of all coffee drunk in the United States in its peak year of 1978 (Dicum

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and Luttinger 1999, Pan American Coffee Bureau 1970). This new product had a major impact on the world coffee market. Requirements of sophisticated technical knowledge and substantial capital raised the barriers to entry. Consequently, it was the most concentrated sector of coffee production. Drinkers of instant coffee were concerned with speed and convenience, not the quality of the brew. As a result, the small number of roasters who captured this complex market used low-priced beans, especially robusta beans. African producers such as the Ivory Coast and Uganda as well as Asian growers especially in Vietnam, Indonesia, and lately India flooded the world market with robusta. The world coffee market, which had been overwhelmingly for arabica to this point, now had two major raw materials and two major price-setting markets: the New York "C" for arabica and London for robusta.

This undercut the price of arabica beans, lowered the overall quality of coffee consumed, and increased returns to ever larger processors rather than to growers. It also reduced Latin American growers' place in the world market. From the virtual monopoly of world production that Brazil and other Latin American producers enjoyed at the beginning of the twentieth century, by 2012–2013 Brazil has declined to 35 per cent of world production and all Latin America to 53.5 per cent (International Coffee Organization 2012–2013). Such geographic fragmentation of cultivation strengthened the governance and control of information of the ever larger multinational trading and industrial producing companies by playing off the growers against each other.

Marketing played as important a role in the growth of scale as did mechanization. Selling a vastly larger number of goods, the supermarket depended upon small margins but large volume. The popularity of modern processes such as the percolator and then the electric Mr. Coffee system as well as instant coffee drove down the quality of what was brewed. This facilitated the spread from the 1950s onward of a few very large companies in the United States that produced lower quality canned, ground, and roasted brands.

A new world post-1989

The long trend toward vertical integration and consolidation of the ever more complex coffee commodity chain confronted three contradictory tendencies in the world economy at the century's end. First, the demise of the Soviet Union and other centrally planned economies reinforced the power of capitalist states and multinational corporations. Second, at the same time, the specter of rural social revolution faded to the extent

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that many politicians felt they could ignore pleas for the redistribution of wealth in coffee-cultivating countries. Populists were replaced by free-market liberals. Third, Austrian School laissez-faire economics was championed as the United States and Great Britain pressured international institutions such as the World Trade Organization and the World Bank to push "free trade."

The nature of the buyer also changed. Giant food conglomerates such as Nestlé, General Foods, Coca Cola, Ralston Purina, and Kraft began to take advantage of their growing market power to buy up smaller coffee companies. Conglomerates with multiple product lines had less interest in coffee as a family tradition than did earlier independent coffee roasters. Consolidation proceeded to the extent that by the 1980s four companies controlled 80 per cent of the US coffee market. Worldwide, five multinationals had 69 per cent share of the roasting and instant coffee markets in 1998 (Daviron and Ponte 2005). Coffee was not a peculiar case, however. It was part of a broader wave of consolidations of brands in the food and beverage "marketing-based industries" (da Silva Lopes and Casson 2007).

This new world led to the dissolution of the ICA in 1989. State governance of the chain shrank even further when most coffee-growing countries dissolved their state coffee institutes. Governments did not step in when world coffee prices fell by almost half after the ICA's demise, leading to ever greater governance of the chain by large companies and growing concentration of the conventional coffee economy. According to 2002 data, the world's five largest roasters bought nearly half of the world's green coffee (Fridell 2007), a situation that has remained the case until today, with some large companies changing hands. Because they dealt with such huge amounts grown by millions of smallholders, the multinationals had to rely on huge trading companies for procurement. Nestlé bought only 13 per cent of its 13 million bags (of 60 kilos each) directly from growers, Sara Lee said it bought 10 per cent, and Proctor and Gamble as well as Kraft bought no coffee directly (Stein and Burke 2002). The trading companies had come to control much of coffee's commercial information, clouding further the already far from transparent coffee commodity chain.

Specialty Coffee

This has been countered with the Specialty Coffee movement which began in the most affluent countries and has diffused to urban centers in developing countries and Asia. Specialty Coffeehouses have increased

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demand in quality, concern over origins, sustainable development, and transparency, and created value in what Daviron and Ponte call "in-house service quality attributes." For the first time, coffeehouses have become important sites in North America for drinking coffee (Stein and Burke 2002).

Today, according to the Specialty Coffee Association of America (SCAA) (2012), Specialty Coffee represents 37 per cent of the US retail market by volume and 50 per cent by value. The best known of these corporations is Starbucks which experienced a remarkable growth first in the United States and then globally. Concerned with improving the quality of coffee and the returns to coffee growers, it has educated the pallets of American coffee drinkers and accustomed them to much higher prices than consumers had paid for the "bottomless cups" of the coffee shops. Specialty Coffee companies have segmented the world coffee market by introducing new standards of quality and often going directly to growers who can gain by playing the Specialty buyers off against their traditional buyers. Although in total volume Specialty Coffee pales against the traditional industrialized brands, their higher prices mean they occupy a substantial place in North American coffee markets. Unfortunately for the coffee industry, much of the funding for the "latte revolution" goes to the milk and sugar additives, rents, and coffeehouse profits, and not to coffee growers. Growers' share of the retail price of green coffee fell from a recent high of over 30 per cent in 1975–1976 to 9.4 per cent in 1992–1993 (Talbot 2004). The chief executive of the International Coffee Organization, Nestor Osorio, estimated that by 2002 growing countries were receiving under 8 per cent of the sales price of coffee in consuming countries and the coffee grower less than 2 per cent of the price of a coffeehouse cup of coffee (Osorio 2013). A 2012 estimate by Robert Thurston based on SCAA figures estimated that the grower received 20 per cent of the roasted coffee price and 5 per cent of the coffeehouse brew price (Thurston 2013).

"Ethical coffee movements"

Another less market-driven countervailing trend came from organizations such as Max Havelaar, Oxfam, Transfair, and the Fair Trade Labeling Organization. They are not so concerned with coffee as a profitable commodity produced for enrichment as with coffee's role as a means for furthering social justice, peasant autonomy, and ecological equilibrium. This has become known as "sustainable development." They grew out of solidarity movements with Nicaragua's Sandinistas, religious groups in Oxfam concerned with poverty alleviation, supporters of indigenous peoples, anti-corporate globalization organizations, and ecologically sensitive groups that established alternative trade organizations and alternative retailing shops (Fridell 2007, 2013, Renard 1999, Samper and Topik 2012). They seek to shorten the supply chain by offering prices directly to growers based not just on the world price but also upon considerations such as whether the coffee is organic, the shade bird-friendly, the cooperative democratically run, and cultivation ecologically sensitive. They are mostly directed to small-scale owner-producers, not plantations or agrarian proletarians. Their higher prices require greater labor and specific techniques sanctioned by the various organic, ecological, and fair trade private labeling organizations. So more information about cultivation techniques and price is available to small-scale growers but it comes in the form of demands about quality, techniques, and inputs by the US or European alternative trade purchasers that can appear to farmers as sometimes punitive (Jaffee 2007). To provide more information to the consumer about the cultivation techniques, quality of the coffee, and even the living standards of coffee growers, the fair trade organizations insist on maintaining "custody" of the coffee from the field to the shop. Theoretically at least, there is greater transparency between cultivator and end user. This is very much unlike the conventional roasters who still overwhelmingly dominate the coffee trade and provide little information to the consumer about provenance, the supply chain, or conditions in the fields. Fair Trade and much Specialty Coffee use a "symbolic" portion of the price that the consumer pays to support a political or social ideal rather than strictly for the coffee (Daviron and Ponte 2005). Some of these purchases can be seen as manifestations of individuals' own foreign policy or ethical stance as much market-based decisions. They constitute novel and maybe promising strands of the coffee commodity chain but are a small part of it. And their prices are still linked to world arabica and robusta prices. Because Fair Trade requires a great deal more labor and information than conventional cultivation, many peasants, rather than feeling empowered and informed, opt for the customary ways.

The growing Asian role in the world coffee market

The third great transformation of the world coffee economy has been the greatly increased participation of Asian growers and consumers, driven in particular by the importation of the robusta coffee cultivar. Though considered to have a lower quality than the arabica, the robusta

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has greater resistance to the leaf rust, matures faster, and adapts to lower altitudes than the arabica. In the 2012–2013 crop year Vietnam ranked as the world's second largest exporter in volume, Indonesia as third, and India fifth (International Coffee Organization 2013). Combined, Asian coffee growers provide 40 per cent of the world's coffee, the great majority of it robusta.

Vietnam is the most dynamic Asian cultivator. French efforts to make their colony into an important coffee exporter largely failed. After the end of the Vietnam War in 1975, the Communist East German regime sent technical advisors to Vietnam but was not able to harvest what they sowed since the Berlin Wall fell before the Vietnamese coffee sector had reached fruition. By 1991 cultivation had expanded 25-fold as coffee trees were introduced on 550,000 acres. Production grew 26 per cent annually from 1990 to 2001, jumping to 950,000 tons in 2000, the world's second largest coffee export total (Kerr-Ritchie 2006, Luong and Tauer 2006, Stein and Burke 2002).

Coffee has been an important part of a social engineering project to avoid internal unrest more than a development project to secure foreign exchange (Economist Intelligence Unit 2006, Fortunel 2000). The Vietnamese state bank, which was largely funded by Russia and then Western European states, provides the great majority of credit. Since the 1986 liberalization of land ownership, the bank has financed individual land purchases and provided working capital. State farms in this officially Communist nation grow only 10 to 15 per cent of the nation's total. Liberalization and state assistance has sparked the incredible coffee boom, but the economy remains a "socialist market economy" (Sheridan 2006). Vietnam's incredible coffee boom roiled the world coffee market resulting in record low prices at the turn of the millennium. (But laying most of the blame for overproduction on Vietnam is wrong, since it was the explosion of Brazilian production that was far more responsible for the glut.) Vietnamese growers were able to weather the depressed prices because they grew much of their own subsistence crops; they were quite poor to start with, and coffee is only responsible for 2 per cent of Vietnam's exports and not much more than 1 per cent of GDP (International Coffee Organization 2004). So Vietnam's national economy is buffered from world coffee crisis much more than some Central African and Central American countries which are much more coffee dependent.[1]

Until recently, Vietnam was willing to accept terribly low prices thereby opening new markets in Asia rather than competing in North American and European markets. According to 2009 Vietnamese customs data, over half of Vietnam's coffee exports went to China, Taiwan, Japan, and South

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Korea that year and when four other nearby countries were added, they accounted for 70 per cent of exports (Businessinsides.com 2013). Domestic consumption of coffee and the attendant linkages are quite small though they are growing rapidly; Vietnamese coffee has become more popular and is now considered a native Vietnamese drink (Economist Intelligence Unit 2005, International Coffee Organization 2005).

The most important Asian coffee consumer is Japan. Since the eighteenth century Asian consumption constituted a very small part of world demand. Today, however, Japan ranks fourth in the world in net imports (International Coffee Organization 2014). The 1930s saw a rise in demand, but the destruction caused by World War II meant that it would not be until the 1960s that coffee imports surpassed those of the late 1930s (All Japan Coffee Association). Japanese interest in coffee was stimulated by the US military occupation after World War II and presence during the Korean War when they imported considerable amounts of instant coffee. Soluble coffee's ease of preparation made it the leading wedge for entering many markets that were formerly the domain of tea. By the 1980s, according to some calculations, the Japanese were drinking more coffee than tea (Nakamoto et al. 1990).

Although European and US companies had the market power, capital, and technical knowledge to dominate the world coffee economy, entrepreneurs and states in formerly colonized areas of Latin America and Asia (and never-colonized Japan) have made important innovations and taken new positions in the world coffee economy. For example, Colombia's Federación de Café is opening "Juan Valdez" coffeehouses in New York and other major US cities to showcase Colombian coffee. Japanese companies not only are controlling most of their domestic coffee market, they are also investing in subsidiaries in Korea, Taiwan, China, the Philippines, and Vietnam. The Vietnamese Trung Nguyen Coffee Enterprise licenses its brand-name franchise in Singapore, Hong Kong, China, Australia, and the United States. The Indian Tata Company recently bought up Eight O'Clock Coffee, once the A&P's signature brand in the United States, thereby moving from selling a commodity to controlling a brand (Economist Intelligence Unit 2005, Moneycontrol India 2007).

Conclusions

We have followed the historically evolving nature of the coffee commodity chain to understand the process of commodification. The chain only began once coffee became a commodity when Yemen exported green coffee. It was an international trader-driven chain initially with religious

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and military participants also playing important parts. After two centuries as a Middle Eastern-Indian Ocean-centered chain European mercantilist traders entered first as traders and then oversaw cultivation by squeezing Javanese peasants and then importing African slaves in Réunion. The Dutch and French colonizers had special commercial knowledge and personal relationships in Europe as well as capital . . . and *cannon*.

They spread coffee growing to the Americas where it became transformed first in the Caribbean. Then Brazilian cultivators changed the nature of the world coffee market as price makers who were intimately involved in the creation of market institutions. Their knowledge of coffee growing gave them great power in the era during which green coffee was the export and the final product. Yet US and Western European merchants, roasters, retailers, and consumers also played dynamic roles because of their access to capital and knowledge of markets, transport, and institutions.

By historicizing the commodity chain, we see the agency in the two connected worlds of growers and drinkers. Commodification has been accelerated as well as resisted. Markets have been segmented with coffee varying from an exotic luxury status symbol to a work-intensifying drug, a leisure beverage, a marker of western modernity fashion and youth culture, and a building block for developing states and economies. It is a mistake to lump all of these uses or values together and consider coffee simply a monolithic “commodity.”

Over time, the nature of the international market shifted notably. Latin American producers played a key part in transforming coffee. Governance went from farmers to local merchants, to importers, to roasters, and to states for most of the twentieth century. Currently, control lies with multinational corporations with some countering efforts by NGOs. In some countries such as Ethiopia and Vietnam, state officials still largely control the sector. Although the markets’ dynamism came largely from private initiatives, state intervention was necessary to institutionalize and standardize practices once the markets’ size outstripped merchants’ and then roasters’ and finally bankers’ ability to operate them.

The rapid, huge expansion of the international coffee market is explained by the ability of planters to meet the growing demand without raising prices (initially by superexploiting natural resources and labor rather than technological improvements, later by developing new cultivars, modernizing processing and transporting, and moving to ever more areas of cultivation); by technical refinements and new coffee products developed and promoted by processors and marketers in consuming countries; and by consumers’ evolving tastes and cultures.

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This process, though, has brought into question some of our most cherished categories. Are coffee growers really the only "producers" when processing of the coffee cherry and roasting and grinding add most of the market value? At what point do we define what is "coffee"? Could we not just as aptly call many of the giant roasters and manufacturers of other coffee drinks such as bottled "frappucino," canned Boss Coffee, and instant coffee "coffee producers"? Similarly, why do we assume that "consumers" are only the overseas final users? Latin Americans and Asians in cultivating countries have come to drink an ever larger share of the coffee they grow so it has become proportionately less an export crop. Brazil is today the world's second largest drinker of coffee. So coffee is circulating in many "producing" and "consuming" countries where it is actually *both* produced and consumed.

In addition to being historically and culturally sensitive, the study of commodification should recognize the segmented nature of markets and the multiple niches. Rather than just compete, the coffees from these distinct provenances sometimes cooperate in blends. Of course these blends tend to be governed by traders and roasters in the final consuming countries. But growing countries are increasingly purchasing coffee from elsewhere to blend with their own. Product differentiation has resulted from variations in botany, climate, production techniques, historical traditions, marketing, and consumer reception.

Coffee has been singled out as a peculiarly important actor in political and ethical disputes. Today it stands in the front lines of North–South globalization wars. One of the few commodities that was already important under early modern luxury long-distance trade, it continues today as one of the world's most valuable trade goods. But one should not reify the "coffee market," or treat it mechanically. Rather than a continuous, homogeneous institution, the international chain has been marked by radical disjunctures and essential transformations and segmentations as production systems have varied and changed markedly. Coffee continues to enjoy great international importance because the nature of its appeal to consumers has shifted to conform to remarkable changes in the societies of the dominant buyers over the past four centuries. The "social life" of coffee, as well as its meaning to producers and consumers, has also changed. It is certainly not simply a commodity.

Note

1 I would like to thank Sarah Grant for insights into Vietnam's coffee sector.

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3

Food Regimes and Food Import Dependence: An Analysis of Jamaica's Food Imports, 1950–2000

John M. Talbot[1]

Introduction

The international trade rules in place since the 1950s have created heavy dependence on imported food across the Global South. In the early 1950s, most of these countries (or soon-to-be-independent colonies) were self-sufficient in food, and many were net food exporters. By the early 2000s, 70 per cent of them were net food importers (McMichael 2009a). Jamaica is fairly typical: in 1950, Jamaica exported about £14 million worth of food products (sugar, rum, and bananas accounted for 70 per cent of this) and imported food products worth £5.4 million (wheat and wheat flour accounted for 33 per cent of this). Imports were a little over one-third the value of exports. In 2000, food exports were US$228 million and food imports were US$446 million, almost double the value of food exports (STATIN 1950, *ESSJ* 2000). Using Jamaica as a case study, this chapter will show how food import dependence has been created through the evolution of the global food system, argue that dependence creates an unhealthy situation in several respects, and conclude that a new set of rules is needed to govern the global trade in food.

Theoretical framework

In order to analyse how Jamaica has been linked to the global food system through this period, I use food regime theory. This theory was originally developed by Harriet Friedmann and expanded by numerous other scholars since (for example, Friedmann and McMichael 1989, Friedmann 1991, 1992, 1993, 1999, 2005, Dixon and Campbell 2009, McMichael 2009b). A food regime is a set of implicit rules that govern the global system for the production and trade of agricultural products

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and foods (Friedmann 1993, 2005). The implicit rules are the outcomes of conflict and cooperation among many different actors in the food system, and therefore are stable for only relatively short periods, which are followed by periods of instability as the old rules are broken down and new ones are shaped (Friedmann 2005). Each food regime has a characteristic set of complexes, webs of production and distribution linking farmers, traders, processors, and consumers of the most important agri-food products of that period (Friedmann 1992). The theory is thus ideal for understanding the structure of the global food system, and the ways in which different countries are linked to it. It captures the ways in which the system evolves over time, and the ways in which countries' linkages to the system evolve with it.

According to food regime theory, there have been three global food regimes in history. The Colonial–Diasporic[2] regime, beginning in the 1870s and ending at about the start of World War I, had two main complexes: tropical products and basic grains, primarily wheat. Europe's colonies kept it well supplied with cheap tropical food products such as sugar, coffee, tea, cocoa, bananas, and tropical oils (mainly coconut, palm, and groundnut). At the same time, the white settler societies (US, Canada, and Australia) became major producers of cheap basic grains, particularly wheat, through the use of 'soil mining' techniques which produced high yields in the short run, but quickly exhausted the fertility of the soil. These grains were also exported to Europe. The cheap grains and tropical products allowed European capitalists to keep wages low and spurred their industrialization (Friedmann 2005, McMichael 2009b).

During the first food regime, grain farmers had become a politically powerful group within the US; so during the Depression of the 1930s, the US government introduced various forms of subsidies to support them. This in turn stimulated production and US farmers began to produce grain surpluses, which the government bought in order to support prices. This development laid the foundations of the Mercantile–Industrial food regime, from 1947 to 1972. This food regime had three complexes: wheat, livestock/feed, and durable foods. After World War II, fears of rapidly rising populations in the Third World creating food shortages, combined with these grain surpluses, led the US government to create the PL-480 Food Aid programme. Under this programme, the US sent its surplus grains (primarily wheat) to the Third World at reduced prices in order to ensure that their people would have enough to eat. Cheap grains would keep the prices of urban wage foods low, thus indirectly subsidizing the industrialization of developing countries. But a longer-term goal of this programme was also to create markets for commercial sales of US

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agricultural products. The effect of this programme was to change the diets of people in the Third World and to simultaneously undercut local agriculture, because of the cheap price of the imported grain. This was the wheat complex of the second food regime (Friedmann 1982).

The livestock/feed complex grew out of the intensive feedlot system developed in the US for raising animals for food. Large numbers of animals were packed together in a confined space and given industrially produced feeds, which brought them up to slaughter weight more quickly and allowed livestock raisers to turn over their 'crops' of animals more rapidly. It also produced more tender, 'marbled' (that is, higher in fat) meat, which was seen as more desirable by consumers, but turned out not to be very good for their health. This complex was linked to the wheat complex because cheap, subsidized grains (primarily corn and soybeans in this case) were used to produce the industrial animal feeds. The PL-480 programme also sponsored the spread of this system to the Third World, through the export of these animal feeds. Adoption of this system undermined the traditional mixed farming systems of the Third World, where cattle grazed on extensive pasture land and cover crops, and their manure enhanced soil fertility. Countries adopting the intensive livestock system became dependent on imported industrial feeds *and* fertilizers (Friedmann 1991, 1992).

Durable foods are foods with a long shelf life. They are foods that have been processed and frozen or packaged in some way to retard spoilage, so that they can be kept for months, or sometimes even years. The basic constituents of these processed foods are no longer specific agricultural products but generic industrially produced inputs, in particular, generic fats and sweeteners. This links this complex back to the livestock/feed complex, through corn and soybeans. These two grains are major constituents of the industrial animal feeds, but as by-products of that process, they also yield soy and corn oils (generic fats) and high fructose corn syrup (generic sweetener). These temperate fats and sweeteners replaced tropical oils and cane sugar, causing reduced demand and lower prices for some of the traditional exports of the Third World. As the food regime began to break down, this food processing industry and the fast food industry, which also relied on durable, processed inputs, began to spread from the US to the rest of the world, and the consumption of, and trade in, processed foods began to rise (Friedmann 1991, 1992). Although most Third World countries were integrated into this food regime as consumers, a few managed to join the networks for livestock/feed and/or durable foods as producers. Friedmann refers to these as the New Agricultural Countries; examples include Brazil, Mexico, and Thailand (Friedmann 1991, 1992).

This second food regime began to break down during the economic malaise of the 1970s. There is some debate in the literature over whether a third food regime is emerging, or has emerged, by the early 2000s (Pritchard 1998, 2009, Friedmann 2005, McMichael 2009b). Friedmann (2005) calls this new food regime the Corporate–Environmental food regime. She argues that social movement demands for healthier, safer, and more environmentally friendly foods are being co-opted by the corporate food industry. The food industry is creating private systems of standards and audited supply chains (as opposed to public regulation by governments) in order to convince consumers that their food products meet these new 'green' consumer demands. Although there has not yet been a lot of discussion about the complexes that distinguish this new regime, analysts would agree that it is exemplified by the fresh fruit and vegetable complex (Pritchard 1998, Friedmann 2005, McMichael 2009b).

The fresh fruit and vegetable complex began when producers in the temperate Southern hemisphere (Chile first of all) realized that they could supply off-season fruits (grapes, peaches) to the North during their winter, which coincided with the Southern summer. It has evolved into a global system for the year-round supply of fresh fruits and vegetables to consumers mainly in the developed world. In Europe this system is controlled by the major supermarket chains, which dominate food retailing, accounting for 80–90 per cent of food sales in most of Europe. The supermarket chains have established global supply chains through which they contract out the production of a wide variety of fruits and vegetables, operating in many different countries and regions to ensure year-round supply. They give farmers instructions on how to produce the crop and set standards for the size, appearance, and other characteristics of the fruit or vegetable being produced. And they have established monitoring systems and audit trails to ensure that all of their standards are being met (Dolan and Humphrey 2000, Friedmann 2005, McMichael 2009b).

McMichael (2009a) also hints at what may be another complex of this third food regime: the export of cheap processed foods from North to South. This is consistent with Friedmann's point about the spread of durable and fast foods to the South after the end of the second food regime. But neither Friedmann nor McMichael have theorized this as a characteristic complex of the new food regime. As we will see, there is some evidence from Jamaica to suggest that it could be.

Food regime theory provides an understanding of how the global food system has evolved over time. If we want to apply this theory to Jamaica's food imports, we find a gap in the literature. Food regime analysis has focused mainly on how developing countries are linked to the global

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food system *as producers*, not as consumers. The one major exception to this is the analysis of how the PL-480 food programme changed the diets of people in the Third World, making them ultimately more dependent on imported foods. There are also suggestions, which have not been elaborated by food regime theorists, that the spread of durable foods and fast foods and the adoption of the intensive livestock system may have further increased Third World food import dependence. But this is sufficient to point the way for analysis. We should expect the leading sectors or complexes of each food regime to contribute in some way to increasing the food import dependency of Jamaica. As these complexes spread and at least some elements of the populations of more and more countries are drawn into them, we would expect consumption of, and trade in, their products to increase, cumulatively increasing food import dependence among many developing countries. The analysis that follows therefore concentrates on characteristic products of the leading complexes of the second and third food regimes: wheat, beef, chicken, milk, potatoes, onions, and processed forms of these products.

Data and methods

Data on imports come from the STATIN (Statistical Institute of Jamaica) *External Trade* annuals, and are measured by the weight (in pounds) of the imported commodity. Weights measure the actual amount of a commodity imported. For analysis of the levels of imports of the same commodity over a long time period, weights are preferable to values of imports, which are more difficult to interpret due to price and currency fluctuations. Data on local production of some of these products come from the *Economic and Social Surveys of Jamaica* (ESSJ), also measured in pounds; however, unfortunately, reliable data on total national production of these items are not available before 1968, and the data on milk production are inconsistent over time.

Even when using weights as a measure of the volume of imports, there are still some marked year-to-year fluctuations in the import volumes for the commodities analysed here. These seem to be related to specific economic policies (for example, imposition of import controls in the late 1970s and liberalization of trade in the early 1990s) or economic crises, as well as to natural disasters, such as hurricanes. Since the data come from Jamaica Customs, these sharp year-to-year fluctuations might also reflect underinvoicing of imports or other evasive tactics by importers. I am interested in the longer-term patterns in the data, which reflect *structural* changes in the ways in which Jamaica is linked to the global

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food system. Therefore, I have smoothed the data using a three-year moving average to make it easier to see the longer-term patterns.

A brief economic history of Jamaica[3]

Before beginning the analysis, it is necessary to understand how the Jamaican economy has developed over this period, with special reference to agriculture. In 1950, Jamaica was still a (self-ruled) colony of Britain, and as noted at the outset, its agricultural exports looked very much like they had during the first food regime: sugar, rum, and bananas dominated. The agricultural sector was dualistic: large plantations monopolized the best agricultural lands, producing for export, and small farmers on hillsides and more marginal lands produced food for the local market (Witter 1985, Barker and Beckford, 2008). During the 1950s and 1960s, bauxite and tourism also became major foreign exchange earners, leading to a period of moderate economic growth. Michael Manley's government (1972–80) tried to increase food self-sufficiency by giving small farmers access to idle government lands, investing in agricultural research and extension services for these farmers, and creating an Agricultural Marketing Corporation to help them get their products to market. By the late 1970s, Jamaica was in economic crisis, touched off by the 1973 oil price increase and slowdowns in bauxite exports and tourism, and Manley instituted import controls to conserve foreign exchange. Edward Seaga's government (1980–89), under the tutelage of the IMF, lifted import controls, did away with many of the supports for small farmers introduced by Manley, and refocused on large-scale export agriculture. His government tried to link Jamaica to the emerging fresh fruit and vegetable complex with a plan to produce winter vegetables for the US market, but the plan failed, in part because many supports for small farmers had been dismantled. Manley was re-elected in 1989, and he and his successor, P. J. Patterson, presided over a full liberalization of Jamaica's trade, under a further series of IMF agreements.

Analysis

Figure 3.1 shows imports of wheat and wheat flour. Total imports of wheat roughly doubled between 1955 and 1971, then increased more slowly through 2000, reaching roughly three times their 1950 level. The period of rapid increase in wheat imports coincided with the second food regime and the US state's attempt to offload grain surpluses in the form of 'food aid' to the Third World. Jamaica received cheap

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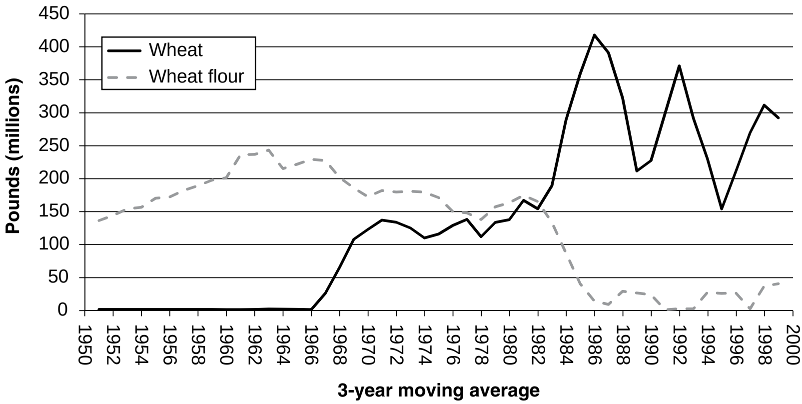

Figure 3.1 Imports of wheat and wheat flour into Jamaica, 1950–2000

Source: STATIN, *External Trade* annual volumes. Wheat = wheat and spelt (including meslin [mixed with rye]), unmilled 1950–79; durum wheat and other wheat and meslin 1980–2000. Wheat flour = flour and meal of wheat and spelt, including meslin.

wheat under the PL-480 programme during this period (Witter 1985). However, Jamaicans were wheat-eaters long before PL-480; recall that in 1950, wheat accounted for about one-third of Jamaica's food imports. Even so, PL-480 appears to have created a market for commercial sales of US wheat: in the early 1950s, Jamaica imported wheat in roughly equal quantities from Canada and the US. By 1956, two years after the enactment of PL-480, the US supplied virtually all of Jamaica's wheat, a situation which continued up to the year 2000. This means that US-based grain-producing and trading firms captured all of the increase in Jamaican wheat consumption over this period.

Jamaica's dependence on wheat imports is a legacy of colonization by the wheat-eating British. In the course of producing tropical commodities (especially sugar) for export to Britain, the colonialists imported wheat, part of their customary diet, and Jamaicans emulated their dietary habits. Cheap wheat would have indirectly subsidized the price of bread, making it more attractive to lower-income consumers, and increasing per capita consumption of bread. Since Jamaica does not grow wheat, it will remain dependent on imports to support this dietary habit; however, contrary to food regime theory, this is a legacy of the first food regime rather than the second.

Figure 3.1 shows that virtually all wheat imports were in the form of flour up to 1965. Between about 1969 and 1981, Jamaica imported roughly equal amounts of wheat and wheat flour, and after 1981, virtually all

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wheat imports were in the form of unprocessed wheat. This shift shows the impact of Jamaica Flour Mills, which opened in 1968 (Gleaner 1968a, 1968b, *ESSJ* 1969, p. 71). Before that, Jamaica had little capacity to mill wheat into flour, and therefore had to import virtually all of its wheat in the form of flour. By 1981, Jamaica Flour Mills was able to import wheat and supply the local market with flour. Small imports of wheat flour continued, but they were insignificant in the overall volume of trade.

From the perspective of food self-sufficiency, the Jamaica Flour Mills story represents a partial success. It was an increase in local control over the processing of wheat, meaning that jobs and profits which previously had been located outside Jamaica were relocated here. Local control can also be relative, however, depending on the ownership of the company, and this makes the success story even more partial. Until 1997, Jamaica Flour Mills was Jamaican-owned (50 per cent initially and completely by 1992), but at that time it was taken over by Archer Daniels Midland, one of the global agribusiness giants (Gleaner 1968b, 1993, ADM 2011).

The other part of the commodity chain that is relevant here is the processing of wheat flour into final consumption products, such as bread and biscuits. Before 1991, this was done mainly by Jamaican companies, but since then, there has been a sharp increase in the import of processed wheat products, as a consequence of import liberalization. This is dealt with in more detail below.

Figure 3.2 shows beef imports. Imports of chilled and frozen beef rose quickly through the 1960s, peaked in 1976, and declined thereafter, to very low levels by 2000. Here again we see that the rapid rise of beef imports coincided with the period of the second food regime, when many Third World countries were being drawn into the growing livestock/feed complex. Jamaica was drawn in not only as a consumer but also as a producer. Intensive feedlot production of beef to supply the local market began in the mid-1960s, but was unable to keep up with demand, and imports continued to rise (Gleaner 1967, 1988, Campbell 1997). The collapse of imports after 1978 was due to the economic crisis. Interestingly, local production of beef increased but was unable to take up all of the slack (see Figure 3.3). In part, this was due to the feedlots' dependence on imported feed, which was becoming more expensive, while the price of beef on the local market was controlled. But at the same time, consumer tastes were changing, in response to changing relative prices. Consumers began to switch from beef to chicken, which was becoming cheaper on the local market, due to increasing local production as well as increasing imports (Gleaner 1988).

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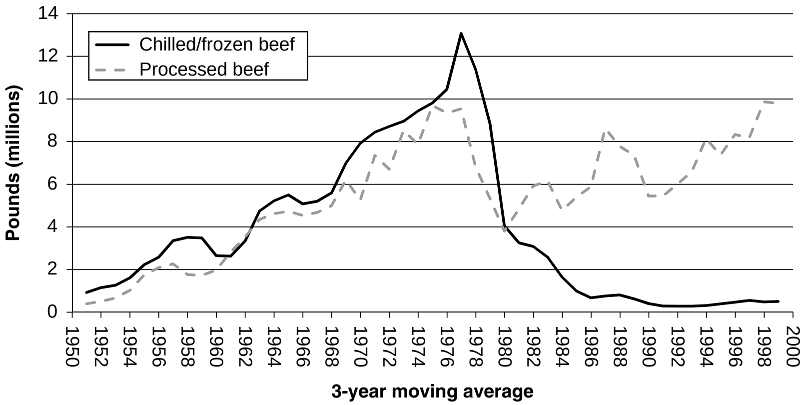

Figure 3.2 Imports of beef into Jamaica, 1950–2000

Source: STATIN, *External Trade* annual volumes. Chilled/frozen beef = fresh, chilled or frozen beef (including veal) 1950–72; meat of bovine animals, fresh, chilled, or frozen 1973–2000. From 1976 includes beef trimmings. Processed beef = pickled beef 1950–53; smoked, dried, or salted beef (including veal) 1954–2000. From 1961 also includes canned corned beef. From 1995 also includes boneless beef trimmings and other bovine meat, prepared or preserved.

Moreover beginning in the 1950s, there was a rapid increase in imports of canned corned beef, part of the livestock complex, but also a durable food. These imports were also cut off in the late 1970s, but unlike chilled and frozen beef, imports of corned beef rebounded once import controls had been lifted in the early 1980s, and attained their pre-crisis levels by 2000. While local feedlot beef was able to supply most of the demand of the middle and upper classes and the tourist industry, its cost was above the means of the poor and working classes, who consumed cheap imported beef in processed form.

Beef eating, like wheat eating, was a dietary habit learnt from the British. Livestock raising was an important economic activity in Jamaica from early colonial days, because animal power was required to work the plantations. Pen-keepers also raised cattle for meat and milk on the side, primarily to supply the colonialists. Once again, Jamaicans emulated this eating habit. From the early 1950s through the 1970s, most of the imported chilled and frozen beef came from Australia and New Zealand, another indirect legacy of colonialism. In the 1970s, the US appeared as a minor supplier of beef to Jamaica, and by 1983, it became the dominant supplier. By 2000, virtually all of Jamaica's imported chilled and frozen beef came from the US. However, since the early 1970s, most of the imported corned beef has come from Brazil and Argentina. This shows how the New Agricultural

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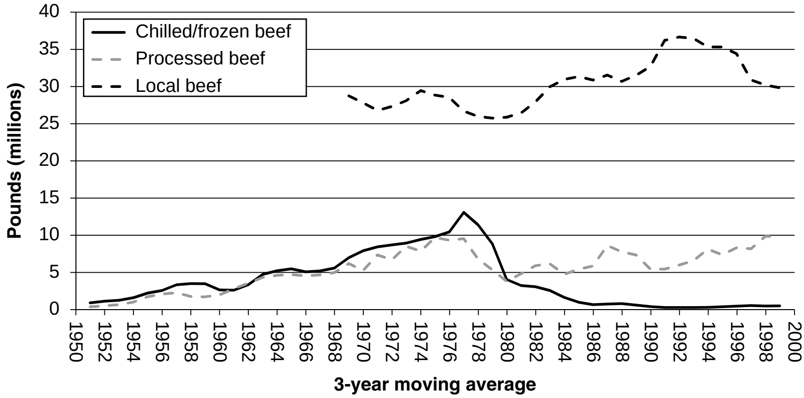

Figure 3.3 Import of beef into Jamaica and local production of beef, 1950–2000

Sources: Imports from STATIN, *External Trade* annual volumes; see notes to Figure 3.2. Local production from *ESSJ*, 1968–2000.

Countries (NACs) were integrated into a global livestock/feed system during the second food regime (Friedmann 1991, 1992).

This was part of the 'meatification' of Third World diets enabled by the second food regime; as incomes of middle-class consumers rose, they began to emulate the meat-centred dietary habits of the First World (Weis 2004, p. 477, 2007, pp. 17–18, 168–70). Weis (2004) says that per capita meat consumption in Jamaica increased by 50 per cent between 1980 and 2000, and that this has had negative impacts on Jamaicans' health. A substantial part of this 'meatification' has been rapidly rising consumption of chicken.

Figure 3.4 shows imports and local production of chicken. Imports of chilled and frozen chicken (mainly necks and backs) rose sharply in the 1980s and again in the 1990s, as chilled and frozen beef imports were declining. Chicken necks and backs are consumed primarily by the poor and working classes, while local production, using intensive feedlots dependent on imported feed, supplies the middle and upper classes and the local (fast) food industry. KFC first entered the Jamaican market in 1975, as chicken was becoming the most popular meat, and several other US fried chicken chains have joined it. This development has also spawned a number of local imitators (Gleaner 1985). Local production has never been able to meet local demand of both consumers and the food industry, and chicken imports have soared (Gleaner 1988). The vast majority of these imports have come from the US since the early 1950s.

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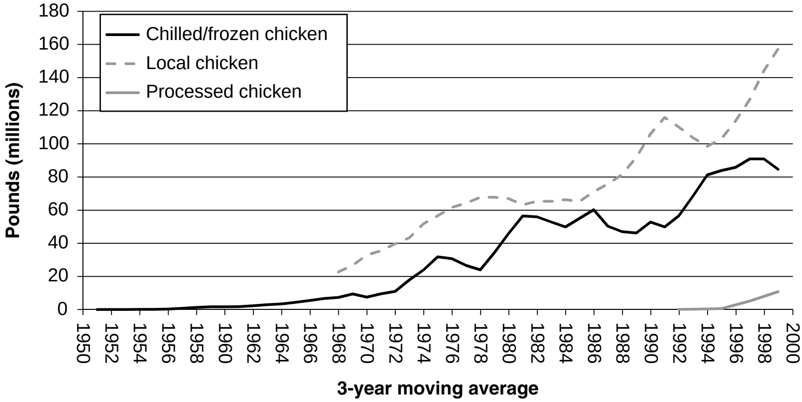

Figure 3.4 Imports of chicken into Jamaica and local production of chicken, 1950–2000

Sources: Imports from STATIN, *External Trade* annual volumes; local production from *ESSJ*, 1968–2000. Chilled/frozen chicken = poultry and game, fresh, chilled, or frozen 1950–60 (1950–54 includes rabbits). After 1960, includes only fresh, chilled, and frozen chicken, whole and parts (after 1992 may include some turkey parts). Processed chicken = chicken sausages, homogenized meat preparations of chicken (comminuted chicken/chicken paste), and other preparations of chicken 1992–2000.

The stories of beef and chicken are similar. In both cases, as local consumption of meat increased, local production also increased, but was not able to supply all that was demanded. The only way local producers could compete with imports was by adopting the intensive feedlot production system of the second food regime, and becoming heavily dependent on imported industrially produced animal feeds and the associated chemicals (antibiotics, hormones). And even then, they could not supply meat at a cost the poor could afford, and the poor were relegated to consuming imported, cheap processed beef (corned beef) and the chilled or frozen leftovers from the US chicken processing industry (necks and backs). As was the case for wheat, these developments probably increased the value added to the final products that remained within the country, but represented at best a partial success.

One more element of the livestock complex is relevant in the Jamaican case: milk. Imports of milk are shown in Figure 3.5. Imports of condensed and evaporated milk increased briefly during the 1950s, but imports of fresh, condensed, and evaporated forms of milk have generally been small. The form in which most milk is imported is powdered. Imports of powdered milk rose rapidly in the 1950s and 1960s and peaked in 1974,

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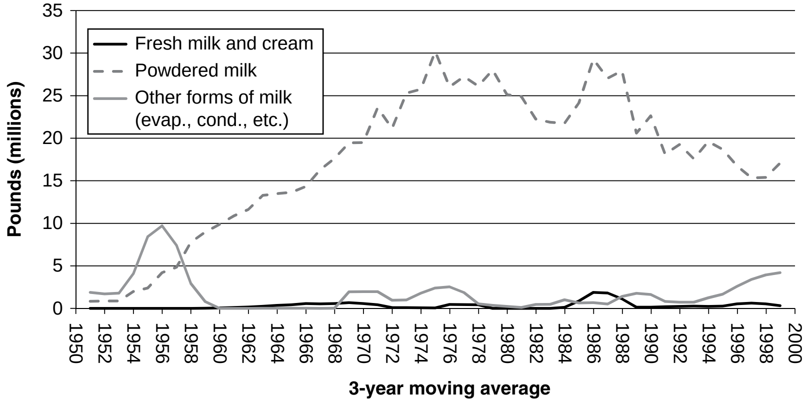

Figure 3.5 Imports of milk into Jamaica, 1950–2000

Source: STATIN, *External Trade* annual volumes. Fresh milk and cream = fresh milk 1950–52; fresh milk and cream (including butter milk, skimmed milk, sour milk, sour cream, and whey) 1953–72; fresh milk and cream, not concentrated or sweetened 1973–2000. Powdered milk = milk, dried (powdered) 1950–72; milk and cream, preserved, concentrated in solid form; skimmed milk (powdered); and other milk or cream in powder or granules 1973–2000. Other forms = milk, evaporated or condensed, sweetened or unsweetened; for 1973–78 = milk and cream, preserved, concentrated in liquid or semi-solid form.

when Manley's government restricted imports. They trended down until the early 1980s, when there was another surge of imports, probably due to the Seaga government's lifting of import restrictions. They fell sharply after 1987 when Seaga reimposed protectionist measures to support the dairy industry, but there was another increase in the late 1990s, which has continued into the early 2000s, due to the removal of those protections (Weis 2004, Knips 2005). Powdered milk imports have seriously hurt the local dairy industry, both directly, as consumers replaced local fresh milk with imported powder, and indirectly, as local processors producing butter or cheese switched from using local fresh milk to imported powder (Campbell 1997, Knips 2005). Part of the reason for the overall decline in milk imports since the mid-1970s is that consumers are importing milk in other, more processed, forms: as butter, ice cream, and cheese (not shown in the figure). This is a net loss for food self-sufficiency because Jamaica imports higher-value milk products to which it adds almost no value, and more money leaves the economy and goes to exporters. Until the late 1970s, most powdered milk imports came from New Zealand, but suppliers have been diverse since then, including New Zealand, Australia, Canada, US, and the Netherlands.

New Zealand retains a strong share of value-added milk products, especially butter and cheese.

Powdered milk is a product not discussed in the food regime literature. But it actually represents a confluence of all three complexes of the second food regime. It was a product of the livestock/feed complex because it was an animal product and its production was increasingly dominated by the large-scale, industrialized model that was used to produce beef. It was a processed, durable form of milk and was thus also a part of the durable food complex. And, since subsidized milk production in the US was also generating a surplus, it became yet another commodity to be offloaded at low prices on the Third World. Jamaica received subsidized milk powder from the US under the PL-480 programme, as well as from the European Community (Witter 1985). However, unlike wheat, milk was a minor component of PL-480 aid, and did not allow US-based milk processors to control the market.

The fresh fruit and vegetable complex of the third food regime is represented here by potatoes and onions. Figure 3.6 shows imports of fresh and chilled potatoes and all forms of processed potatoes, as well as local potato production. Figure 3.7 shows imports of fresh and chilled onions and processed onions, as well as local onion production. The

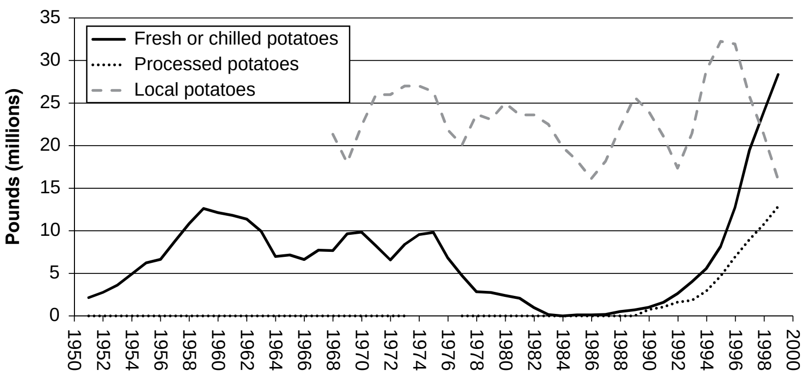

Figure 3.6 Imports of potatoes into Jamaica and local production of potatoes, 1950–2000

Sources: STATIN, *External Trade* annual volumes; local production from *ESSJ*, 1968–2000. Fresh or chilled potatoes = potatoes (not sweet), fresh or chilled, including seed potatoes. Processed potatoes = flour, meal, and flakes of potato 1974–2000. From 1992 also includes potatoes (uncooked or cooked), frozen; potatoes prepared or preserved other than by vinegar or acetic acid, frozen, or not frozen.

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big difference between potatoes and onions is that potatoes are often processed for final sale (into frozen French fries, dried mashed potatoes, etc.), while onions are not. Apart from that, both figures display similar overall patterns. Fresh potato and onion imports rose in the 1950s and 1960s, fell during the 1970s, bottomed out in the 1980s, and then increased rapidly after liberalization in the early 1990s. Imports of processed forms of potatoes also increased rapidly through the 1990s. Local production of potatoes and onions fluctuates widely with no clear pattern, mainly due to weather variations: hurricanes and droughts.

The imports of potatoes and onions in the 1950s to early 1970s do not seem consistent with food regime theory, since they are not characteristic commodities of the second food regime, but the third. During this period, potatoes came mainly from Canada and onions from the US. When imports began to rise again in the 1990s, the US and Canada were the main suppliers of both, joined by the Netherlands. The early imports were probably made to meet local demand, which local production was unable to satisfy. These imports were replaced with local production when the Manley government put more emphasis on food self-sufficiency in

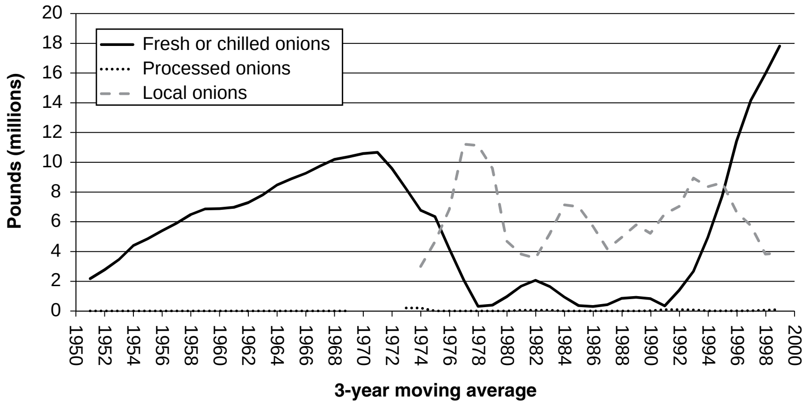

Figure 3.7 Imports of onions into Jamaica and local production of onions, 1950–2000

Sources: STATIN, *External Trade* annual volumes; local production from *ESSJ*, 1974–2000. Fresh or chilled onions = onions, fresh or chilled. Processed onions = onions (whether or not cooked), preserved by freezing; onions, prepared or preserved by vinegar or acetic acid with or without sugar, whether or not containing salt spices and mustard; and onions provisionally preserved in brine, in sulphur water, or in other preservative solutions, but not specially prepared for immediate consumption. From 1995 also includes onions, shredded or powdered, but not further prepared; and onions, dried, naturally or artificially.

the 1970s. In the 1990s, it was claimed that imports had driven out local production (Barker and Beckford 2008), but the trends in the graphs are not clear enough to definitively support this conclusion. The US and Canada were also the main suppliers of processed potatoes during the 1990s. It is interesting that imports of processed potatoes, which would be characteristic of the second food regime,[4] did not take off until the start of the third regime. This is discussed further below.

Figure 3.8 shows imports of the processed forms of all of the different products analysed above. It shows a clear distinction in pattern between beef and milk, on the one hand, and wheat, chicken, and potatoes, on the other. Imports of corned beef and milk powder increased during the second food regime, of which they were characteristic durable foods. However, in a sense, they stand Friedmann's concept of durable food on its head. She uses 'durable' in a double sense: the food products have a long shelf life, but access to consumer durables like refrigerators and freezers is also needed to use them (Friedmann 1991, p. 66, n. 1). However, in Jamaica, canned corned beef and powdered milk were popular with the rural poor, precisely because they did not have electricity, or the capital needed to purchase refrigerators, or both.[5] There were some imports of processed potatoes during this early period, but the overall pattern for potatoes looks more similar to chicken and wheat: a rapid increase after

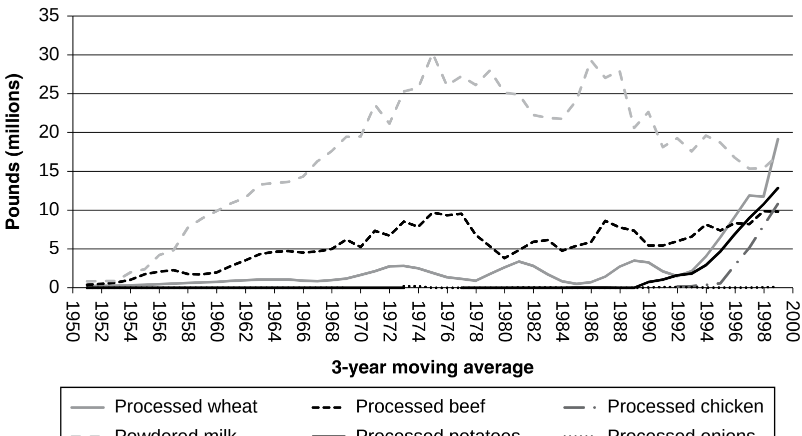

Figure 3.8 Imports of processed foods into Jamaica, 1950–2000

Source: STATIN, *External Trade* annual volumes. Processed wheat = alimentary paste (macaroni, vermicelli, etc.) and biscuits, breads, and cakes. From 1953, also includes ice cream cones. See notes to previous figures for definitions of other categories.

liberalization in the early 1990s. Most of the processed potatoes were in frozen form; the processed wheat was made into final products such as breads, cakes, biscuits, and noodles; and the processed chicken was mostly in the form of 'chicken paste', another leftover of the US chicken processing industry that is used to make things like chicken nuggets. All these products signal the rise of the fast food industry and also of the supermarket as two major sources of food for most people in Jamaica, as well as the global homogenization of diets that accompanies the onset of the third, corporate-dominated food regime.

Discussion

This analysis demonstrates the usefulness of food regime theory for understanding Third World food import dependence, despite the fact that this has not been a central focus of the theory. The products of the complexes of the second and third food regimes that were analysed here have all made contributions to Jamaica's dependence on imported foods. However, few of these contributions have come in a way that might have been anticipated by food regime theory. This highlights the importance of local factors, such as history, geography, climate, and, most importantly, state policy, in determining the specific ways in which countries are integrated into the global food system.

The inference drawn from food regime theory at the outset is supported by this analysis: as the global food system evolves, new complexes arise, supplying new forms of food products to the world. Some of these products are imported by Third World countries and become accepted as a part of their diets. In at least some cases (milk, potatoes, and processed wheat), they undermine local production of these products, and once local production has been undermined, it is more difficult (though not impossible) to revive it. The general trend becomes one of increasing dependence on a wider range of imported products over time.

The analysis also provides some evidence for the emergence of a processed/fast food complex as part of the third food regime. This is seen in the rapid increase of processed food imports since 1990, as well as in the increase in corned beef imports since the early 1980s. It is also seen in the spread of the fast food model in the Third World, exemplified here by KFC, other US-based fast food chains, and their local imitators (Mother's, Juici Patties, etc.). But more importantly, it is marked by the spread of their *systems* of procuring and processing the ingredients that go into their fast foods. The economic logic of these corporations is global sourcing, from wherever the ingredients they need are the

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cheapest. For mass producers of standardized foods like fast food chains, consistency of supply and quality are also key concerns. So they prefer to buy from large suppliers who can provide this consistency, even if that means importing ingredients. If they do import ingredients, it is often in processed form. This phenomenon is not confined to the fast food industry per se, but also includes local manufacturers of processed foods for the domestic market, such as Grace Kennedy, who operate the same global sourcing and mass production system. Import dependence on these food items has been added on to the dependences carried over from the second food regime, cumulatively increasing food import dependence.

While fast food may be cheap food for the working class in the developed world, it is middle-class food in the developing world, and US fast food outlets did not begin to penetrate their markets until a large enough middle class had formed. In Jamaica, local production of meat has developed to supply this processed/fast food complex, and middle- and upper-class consumption more generally. But it has not been able to supply 'meatified' diets to the poor, who have turned to cheap, processed or semi-processed, imported corned beef and chicken necks and backs, once again adding to food import dependence.

Dependence on imported food also has its own local twists. Thus, Jamaica became more dependent on wheat, beef, and powdered milk imports during the second food regime. All of these are characteristic products of the second food regime, but they are also part of the 'traditional' diet in Jamaica, a diet that was learnt from the British colonialists. Imports of chicken, another product of the livestock/feed complex of the second regime, did not become significant until after the end of that regime. Imports of potatoes and onions, characteristic of the third regime, increased during the second, and so on. Food regime theory can tell us how the global food system evolves, and what types of food products to look at, but in the analysis of individual cases, we also have to consider local history, different countries' capacities to produce different types of food products, and, most importantly, state policies.

State policies are implicated in all of the ups and downs of imports of the different food products analysed here. Acceptance of cheap wheat and powdered milk imports in the 1950s and 1960s, fluctuations in powdered milk imports in the 1970s through the 1990s, the fall of beef imports in the 1970s, and the increasing imports of processed food products in the 1990s, among others, were all the results of state policies. It is likely that any decrease in food import dependence will also have to be achieved through state policies. Over the past decade, the Jamaican

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government has been trying to curtail food imports by promoting consumption of locally produced foods under the slogan 'Eat what we grow, grow what we eat'. But voluntary campaigns are likely to have little impact when consumers with low and declining disposable incomes are faced with a choice between locally produced foods and imported foods that are cheaper and more 'convenient'. Decreasing food import dependence is going to require strategic delinking from the global food system and a programme of agricultural import substitution, led by the state. The problem, of course, is that most of the policies that would be required to achieve this would be illegal under WTO rules.

With the advent of neoliberalism in the 1980s, food security became redefined as something that was to be achieved through the market. This redefinition cleared the way for trade in agricultural products to be brought within the purview of the WTO. As we have seen, it is this application of neoliberal principles to the trade in food that is primarily responsible for the rapid increase in food import dependence in the 1990s. In addition to food import dependence, the global standardization of diets that this trade regime has brought about has led to increasing health problems, as consumption of red meat and refined carbohydrates and sugars are implicated in rising global incidence of obesity, diabetes, hypertension, and heart disease. Further, as financial speculation has spread to commodity markets, food price volatility has increased and periods of high food prices unconnected to underlying supply and demand, such as during 2008, have emerged (Friedmann 2005, McMichael 2009a).

Therefore, any move to reverse the trend of increasing food import dependence is likely to hinge on removing agricultural trade from the jurisdiction of the WTO. This is a main goal of the food sovereignty movement, led by the global peasant organization Via Campesina, which advocates for more local, democratic control over food systems. Local communities and regions should be able to produce for their own consumption first, and then trade for whatever other food products they choose to consume. This would help to preserve local knowledge of how to produce traditional crops, as well as cultural traditions based on consuming certain kinds of local foods.

This may not be as crazy as it sounds. First, high energy prices are going to make it more and more expensive to ship processed food ingredients all over the planet. Second, the greenhouse gasses produced by all of that transportation are making the climate problem much worse (McMichael 2009b). As energy prices rise, it may soon be much more economical to produce locally than to import.

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Notes

1 I would like to thank Patricia Anderson for her comments on an earlier draft, and David Bernard for formatting the figures.
2 I use the names proposed for the food regimes by Friedmann (2005). The starting and ending dates of each regime are approximate; they depend on judgements of whether a set of implicit rules has crystallized or begun to break down.
3 This section is based on Weis (2004).
4 See Friedmann's (1991, p. 72) discussion of potatoes as an exemplary durable food.
5 Personal communication, Patricia Anderson, 23 January 2014.

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4

Historicising Trade Preferences and Development: The Case of the ACP–EU Canned Tuna Preference

Liam Campling[1]

Introduction

Preferential trade is a major aspect of the post-World War Two international economic environment. It includes the reciprocal liberalisation of trade between parties under free trade agreements (FTAs) and the non-reciprocal liberalisation of market access by one party to those countries self-categorised as 'developing'.[2] Mainstream narratives on African, Caribbean and Pacific group of states (ACP) trade with the EU claim that the non-reciprocal preference regime under the Lomé Conventions (1975–1999) failed to stimulate economic development. The typical alternative proposed is the reciprocal liberalisation of tariffs in combination with *re*-regulation in areas such as intellectual property rights and trade-related investment measures to enhance 'competitiveness' (e.g. DG TRADE and DG DEV 2002). A more heterodox view is that trade preferences did (and can) stimulate ACP development as part of a wider programme of strategic industrial policy, but this is contingent on the ACP maintaining policy space in several 'contentious areas' (e.g. Lui and Bilal 2009). This chapter offers a third perspective: while agreeing that preferences can support capitalist development, the history and ongoing institutional reproduction of ACP–EU trade preferences must be understood in the first instance as part of the accumulation strategies of particular European capitals ('domestic-societal' interests). Framing the analysis in this way allows the avoidance of methodological nationalism: commercial interests are expressed *through* the state. In turn, the design and effectiveness of trade preferences cannot be assessed in isolation from geopolitical and world market dynamics ('systemic' context).

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The chapter traces the EU's system of trade preferences to British and French colonial production regimes. It argues that the system of non-reciprocal trade under Lomé – the high point for the ACP of recognition of their asymmetrical incorporation into the world economy – was not a product of European developmental largesse but a (re)negotiated outcome in the particular world-historical conditions of the 1970s. The chapter then moves to demonstrate that EU trade preferences contributed directly to industrial 'upgrading' into canned tuna production in several ACP economies: exporters could access the EU market duty-free compared to an import tariff of 24 per cent. Finally, it explores how EU market power spurred several tuna-dependent ACP states to sign up to reciprocal Economic Partnership Agreements (EPAs) with the EU in order to avoid losing preferential market access, which is, in effect, a legacy of a French colonial production and trade regime.

In doing so, the chapter seeks to problematise the widely reproduced separation in the analysis of EU trade arrangements between those that are 'developmental' and those that are commercial (e.g. Young and Peterson 2013). A typical example of the former is the Lomé Conventions and subsequent Cotonou Agreement. While these arrangements with the ACP included a development component (e.g. aid allocation under the European Development Fund), it is argued here that the system of EU trade preferences was from the outset a product of European commercial interests, which can often be traced back to the colonial production and trade regimes of France and the UK (see also, Richardson 2009). This is in direct contrast to the institutionalist argument that EU trade policy formation is deliberately insulated politically (and physically) because the institutional separation of decision makers in Brussels provides a degree of relative distance from the *direct* influence of firms and other social interests whose traditional object of lobbying is their national states (e.g. Meunier 2005; Nicolaïdis and Meunier 2002; Woolcock 2005). Moreover, it is argued, the delegation of authority to the EU was a deliberate policy initiative of the framers of the 1957 Treaty of Rome (and beyond) to counter the protectionist tendencies and associated lobby power of firms opposed to the economic liberalisation inherent in EU integration and under the GATT (1947). Instead, the framers of EU trade policy are delegated authority to develop policy that satisfies the interests of the public as a whole according to the assumptions of liberal trade theory: the efficiency-enhancing effects of trade liberalisation via the realisation of comparative advantage and the associated downward influence on consumer prices. The governments of member

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states, in turn, are able to placate domestic interests through the disciplinary mechanism of international legal commitments (i.e. their hands are tied by EU rules).

This chapter seeks to contribute to the literature that contests this institutionalist understanding of EU decision making. To start with, as pointed out by Dür there is very limited evidence to support it. Instead, he shows that the EU's position in trade negotiations at the GATT and the WTO 'was largely in line with the demands voiced by economic interests' (2008, p. 27). As an alternative, Damro (2012) proposes the study of 'market power Europe'. He calls for analyses to *start* with the 'material existence' of the EU's relative market size that allows it to externalise 'various internal policies' (2012, p. 686).[3] This chapter takes this further to consider the importance of the history of European colonialism in shaping 'external' economies and societies (in this case several coastal and island countries of Africa and the Pacific). Finally, as will be shown, there are considerable parallels in this chapter with Heron and Siles-Brügge's (2012) identification of European 'domestic-societal' interest groups and 'systemic' forces as *drivers* of the liberalisation agenda in EPAs. The chapter places particular emphasis on the 'interest group' of industrial capital, mediated by 'home' member states and the European Commission, which are in turn influenced by and influence competitive dynamics in the world economy. In doing so, the focus of the chapter is on what *shapes* trade policy. Detail on policy outcomes or the differentiated effects of policy (e.g. across ACP states) is minimal due to the confines of space.

EU trade preferences and ACP development: The technical debate

There is a vast academic and policy literature on the trade and development effects of the Lomé Conventions (1975–1999), and a growing literature on the preparatory phase of the Cotonou Agreement (2000–2007) and subsequent EPAs. Cutting through the complexity of some of these debates, there are two broad positions of particular relevance to this chapter: that EU trade preferences did not help the development of ACP economies ('the pessimists') and that EU trade preferences played an important developmental role for *certain* ACP export-oriented industries ('the optimists'). A major caveat to this debate is that it is of course very difficult to disentangle the effects of preferences from the wide range of other factors affecting production (Grilli 1993, p. 160), which is further considered below.

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Preference pessimism is the dominant narrative in mainstream – 'neoliberal' – trade and development policy circles. Assessments from this perspective tend to use highly aggregated data to conclude that Lomé preferences failed to stimulate industrial development in ACP economies (Davenport et al. 1995; Moss and Ravenhill 1987). A commonly cited statistic in support of this view is the decline in ACP goods as a proportion of total EU imports from 13.3 per cent in 1976 to 3.7 per cent in 2000 (Yu and Jensen 2005). In general, ACP economies did not diversify and their export portfolios remained dominated by unprocessed primary commodities and some low-value-added agricultural products. For example, in 1999, only 9 products constituted 57 per cent of total ACP exports to the EU, and, of a total of 77 ACP countries, 61 per cent of total exports came from only 10 African economies (DG TRADE and DG DEV 2002). From the theoretical perspective of mainstream economics, preferences pervert opportunity costs, constraining the most efficient allocation of resources and actually *discourage* economies from diversifying because of dependence on preferences (Davenport 1992; Davenport et al. 1995). This is also the argument of those who challenge the static neoclassical logic of comparative costs and propose a 'new' trade theory (e.g. Krugman 1993). Importantly, the EU itself became a leading political–institutional voice among the preference pessimists, stating that

> trade preferences have neither halted the increasing marginalisation of the ACP region in world trade nor in their trade with the EU. Nor have they overcome the high dependence of the ACP on a few commodities. (DG TRADE and DG DEV 2002, p. 2)

This may be an accurate generalised description of outcomes, but of greater interest (and contention) is their explanation.

Relying on highly aggregated trade statistics, the preference pessimists obscure important underlying dynamics in both the world economy and the internal conditions of the (highly differentiated) 77 countries of the ACP, which help to explain the relative decline in ACP share of trade with the EU. First, the industrialisation of East and Southeast Asian economies resulted in their export of cheaper goods in direct competition with (current and former) ACP industries (Stevens and Weston 1984), while externally imposed structural adjustment programmes throughout the ACP from the 1980s onwards barred ACP states from using the very policy mechanisms deployed by their Asian competitors. Second, if oil exports are removed from the aggregated statistics used by DG

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TRADE and DG DEV (2002) cited above and only products benefitting from a commercially significant trade preference are included, it can be found that several ACP economies significantly diversified their exports to the EU, especially in the two product groups of fish and clothing (McQueen et al. 1998; Stevens and Weston 1984). Third, several ACP countries experienced severe political, social and/or military conflicts (often Cold War proxy wars), and/or were ruled by deeply corrupt regimes (often supported by Western powers), which had a negative effect on economic diversification and trade flows. While the domestic aspects of this last point were sometimes acknowledged by the EU – for example, in a Green Paper on the reform of Lomé it recognised that 'the economic marginalisation of some ACP countries has gone hand in hand with social disintegration, mounting violence and a proliferation of armed conflicts' (EC 1996, p. 570) – it did not influence its pessimistic position on the benefits of ACP preferences.

Even self-styled 'sympathetic analysts' Babarinde and Faber (2005, p. 5) state that 'Lomé was unable to catapult even a majority of the ACP countries to the community of middle-income countries after 25 years of privileged concessions'. This argument over-emphasises the developmental potential of external policy regimes as it fails to take account of dynamics in the world economy or the domestic political economy of individual ACP countries (and the always-existing relations between these two aspects). It should also be noted that ACP exports may have performed even more poorly without EU trade preferences, but this counterfactual is difficult for either perspective to prove or refute.

In contrast, 'preference optimists' tend to base analyses on data disaggregated by value of preference, country and product type and argue that Lomé preferences provided an important competitive advantage during particular historical periods for *some* countries and *some* products, as detailed in McQueen et al. (1998). Similarly, in their assessment of Lomé I, Stevens and Weston (1984, pp. 30–35) point out that – despite the context of the downturn in the world economy during the period of the first Convention – the exports of the 36 ACP states 'most likely to have diversified [excluding recent entrants and "hopeless cases"] reveals some encouraging results', including expansion in the value of exports to the EEC of several 'non-traditional' products such as clothing, canned tuna, cut flowers, instant coffee, leather products and furniture. By the time of Lomé IV(bis) only seven per cent of ACP exports received a 'significant' margin of preference of five per cent or more over other countries (Davenport et al. 1995, p. 67),[4] but even a five per cent margin can be considered commercially 'trivial' (McQueen et al. 1998, p. 40).

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Instead, the majority of ACP exports were met with either a very low or zero EU's most-favoured nation (MFN) tariff or the EU's generalised scheme of preferences (GSP) regime provided equally significant preferences to competing developing countries (McQueen and Stevens 1989; McQueen et al. 1998; Stevens and Weston 1984). By the start of Lomé IV, over 90 per cent of total EU imports of manufactures entered duty-free under the MFN tariff or the GSP regime (if rules of origin were met) (Grilli 1993); the largest exceptions were textiles and clothing and processed fish (especially canned tuna). However, particularly restrictive rules of origin were applied to these very sectors, further constraining the economic benefits of preferences (Campling et al. 2007; Naumann 2005; Ravenhill 1985; Stevens and Weston 1984). In other words, in order for a tariff preference to have a stimulating effect on the development of export-oriented production it must provide a commercially significant advantage relative to major competitors; this in turn can only be understood in the historical context of competitive conditions in the world market, and the devil is in the legal detail on whether a preference is workable. It is to a historical explanation of ACP–EU trade preferences that I now turn.

A historical political economy of ACP–EU trade preferences

The ACP group of 77 countries is an ad hoc institutional 'accident' of (post-)colonial history. This is widely acknowledged in the literature on ACP–EU relations. Less regularly explicitly incorporated into analytical explanations of the contemporary form of these relations is the legacy of French and British imperial production and trade regimes (e.g. for sugar, bananas, canned tuna). The argument advanced here is that the original design and ongoing reproduction of ACP–EU trade preferences must be understood historically as part of the accumulation strategies of particular European capitals (see Richardson 2009 for a similar argument for sugar). In the contemporary context, therefore, not only is the EU (as the largest market in the world) able to wield its macro-regional market power *in general* in trade negotiations with the politically fragmented and economically weak ACP, the path dependency of colonial production and trade regimes for *particular* industries means that ACP economies are doubly locked into supplying EU markets. I identify four historical phases in the changing design of ACP–EU trade preferences. The purpose of this necessarily stylised sketch of an extremely complex history is to draw out the drivers of change in the (re)design of trade preferences.

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Phase I: Colonialism and early independence

The institutional origins of ACP–EU relations are commonly traced to the Treaty of Rome (1957) which established an association between the (then) European Economic Community (EEC) and the colonies and overseas territories of the post-War French Union (Bartels 2007a; Cosgrove Twitchett 1981; Grilli 1993; Lister 1988). This 'associationism' *unilaterally* imposed *reciprocal* preferential trade, extending access for colonies to all EEC markets. However, in light of the rapid process of decolonisation and Latin American concerns that associationism was trade diverting and non-compatible with GATT (1947), it was replaced by the 'negotiated' Yaoundé Conventions between the EEC and Francophone Africa (1963–1975). Yaoundé continued to share the costs of French (post-)colonial mercantilism across the EEC as a whole, mainly in return for guaranteed supply of primary commodities and access to Francophone Africa's markets by other EEC members (Grilli 1993; Nunn and Price 2004). The Yaoundé Conventions were subject to substantial criticism at the time because of the EEC's perceived 'divisive' and 'neo-colonial' exploitation of Africa (Lister 1988). The accession of the UK to the EEC in 1973 made it necessary to replace Yaoundé to accommodate the production and trade regimes articulating British industry with its sources of post-colonial raw material supply (excluding former colonies in Asia). This was initially intended to mirror the reciprocal trade of the Yaoundé Conventions (Babarinde and Faber 2005; Grilli 1993).

Phase II: Capitalist crisis and Third Worldism

The relationship between Europe and its former colonies was reconfigured in the world-historical context of the 1970s: US decline, stagflation in core capitalist countries and the height of 'Third Worldism' – most clearly signalled in the programmatic demand for a New International Economic Order (NIEO) (see discussion in Campling 2006). The principle of reciprocity in GATT (1947) had been a target of Third Worldist critique since the 1955 Bandung Conference as 'unsuitable to the special needs of the underdeveloped countries' (Grilli 1993, p. 30; Parkinson 1956). The replacement of Yaoundé – the first Lomé Convention (1975–1980) – was negotiated in this context and is widely recognised as a high point in developing country gains in trade negotiations with capitalist core (Clapham 1996; Grilli 1993; Ravenhill 1980; Stevens and Weston 1984). Reflecting the structuralist economic thinking of the 1970s, Lomé I provided extensive *non-reciprocal* trade preferences and measures for 'the domestic processing of ACP raw materials' (Article 70 of Lomé II as cited by Stevens and Weston 1984, p. 28). In part, the EEC was willing

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to *negotiate* the terms of the agreement to ensure supply of primary commodities from the ACP countries in the face of real shortages of raw materials (Arts and Byron 1997). But the EEC was also pushed onto the back foot by the ACP states' relative unity and pro-active Nigerian leadership (Grilli 1993; Ravenhill 1980).[5]

Phase III: Neoliberal counter-revolution

In contrast to the first Convention, Lomé II (1980–1985) was negotiated in a period of deepened relative asymmetry between the ACP and the EEC. This was due to the convergence of a set of interrelated factors: non-oil producing ACP economies were hard hit by the two successive OPEC price rises in the 1970s; the shift to the political right in the capitalist core (not least through the rising dominance of 'free' market neoliberal thinking); and the Third World radicalism associated with the NIEO began to fade, partly because of divisions between these heterogeneous states (including within the ACP group itself, such as between anglophone and francophone states),[6] which allowed the EEC to pick off certain states using a strategy of divide and rule (Ravenhill 1980). The outcome of this configuration of structural and contingent forces was 'the re-establishment of the balance of international economic and political power in favor of the North' (Grilli 1993, p. 36). In short, the EEC had 'made many more concessions than it was prepared to do during the negotiations of Lomé I, and that from Lomé II onwards, the EU has been rolling back these concessions' (Babarinde and Faber 2005, p. 2). A general embittering of ACP–EU relations ensued and, although Lomé I's non-reciprocal trade provisions remained, the EEC interpreted the Convention in a very narrow and legalistic fashion; for example, procedural aspects such as rules of origin were followed to the letter, rather than being interpreted with 'developmental' outcomes in mind.

By the time of negotiating Lomé IV (1990–2000), the EU was even more fully committed to promoting neoliberal policies in its relations with the ACP (e.g. DG DEV 1995). The EU ignored that the *only* comprehensive success story of industrialisation since 1945 – the newly industrialised countries of East and Southeast Asia – was contingent upon extensive (and very well documented) strategic *intervention* by the state, combined with preferential access to the US market for manufactured goods (e.g. Stubbs 2005). With the mid-term review of Lomé IV in 1995 it was clear that the EU was not going to extend non-reciprocal market access to any arrangement after 2000. The main-stated rationales for this were that Lomé had never been compatible with GATT (1947)

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and with the newly established WTO (McQueen et al. 1998), and that development strategy should move from a focus on trade preferences to 'improving the competitiveness of the ACP states' (DG DEV 1996, p. 7), by 'integrating them into the world economy in a harmonious and gradual manner' (Amendment to Article 6 of Lomé IV, ACP-EC 1995, emphasis added).[7]

Phase IV: Economic Partnership Agreement negotiations

Essentially a continuation of the third phase, the entry into force of the Cotonou Agreement (2000–2020) demanded 'the *progressive removal of barriers to trade between the Parties*, in accordance with the relevant WTO rules' (Cotonou Agreement 2000, Article 37.7) through a series of EPAs. The EU's other stated objective in the promotion of EPAs was to mirror the European experience of regionalism since World War Two by pushing the ACP 'to base their integration into the world economy on regional economic integration' (DG TRADE and DG DEV 2002, p. 5). Despite the EU's failure to offer an alternative to EPAs to the ACP (see below) and the assertion that its motivation for promoting EPAs was to ensure WTO compatibility, it simultaneously offered discriminating trade preferences for Andean and Central American states under its GSP 'drugs arrangement'. This was designed to encourage these economies to shift from the production and trade of cocaine to alternative products and as a geopolitical tool to try to stem the rising tide of Left politics in the Andes. India successfully challenged the 'drugs arrangement' at the WTO Appellate Body in 2003 because it discriminated among non-LDC developing countries. But an EU appeal in the following year saw the Appellate Body rule that differentiation between non-LDC developing countries is allowed where the method used for doing so is objective, transparent and non-discriminatory between those countries that are 'similarly situated' (Bartels 2007b; Campling et al. 2007). The EU subsequently designed a new non-reciprocal preference regime – the GSP+ – to explicitly benefit the Andean and Central American countries (it is no surprise that considerable EU investment had been made in these countries, including Spanish firms involved in tuna processing).[8] However, the GSP+ was based on a 'closed list' – precisely one of the factors behind India's successful challenge at the WTO – which, as I will show, excluded non-LDC ACP countries from using the GSP+ as a non-reciprocal alternative to maintaining trade preferences to negotiating reciprocal EPAs. Before moving to this I outline a major 'success story' of Lomé/Cotonou trade preferences – the industrial upgrading of tuna processing.

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Trade preferences and industrial upgrading: Tuna processing in the ACP[9]

The principal examples of industrial upgrading in the ACP under Lomé preferences were clothing and apparel and processed fish. With the phasing out of the Multi-Fibre Arrangement (MFA) by 2005, ACP exporters were less able to compete in commodity chains in clothing and apparel (e.g. Gibbon 2008; an outcome that was predicted by McQueen et al. 1998). In contrast, preferences for ACP and GSP+ processed tuna exports to the EU remained stable and are duty-free compared to an MFN tariff of 24 per cent and the 'standard GSP' tariff of 20.5 per cent (Campling 2008).[10] This is a significant competitive advantage by any measure. The canned tuna trade preference was itself a historical product of the French colonial trade regime when French industrial capital established tuna fisheries and canneries in colonial Senegal in the 1950s (Campling 2012a).

The distribution of global production in the EU-centred commodity chain in canned tuna is intimately shaped by trade policy (e.g. Campling 2008; Campling et al. 2007). Export-oriented canned tuna production represents one of the few 'success stories' of industrial 'upgrading' in the ACP under Lomé (McQueen and Stevens 1989). In aggregate terms, the ACP share of world production of canned tuna grew from 5 per cent to 12 per cent between 1976 and 2003 (Oceanic Développement et al. 2005), supporting the position that 'the Lomé Convention was in a key sense the midwife in the creation of the . . . ACP canning industry' (Grynberg and White 1998, p. 68).[11] This is not to claim that the preference was the sole determinant in this process, but that it was an integral aspect of a set of necessary conditions.

Canned tuna production is highly labour intensive and is a major source of employment in several ACP island states and coastal regions. Direct employment in EU-centred tuna processing facilities in ACP countries in the mid-2000s (when EPA negotiations were in full swing) totalled over 15,000 workers: Côte d'Ivoire 3,000; Ghana 2,000; Kenya 800; Madagascar 1,300; Mauritius 2,700; Papua New Guinea 3,000; Senegal 2,400; Seychelles 2,300; and Solomon Islands 1,000 (Campling 2008). These data exclude ACP crew employed on European fishing boats, which based on research in 2013–2014 is estimated to be around 1,700 African crew on rotation on about 64 industrial purse seiner boats in the Atlantic and Indian oceans (Campling 2014). On the surface, these numbers may seem insignificant, but the indirect and induced employment produced by the activity of the factories is of course considerable,

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and in the island economies in particular the tuna industry can be of *national* socio-economic importance to private sector employment, government revenue and GDP (e.g. Campling 2012b, 2014; Gillett 2009; Le Manach et al. 2013). Given the lack of economic diversification and/or decline, it is the high level of employment in particular that has made these governments so keen to maintain preferential access for canned tuna to EU markets.

Despite these development gains for the ACP, the 24 per cent tariff is principally about the protection of EU-based tuna processors (a tariff peak) – especially those based in Spain, Italy and France. These domestic-societal interests are the determining factors explaining the very existence of the high tariff. At the same time, imports of whole frozen tuna into the EU to be processed into canned product receive duty-free treatment *regardless* of the country of origin. This is a clear case of tariff escalation: keeping raw material input costs low for EU-based processors and providing them with maximum flexibility for sourcing inputs at the lowest price on international markets. Importantly, ACP-based processors do not benefit from this flexibility because the Lomé/Cotonou rules of origin require that they can only process fish caught by vessels owned by firms based in the EU or ACP (for detail, see Campling et al. 2007).

However, industrial upgrading is not a unilinear process and the competitiveness of canned tuna production in ACP countries is not dependent upon the preference alone. It is shaped by the constantly changing dynamics of competitive accumulation on a world scale. As shown by Havice and Campling (2013), state managers in the ACP deploy a wide range of policies to articulate or to maintain articulations with the EU-centred commodity chain in canned tuna. These include the creation of export processing zones (EPZs); the disciplining of labour organising; the payment of direct and indirect subsidies; and social policy regimes (education, healthcare) that socially reproduce workforces, thereby subsidising foreign capital which, housed in EPZs, very often pays low levels of tax.[12] There are different drivers behind these state policies here – sometimes complementary and sometimes contradictory – reflecting domestic-societal interests in individual ACP states and their articulations with systemic forces, including state interest in job creation in economies with (often chronic) under- and unemployment; government revenue capture (in varying forms); personal gain among bureaucrats such as informal (corrupt) transfers and/or direct or indirect interests in the productive enterprise (e.g. ownership of ancillary industries); and pressure from existing foreign investors, often using the threat of relocation, to extend provision of direct and indirect subsidies

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(e.g. Campling 2012b; Gillett 2003; Hanich and Tsamenyi 2009; Havice and Reed 2012; Standing 2008).

Market access for processed tuna in Economic Partnership Agreement negotiations

A major motivation for some non-LDC ACP states liberalising the vast majority[13] of their goods markets to reciprocal EU access was the continuation of historic duty-free access to the EU market for processed tuna, which, as noted, was originally a product of French investment in colonial Senegal. ACP states categorised as LDCs were able to fall back on the EU's EBA initiative to maintain Cotonou-equivalent market access for tuna and other products. Therefore, tuna exporting LDCs (i.e. Madagascar, Senegal and the Solomon Islands) were under less pressure to initial EPAs by the end-2007 deadline. In fact, they had a *disincentive* for entering into EPAs because reciprocal market access for EU exports had negative implications for government revenue collection and would deepen competition for locally based firms.

Non-LDCs, however, only had the option of the EU's 'standard GSP' which meant the erosion of the tuna preference to a 20.5 per cent duty, thereby putting non-LDC ACP exporters on a par with far more competitive exports from Southeast Asia and placing them at a disadvantage in relation to exporters using the EBA or GSP+ schemes. The non-negotiation of EPAs would almost certainly have resulted in the overnight collapse of non-LDC exports of canned tuna to the EU (i.e. from Côte d'Ivoire, Ghana, Kenya, Mauritius, Papua New Guinea and Seychelles). As an EU industry representative interviewed in 2006 put it: 'We have canneries around the world and if customs protections were removed and the 24 percent disappeared, the canneries would also disappear' (see also Campling 2012a; IDDRA 2004).

The erosion of EU preferential trade arrangements for other commodities produced in the ACP saw the collapse of entire industries. For example, EU-centred banana production in the Windward Islands was not replaced by alternatives (as comparative advantage would have it), but instead produced deepening levels of national indebtedness (Fridell 2013). Other examples of the absolute decline of ACP industry with the phase-out of preferences include sugar (Richardson 2009) and clothing (Heron 2013). Small developing economies face high cost structures, in particular a 'combination of diseconomies of small scale and high transaction costs', which means that comparative advantage 'is not enough' to support local manufacturing development in these economies

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(Winters and Martins 2004, p. 347). There is considerable evidence indicating that without trade preferences and industrial policy (e.g. tying fisheries access to onshore processing), small economies dependent upon fish processing would become non-competitive in international markets (e.g. Campling 2008; Campling and Havice 2007; Havice and Campling 2013; Havice and Reed 2012; Ponte et al. 2007).

In this context, a set of important controversies surrounded the situation of the non-LDCs. Under the terms of the Cotonou Agreement, the EU had committed to 'assess the situation of the non-LDCs' in 2004 if they stated that they were not able to enter into EPAs. In this case, 'all alternative possibilities' would be examined 'in order to provide these countries with a new framework for trade which is equivalent to their existing situation and in conformity with WTO rules' (Cotonou Agreement 2000, Article 37.6). This links to the second negotiation option available to the EU noted above – a Cotonou-equivalent GSP regime. In addition to the problem of the modalities for resolving this issue (i.e. the criteria for 'alternatives' were not specified in Article 37.6), there were two other issues. First, no non-LDC ACP opted out of EPA negotiations by the end of 2004 and thus the EU was not legally committed to offer equivalent alternatives (Alavi et al. 2007). Second, several non-LDCs (including Papua New Guinea and the Seychelles) enquired about utilising the GSP+ regime when they realised that EPAs might not be concluded in time to avoid the downgrading of tuna exports to the standard GSP.[14] In response, the EU declared that it would not open this 'closed list' to new applicant countries until 2009, thereby effectively blocking non-LDC ACPs applying for GSP+ treatment as an alternative to an EPA. While the EU argued that this decision was simply in conformity with its own rules, the 'closed list' was incompatible with the Enabling Clause, including two specific WTO Appellate Body rulings in favour of India in 2003 and 2004 as noted above. This clearly demonstrates the hypocrisy of the 'developmental' scope of EU trade policy: on the one hand, its stated objective of full compliance with WTO rules compelled the ACP to enter into EPAs to maintain market access, while on the other, it failed to offer an already-existing EPA alternative to non-LDCs because it would break internal EU regulations on graduating to GSP+ status, despite the fact that these very regulations contravened the WTO.

In sum, the combination of the time constraint of the end-2007 deadline (imposed by the end of the Cotonou Waiver at the WTO) and the lack of alternative Cotonou-equivalent market access opportunities (imposed by the EU's unwillingness to provide one) meant that tuna exporting non-LDCs were compelled to enter into EPAs or lose preferential treatment

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and face the collapse of their tuna processing industries. Given the fact that not one of the regions was ready to sign full EPAs by early 2007, a two-stage solution was developed. *Interim* EPAs would be signed by end-2007 which would meet the basic requirements of GATT Article 24 by committing to the reciprocal (but asymmetrical) liberalisation of the trade in *goods* and thus allow the continuation of uninterrupted preferential market access for the ACP. This was to be followed by a commitment to negotiate *comprehensive* EPAs in a range of time frames from 2008 (including agreements on trade in services, investment rules, etc.). By the end of 2007, only around 35 of the 79 ACP countries had initialled interim EPAs. Continuing market access for tuna products was a *central* reason for doing so by Papua New Guinea and Seychelles, and as part of several other preferential items for Côte d'Ivoire, Fiji, Ghana and Mauritius.

Conclusion

The relationship between trade preferences and development cannot be understood simply from the technical positions of the 'pessimists' or the 'optimists'. By sketching EU trade preferences over time, we can better appreciate the role of domestic-societal interests and systemic context in their original design and institutional reproduction. This chapter has argued that non-reciprocal preferences were a necessary but not sufficient component in the development of the ACP tuna industry. Heterodox arguments for 'policy space' should not ignore domestic-societal interests, the systemic context of the world economy and the always-existing relations between these two aspects. For example, the very existence of the ACP tuna preference must be understood in the first instance as a product of French industrial capital investing in colonial Senegal under the post-War French Union. Although this was augmented as a non-reciprocal arrangement in the world-historical context of the 1970s, the subsequent political drive to liberalisation with the institutionalisation of the WTO and the Cotonou Agreement saw several ACP states sign EPAs in part to maintain a trade and production regime that was created in the colonial era.

Notes

1 I would like to thank Henry Bernstein, Kate Ervine, Gavin Fridell and the Historical Materialism and World Development Research Seminar for feedback on earlier versions of this work, as well as participants at the Alternative Trade workshop at Saint Mary's University for stimulating discussions.

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2 While the GATT/WTO is designed to liberalise trade multilaterally among all members, Article 24 allows members to liberalise among two or more parties on the condition that it is a formally recognised FTA or regional integration organisation. This effectively waives the first principle of the GATT/WTO – non-discrimination among members. The 1971 Enabling Clause under the GATT allows for a Generalised System of Preferences (GSP) for developing countries, again waiving principle of non-discrimination.
3 This is a parody of the notion of 'normative power Europe' (Manners 2002, 2009) which highlights the role of ideational elements in the formation of EU external trade and other policies. I do not deny the possibility of normative dimensions to EU trade policy, but I do argue that it is not an appropriate starting point in understanding why policies look like they do.
4 Corroborated by Manchin (2006) who found that ACP firms did not utilise preferences unless the margin was 4.5 per cent more than the MFN rate.
5 Despite this, the ACP group represented a fragmentation of the NIEO call for South–South unity because of its status as a subgrouping of developing countries with preferential relations with the EEC (Cosgrove Twitchett 1981).
6 This was not primarily a consequence of the dominance of different European languages and cultural influences, but because of the dependence of many francophone ACP on relations with France and the EEC in contrast to some of the more radical regimes of the anglophone Caribbean which appeared to take the demands of the NIEO more seriously (Grilli 1993; Ravenhill 1980).
7 The assumption that economies can 'harmoniously' articulate with global capitalism is one of the many contradictions of the EU agenda here.
8 The GSP+ combined three prior GSP regimes: a system tied to combating the production of coca and traffic in cocaine, which was available to certain Andean countries, all Central American countries and Pakistan (commonly known as the 'Drugs Arrangement'), and two GSP schemes aimed at promoting labour rights and environmental standards respectively.
9 This chapter makes only cursory reference to the importance of the European distant water fishing fleet in supplying ACP canneries and EU-subsidised arrangements to access fisheries in ACP waters. For details, see Campling (2012b).
10 The EU GSP regime consists of three separate schemes: (1) the 'standard' GSP scheme that is available to *all* developing countries, which for canned tuna provides only a 3.5 per cent preference over the MFN rate; (2) the GSP+, which offers duty-free access for canned tuna; and (3) the Everything But Arms initiative (EBA) which was set up in 2001 to provide duty-free and quota-free access to all countries categorised by the UN as LDCs. Market access under any of these three schemes requires compliance with EU GSP rules of origin, which are particularly strict for fish products.
11 Drawing upon their analysis of trade data to mid-Lomé IV, Davenport et al. found that fish was the most important non-oil ACP export to the EU and was 'one of the most successful cases of processing in the ACP countries' (1995, p. 20; see also McQueen et al. 1998, p. 48), referring to fish fillets, frozen prawns and shrimp, as well as tuna products.
12 In fact workers *themselves* subsidise capital in terms of the surplus labour captured by firms as profits and also their own share of surplus value (wages)

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is used to reproduce families and taxed by governments to reproduce social policy regimes, thereby establishing future workforces for capital-in-general.

13 The precise definition of 'substantially all trade' differed among EPA regions.

14 Multiple personal communications, East and Southern Africa (ESA) and Pacific Island country (PIC) EPA grouping and negotiators, 2006 and 2007; participant observation in ESA and PIC technical EPA meetings in 2006 and 2007.

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Part II
Politicizing Trade: Shifting Alliances and New Trends

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5
Regional Trading Agreements, the Geopolitics of China's Rise, and Development in East Asia

Paul Bowles

Introduction

The East Asian region is now the home to over one hundred bilateral and plurilateral intra- and extra-regional trade agreements (RTAs) and proposals. The most important of these are the Association of Southeast Asian Nations (ASEAN)+1 agreements with China, Japan and South Korea, negotiations over a China–Korea–Japan trilateral agreement, an ASEAN+6 Regional Comprehensive Economic Partnership (RCEP) with a 2015 target completion date and the US-led, 12-member, Trans-Pacific Partnership (TPP) targeted to be completed by the end of 2013 although still ongoing.

This raises the questions of why there are so many and why now? Ravenhill has argued that there is a 'new East Asian regionalism', a characteristic of which is the 'proliferation of bilateral and minilateral . . . preferential trade arrangements' (2010: 173).[1] But why? Is there such widespread disillusionment with the lack of progress of the Doha Round that countries are scrambling to get in place their own trade liberalising deals or is there something else at play? The argument advanced here is that the plethora of agreements and proposals are part of wider regional manoeuvring intimately connected with the rise of China. All of the major players are currently jostling for position and figuring out how to deal with China's rise, including China itself. In this jostling, geopolitics play the leading role with new patterns of contestation and cooperation emerging, tipping points being reached, and complex chain reactions occurring. At the same time, the development orientation of trade agreements and the spatial dimensions of the 'region' are being charted and negotiated as well.

In many ways these issues are not entirely new. While the region was slow in joining in the rush to regionalism in the 1970s and 1980s,

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it was the site for some high-profile regional initiatives complete with ideological clashes in the 1990s. Regionalism underwent a profound rethink as a result of the Asian Financial Crisis in 1997–1998, and has now come back on to the agenda in ways which echo many of the earlier debates.

In analysing the previous rounds of regionalism in East Asia, we find that two stylized facts stand out. The first is that trade agreements have taken place within a context of competing ideologies of development. These ideologies can loosely be called the ASEAN/East Asian developmental state model, in which developing countries are given greater leeway in protecting specific sectors and in the time provided to implement agreements, and the Anglo-American neoliberal model with its greater emphasis on rules and common policies applicable to all. The most obvious example of this was the debate over the East Asian Economic Caucus proposed by Malaysian prime minister Mahathir in the 1990s versus the Asia-Pacific Economic Cooperation (APEC) model with its more neoliberal underpinnings and which won out in the debate (see Higgott and Stubbs 1995).

Secondly, this debate involved not only competing trade and development models at the regional level but also conceptions and definitions of the region, itself. In particular, whether the region was Asian, thereby excluding the US, or whether it was Asia-Pacific, thereby including the US, was a key question with all of its geopolitical implications. The period came to a close with the Asian Financial Crisis in 1997. The failure of APEC, as the dominant regional economic body, to play a significant role in the aftermath of the crisis led to new forms of regional integration. The two stylized facts of development model and geopolitical implications remained central ones though. In the post-Asian Financial Crisis phase, the initiatives involved the ASEAN+3 (China, Japan and South Korea) countries, thereby redefining the post-crisis region as excluding the US (see Bowles 2002), and sought to provide a buffer against neoliberalism (even if the initiatives were largely unsuccessful in this).

Fast forward to today and we again see geopolitics playing a crucial role in the contestation over the 'region' and debate over the appropriate development path now centred on the neoliberal US-led TPP versus various Asian-only initiatives such as the ASEAN–China Free Trade Agreement (FTA) and the RCEP. In many ways, these contestations mirror the earlier debates.

But while we can see continuity in these debates, there are also some important changes to analyse as well. These arise for three reasons.

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The first is that China's continued economic and political rise has placed it much more centrally in regional dynamics; indeed, Beeson and Li (2011: 35) have argued that 'China has once again become a – perhaps *the* – major actor within the East Asian region'. China's economic power and its actions to fashion regional leadership have provided challenges to others in the region, most notably, Japan, ASEAN and South Korea which have had to decide how best to respond to China's economic rise – and its threat to their industries – as well as its military and maritime strategies. There is now a complex shifting dynamic between these actors as we will see. The second new contextual factor is that the US, newly engaged with the region, is facing the task of not only geopolitically responding to China's rise but also crafting the nature of that response in an era where economic crisis in the US has made it more keen to use economic relationships in the region since it has become more constrained fiscally in using its political and military weight. In other words, geopolitics and geoeconomics have become more closely intertwined. Thirdly, whereas previous analyses of regionalism placed a great deal of attention to inter-state preferences and positions, we now need to pay much more attention to intra-state dynamics. As Jiang (2010: 238) has noted, the assumption of unitary state actors cannot be taken as a first approximation in current analysis. This is demonstrated in this chapter in the particular case of China where the debate over China's response to the TPP illustrates the tensions to be found in Chinese policy debates, the outcome of which will reveal much not only about the future direction of trade policy in the region but also about China's own internal direction.

To examine these complex and multifaceted issues in more detail, the chapter proceeds as follows. In the next section, I review China's approach to regional trade initiatives and argue that, to an extent, in contrast to its extra-regional agreements, geopolitical considerations of seeking to assure its regional neighbours that its rise does not constitute a threat play the leading role. Following that, I then outline the TPP showing how the US has envisaged its new engagement in the region and the neoliberal development implications of the TPP model. I then discuss China's reaction to the TPP and the view that it is seen as an attempt by the US to contain China's rise. The recent entry of Japan into TPP negotiations and Chinese reaction(s) to it are then discussed. The discussion highlights the complexity of the chain reactions now underway and points to some of the internal debates in China about how best to respond. In the concluding section, I sum up what all this means for our understanding of trade agreements in the region.

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China's regional initiatives

China has officially notified the World Trade Organisation (WTO) of its involvement in 11 FTAs/RTAs. The WTO (2012: 16) states that 'China was a latecomer to regional trade agreements but has become an active participant'. This is certainly confirmed by recent activity and China has been active both regionally and extra-regionally in pursuing trade agreements.[2] But to what purpose? Ravenhill (2010) has argued that, for the East Asia region in general, contrary to many international political economy (IPE) studies which stress the role played by business interests and the economic gains which accompany such preferential agreements (in terms of reduced transactions costs, access to a larger market or increased competitiveness), 'there are few instances where export-oriented interests appear to have been involved in the political process that generated the new preferential agreements' (2010: 174). Rather, he finds that 'political considerations have been dominant' (2010: 174).

This general assessment is certainly confirmed by Chin and Stubbs (2011) in their analysis of the world's largest RTA by population, the China–ASEAN FTA, started in 2001 and with an agreement on goods introduced in 2005, on services in 2007 and on investment in 2009 (see Mofcom 2013). Chin and Stubbs start by seeking an explanation to the question of why China would expend its efforts negotiating an agreement with ASEAN given the latter's relatively minor economic importance to China as a trading partner compared to, say, South Korea or Japan. The answer that they provide is that the agreement was not primarily driven by trade or narrow economic objectives and has more to do with reassuring countries in the region that China was a 'good neighbour' and that they should not feel threatened by China's rise.

Instead the leadership, led by Premier Zhu Rongji, developed an 'economic diplomacy strategy' (Chin and Stubbs 2011: 285) designed to counter the 'China threat' through economic cooperation initiatives. Chin and Stubbs report that Chinese trade officials approached the talks quite differently from those associated with China's entry into the WTO. Rather the 'initial "give away" approach, compounded with the language of South-South Cooperation, made for a "very unusual style" of negotiations for China's trade negotiators' (2011: 287). The 'give away' approach referred to here was partially realized through the Early Harvest Programme of pre-agreement tariff reductions designed to demonstrate the benefits of the trade agreement to ASEAN members. But it was also characteristic of a more general approach which

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Chin and Stubbs (2011: 289) describe as one in which, according to the Chinese slogan, 'both sides benefit, but one side gives six out of ten, while the other gives four'. These asymmetric gains, at least as viewed from the Chinese side, also help to explain the South–South aspect of the agreement with China, despite its relatively low per capita GDP compared to some ASEAN states, nevertheless agreeing to allow disproportionate benefits to accrue to ASEAN countries under the rubric of aiding development.

It is the case that China did achieve some economic gains through the agreement, not least the spur which it gave to border trade thereby addressing China's longstanding goal of increasing growth in the Western region in order to reduce regional income differences. Nevertheless, Chin and Stubbs (2011: 292) argue that this was not the primary purpose of the trade agreement in the immediate term but that the agreement was 'as much about economic statecraft and geoeconomics as purely economics' (2011: 292). Such a conclusion is also supported by Beeson and Li (2011: 44) who argue that the China–ASEAN FTA 'in particular is driven by a wider geopolitical calculus that reflects a calculation of China's long-term strategic interests. The overriding goal in this context is cultivating good relations with potentially nervous neighbours and trying to allay fears about China's possible long-term strategic intentions.'

Such logic has also been extended to other agreements such as the Cross-Straits Economic Cooperation Framework Agreement (ECFA) with Taiwan (signed June 2010, entered into force September 2010). Beeson and Li (2011: 48) write that 'as with Southeast Asia, the larger significance of this prospective agreement would seem to be geopolitical rather than simply economic: by consolidating economic links and reinforcing the position of a more sympathetic regime in Taiwan, the Chinese government clearly hopes to further its long-term political agenda and charm the Taiwanese into closer ties'. Beeson and Li (2011: 35–36) judge that China's 'charm offensive' not only with Taiwan but with all its regional neighbours has been remarkably effective 'in reassuring many of its immediate neighbours about its intentions and the implications of its rise'.[3]

That geopolitical considerations are driving many of China's seemingly economic-focused trade agreements therefore is well established in the literature and supported by the interviews conducted with Chinese officials by Chin and Stubbs. But while this may be evident in the case of its RTAs, this does not necessarily spill over to agreements outside of the region. Jiang (2010), for example, notes that while China's trade

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agreement with ASEAN was primarily political in objective and driven primarily by the Ministry of Foreign Affairs, other trade agreements, particularly those with developed countries, have not been as clear cut. In other deals, she notes that the roles of the Ministry of Agriculture in protecting rural economic interests and of State-Owned Enterprises in keeping competition out of the services sector. Furthermore, in agreements with other developing countries outside of the immediate region, the WTO (2012: 16) notes that while 'China maintains that it follows the principle of inclusiveness and openness' it is also clear that 'China's commitments to eliminate tariffs in its RTAs are based on reciprocity rather than a general policy of openness in its RTAs'. This suggests that economic considerations do play a significant role but it would seem that they play a more significant role in negotiations with extra-regional partners than with countries in the immediate region.

While China's pursuit of RTAs with the countries of Southeast Asia has been relatively quick, progress with northeast Asian countries have been slower as a result of historic enmities but, nevertheless, have been occurring. China has, as noted, been negotiating an FTA with Japan and South Korea. The first round of talks occurred in Seoul in March 2013, the second round in Shanghai in August 2013 with a third round scheduled in Japan. In the second round, working groups reported on such technical and thorny issues as services, intellectual property and e-commerce (Anon 2013d). Substantive progress in these talks would undoubtedly serve to cement China's role as the central actor and hub in East Asian regionalism, and would serve to define the 'region' as more exclusively an Asian one. This would especially be the case if the proposed China–Japan–Korea FTA were to partner with the China–ASEAN FTA and the other ASEAN+1 FTAs to form a pan-Asian economic and political area. The US, however, has not been sitting idly by but has been actively challenging this strategy via the TPP to which I now turn.

The US and the TPP

For much of the 2000s, China was negotiating its FTA with ASEAN and the latter was also pursuing its own ASEAN+1 agreements not only with China but also with Japan and South Korea. The US was conspicuous by its absence in much of the activity being pursued in the region. That changed in 2008 when President Bush announced that the US would join the hitherto low-profile group of P4 countries – Singapore, Brunei, Chile and New Zealand – which had been negotiating a trade agreement amongst themselves as a spin-off from the larger APEC agenda.[4] The US

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decision to join what was to become the TPP was invigorated in late 2009 following President Obama's trade policy review which identified the TPP as a key component of US economic recovery and a central feature of the more broadly conceived 'Asia pivot'. At the global level, the US has broadly pursued a policy of engaging China with support for the latter's membership of WTO and G20 and through the bilateral Strategic and Economic Dialogue. But at the regional level, the US has developed a policy much more focused on containment with the TPP being a central part of it. By excluding China from the negotiations, the US seeks to advance its own economic interests in the region and to economically challenge the dominance of China.

Yoshimatsu (2012: 408–409) argues that the background to the US TPP initiative was that while China proposed an East Asian Free Trade Area, and Japan promoted its own Comprehensive Economic Partnership in East Asia, 'Lee Kuan Yew encouraged the US government to give an option other than China by promoting FTAs with ASEAN members'. However, Yoshimatsu notes that ASEAN members are split on how to deal with the rise of China. Continental members, wooed by Chinese trade and aid, view China's rise as less of threat whereas maritime ASEAN members have been much more circumspect and interested in diluting China's influence by expanding ASEAN+3 to ASEAN+6 and by including the US and Russia in the East Asian Summits. However, to date, only four of the ten ASEAN members have joined the TPP (Malaysia and Vietnam have joined original P4 members Singapore and Brunei) in large part because they fear the development implications of its conditions more than they fear the rise of China.

The TPP is intended to be a '21st century, next generation' trade agreement meaning that it goes beyond existing WTO frameworks by deepening liberalization in WTO agreements and by adding new areas to the TPP not covered in the WTO, especially non-tariff barriers (see also Capling and Ravenhill 2011). The US administration describes the TPP as 'the cornerstone of the Obama Administration's economic policy in the Asia-Pacific. The large and growing markets of the Asia-Pacific already are key destinations for U.S. manufactured goods, agricultural products, and services suppliers, and the TPP will further deepen this trade and investment' (USTR 2011).

Its features include:

- 'Comprehensive market access' which includes the 'no exclusions' provisions which mean that all sectors are the subjects of the agreement with countries unable to exclude particular 'sensitive sectors';

- 'Fully regional agreement' intended to 'facilitate the development of production and supply chains among TPP members';
- 'Cross-cutting trade issues' which incorporate in the TPP four new, cross-cutting issues:
    - Regulatory Coherence
    - Competitiveness and Business Facilitation
    - Small- and Medium-Sized Enterprises and
    - Development.

The reasons why developing countries in ASEAN may be wary of the TPP can readily be appreciated by the distinctly neoliberal interpretation of 'development': 'Comprehensive and robust market liberalization, improvements in trade and investment enhancing disciplines, and other commitments, including a mechanism to help all TPP countries to effectively implement the Agreement and fully realize its benefits, will serve to strengthen institutions important for economic development and governance and thereby contribute significantly to advancing TPP countries' respective economic development priorities.' This does not sit well even with WTO regulations which permit Special and Differential Treatment for developing countries and is an approach to development which China has sought to exploit in its opposition to the TPP as will be discussed below.

The TPP also addresses 'new trade challenges', that is, promoting 'trade and investment in innovative products and services, including related to the digital economy and green technologies, and to ensure a competitive business environment across the TPP region'. It is also intended to be a 'living agreement' meaning that it can be updated as and when necessary to include new issues.[5]

Finally, the TPP also includes provisions on labour and environmental standards and addresses issues concerning the behaviour of State Owned Enterprises.[6] It goes well beyond the WTO in many respects although in advocating stricter enforcement and longer durations for intellectual property rights not all them are best described as 'liberalising'.

In geoeconomic terms, the US objectives in pursuing the TPP are quite clear: to more closely integrate the US economy in the fastest growing region – Asia – of the global economy and to use that integration as a driver of US exports by increasing market access through the adoption of a neoliberal framework. Important geopolitically, it would appear that this objective is to be met without including China, that is, to provide, through the TPP, a competitive advantage for US firms operating in a region where Chinese firms and production networks are increasingly dominant and a means of challenging China's rise in the region.

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If China does wish to secure eventual TPP membership, then US officials have made it clear that China will have to first persuade the 12 members that it is capable of, and committed to, meeting the 'high standards' already set by the existing TPP negotiating parties.

Solis (2012) has described the TPP as part of a larger strategy towards Asia that has included the decision to sign the Treaty of Amity and Cooperation in July 2009 covering security issues, joining the East Asian Summit in October 2010 and the 2011 announcement of rebalancing towards Asia. This rebalancing has economic dimensions – of which the TPP is the most important – but also a security dimension as the US shifts attention from its preoccupations in Iraq and Afghanistan to Asia. This has not gone unnoticed in China with Shen Dingli (2013), of the Institute of International Studies at Fudan University, noting that 'the US move to deploy 60 per cent of its global naval assets in the Asia-Pacific has naturally invited Chinese suspicion. In spite of its repeated claims that the move is not aimed at China, the recent US naval drill with the Philippines a short distance from Huangyan Islands has alarmed China about the US intent.'

In terms of approach, the US already has bilateral FTAs with many countries in the region, but in joining the TPP, Solis (2012) argues that the US has adopted a new 'tipping point' strategy according to which US involvement in the TPP will be a catalyst for other countries to join. This has certainly been successful and there are now 12 members of the TPP as membership expanded to include initially Australia, Malaysia, Peru and Vietnam, subsequently Canada and Mexico and lastly, in April 2013, Japan. The TPP initiative has led to a remapping of the region. As Lai and Ravenhill (2012: 150) note, 'If the initial response to the G[lobal] F[inancial] C[risis] and a perceived shift in the centre of global economic activity to East Asia was to encourage deeper collaboration in East Asia, the development of the TPP appears to have shifted the pendulum once again towards an Asia-Pacific basis for organization.'

But with this 'tipping point' come new 'chain reactions'.

Responding to the TPP

In a prescient article published in the Chinese finance journal *Caijing* in mid-2012, Yoon Young-kwan, South Korea's Minister of Foreign Affairs in 2003–2004, argued:

> The formation of a China-Japan-South Korea FTA would most likely trigger a chain-reaction. For example, the momentum could expand southward and stimulate ASEAN, which has bilateral FTAs with

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> all three countries, to join the group . . . If that happened, other countries – Australia, New Zealand and, most importantly, India – might seek to jump on the bandwagon.
>
> The US would, of course, need to respond to the conclusion of any trilateral Northeast Asian FTA in order to preserve its own role in global trade – and in the supply chains that dominate the Asian economies. It would likely seek to expand and deepen the infant Trans-Pacific Partnership . . . [and] the US would strongly encourage Japan to join the TPP, because the US might want a united Asia-Pacific economic community, rather than a division between Asia and the Pacific. Because Japan would not want to be disconnected from the US for strategic reasons, it might indeed accept America's invitation. (Yoon 2012)

This clearly shows how the region, whatever it might be, is subject to 'chain-reactions' with all countries seeking to maintain their geopolitical (and geoeconomic) positions.[7] Yoshimatsu (2012: 410–411) has demonstrated this reaction in the case of ASEAN, which, at its 19th summit in November 2011, announced the ASEAN Framework on RCEP. However, the RCEP as ASEAN's attempt to continue to play a leadership role and preferred form of economic integration runs against much of the neoliberal orientation of the TPP. These differences are also ones which China wishes to highlight as discussed further below.

The TPP has also led to some repositioning for South Korea, with its FTAs with the US and the EU signed in 2012 and 2011 respectively, and ongoing negotiations with China for an FTA, trying to position itself as the 'linchpin' in connecting regional agreements including the RCEP and TPP. Subsequently, South Korea has indicated its interest in joining the TPP (Mundy 2013).

But it is China's response that is the focus here. Some of the response has been aimed at criticizing the US for undermining other bodies such as APEC by dividing it into TPP and non-TPP groups. Perhaps the clearest statement of the concern in Beijing is captured in Jin Baisong (2013), of the Chinese Academy of International Trade and Economic Cooperation, viewing US strategy as following the 'divide and conquer strategy' as set out in Sun Tzu's *The Art of War*. Neither is this view confined to Chinese academics. Tan Khee Giap, of the Asia Competitiveness Institute at the National University of Singapore, has argued that 'no one will say it out loud, but the US is simply trying to bring in more nations [into the TPP] that are hostile towards China over geographic or maritime disputes' (quoted in He 2013).

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Sanjaya Baru (2011), Director of India's International Institute of Strategic Studies, has argued that 'the US has moved to bring together all of the economies in the region that are worried about China's beggar-thy-neighbour trade and exchange rate policies . . . While the economics of the TPP is important, the strategic component is even more so.' The view of the TPP as 'containing' China is also shared further afield. A former senior Canadian trade negotiator observed that he had 'always thought of the TPP as the trade equivalent to the Seventh Fleet "containing" China'.[8]

Nevertheless, there were many in China who did not see the TPP as likely to succeed in its 'containment' objective. In early 2013, an editorial in the *People's Daily* described the TPP as 'stagnating' and heading for 'long-term deadlock' (Anon 2013e). This was attributed to a number of factors, which included the US stance on only negotiating on market access in the TPP with countries which did not have existing FTAs with the US, a plan designed for the US to 'maintain its vested interests on sensitive products and protect its domestic market at the same time'; the high standards seen as 'a disguise and taking advantage of its technology and market edges'; the 'one size fits all approach' which imposes 'requirements . . . far beyond what most developing countries can bear'; and the inclusion of labour and environmental standards through which the US 'aims to lower the comparative advantages of developing countries so as to create more job opportunities for itself'. In seeking to highlight the failure of the TPP to address developing country issues, China's preferred ASEAN+3 approach, with its greater sensitivity to the needs of developing countries, was expected to hold greater appeal. This view was also expressed by some from TPP countries. Vo Tri Thanh of Vietnam's Central Institute for Economic Management, for example, made the same point in noting that 'the Asian template has more room for exceptions and avoids imposing constraints on the domestic regulations of economies at different levels of development and with different political systems' (quoted in He 2013).

However, this confidence in TPP's stagnation was clearly undermined by Japan's entry into the negotiations in April 2013 and has been something of a 'tipping point' for China. While, from the perspective of the TPP itself, Japan's entry into the negotiations makes it both a bigger deal economically and more difficult to conclude politically, within China the reaction has stressed other points. Three main lines of response can be detected. The first extends the 'China containment' accusation to include Japan, the second re-emphasizes the importance of ASEAN and APEC as the appropriate lead institutions for regional trade discussions

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and the third re-evaluates whether China should, itself, join the TPP negotiations. These responses are not necessarily mutually exclusive and elements of all three can be found in official policy responses.

In terms of the first response, casting Japan along with the US as seeking 'containment', Lyu Yaodong, a director at CASS's Institute of Japanese Studies, argues that 'in his first term, which began in 2006, [Japanese prince minister] Abe emphasized repairing ties with China and the Republic of China, which had soured during the term of his predecessor Junichiro Koizumi. But now he is ignoring and isolating the two neighbours by drawing allies among ASEAN countries through large-sum investment and debt-relief programs'. As a result, 'the fundamental objective of Abe's frequent appearances in Southeast Asia is trying to build a maritime alliance with certain regional countries in order to contain Beijing' (as quoted in Cai and Pu 2013).

Other analysts have argued that Japan has dragged its feet in the China–Japan–Korea FTA negotiations preferring to prioritize the TPP. According to Fan Ying (2013), of Beijing's China Foreign Affairs University, 'The rapid rise of China has led to an irrational mentality in Japan. After nearly 20 years of economic decline Japan has lost its hegemony in the Asian economy. Its strong sense of superiority is pushing it to an "opposing" stance over China-related issues.'

This 'opposition' extends beyond disputed islands, to trade agreements. In analysing the TPP, Cai (2013) highlighted a *Yomiuri Shimbun* 2011 editorial which argued that 'joining the TPP would enable Japan, East Asian nations, Australia and others to strengthen their economic ties with the United States as the linchpin of the Pacific Rim economy. This would restrain China, a nation that has been expanding its clout economic and otherwise in recent years.'

Analysing Japan's changing position, Wu Haizhong (2013), writing in CASS's 2013 Annual Report on Development of Asia-Pacific, argues that, after the US, Japan is a firm supporter of the regional status quo and has shifted its position from actively pushing for East Asian regional cooperation to diluting the role of China by advocating ASEAN+6 rather than ASEAN+3. Japan is seen as supporting larger frameworks, including the TPP, to deal with China's 'gigantism'. It is argued that the US and Japan are seeking economic and trade 'hegemony'.

The second response has been to promote the roles of ASEAN and APEC as the lead institutions in the region thereby seeking to weaken the influence of the US and Japan. China's leaders are putting more diplomatic effort into relations with ASEAN. In the wake of the recent visits of both President Xi Jinping and Premier Li Keqiang to Southeast Asia,

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Zhang (2013) commented that 'it is rare in China's diplomatic history that its president and premier visit the same region within a short period, a sign of the growing importance of Southeast Asia in Beijing's current approach to foreign affairs'. This 'growing importance' is reflected in an 'upgrading' of the China–ASEAN FTA, the promotion of a new 'diamond decade', and is part of a broader diplomatic offensive in which the Confucian philosophy of 'seeking harmony but not uniformity' has been invoked as a guiding principle in China–ASEAN relations and which contrasts with the US approach to trade relations which requires a uniformity of rules.

The Chinese leadership has also gone on the offensive with President Xi Jinping's address to the 21st APEC economic leaders' meeting in Bali, held in October 2013, calling for 'open and inclusive' trade agreements with APEC playing a 'leading role' (see Ministry of Foreign Affairs 2013). The US description of TPP being 'non-exclusionary' refers to the fact that all sectors are included in the negotiations; China's charge of 'exclusion' is based on the fact that all countries are not included. A commentary on the TPP published by *Xinhua* (Anon 2013c) argued that the agreement faced 'inherent problems' as a result of 'Washington's dominance and the inequality among its members' and concluded that 'just as APEC members put it in a joint statement of their ministerial meeting, APEC should continue to exercise strong leadership and play a major role in the region's economic integration'. The reasons for this, and the appeal of this route for other countries, were laid out in *People's Daily* editorial which argued that the 'TPP, which has been presented as the model of the 21st century's free trade zones, is inappropriate to the economic development and social sustainability of the developing countries in the Asia-Pacific region. However, APEC's objectives, themes, operating mechanism and principles take into account the interest of both developed countries and developing ones, which works to the benefit of and grants equal status to all Asia-Pacific countries' (Anon 2013a). The greater emphasis placed on APEC represents a shift in China's thinking which had previously touted ASEAN+3 as the preferred grouping; however, Japan's 'defection' to the TPP has led to a reassessment in Beijing of the role that APEC might play in neutralizing US and Japanese influence.

But while China's responses have included castigating the US and Japan for 'containment', developing closer ties with ASEAN and promoting APEC, they have also included a new attitude towards joining the TPP itself. Significantly, in May 2013, Shen Danyang, a spokesperson with China's Ministry of Commerce, announced that China may consider joining the TPP – 'on the basis of equality and mutual benefit' – in a

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notable change of position from its previous rejectionist position (Anon 2013b). Wang Zhile (2013), a researcher at the Chinese Academy of International Trade and Economic Cooperation under the Ministry of Commerce, has argued that 'China, as the world's second largest economy, should not turn a blind eye to the TPP' and that 'China's active involvement in the TPP process would bring it many challenges, but also opportunities. Excessive resistance to the TPP will be detrimental to China and mean it will possibly let slip chances to take advantage of the TPP to push for deeper economic institutional reforms to promote the better and faster development of its economy.'

Certainly there is a constituency in China that would like China to join the TPP negotiations. 'Pro-reform' groups see this as a way of pushing China further down the path of economic reform and opening the domestic sector to further competition. For example, Wei Jiangou, a former deputy minister of commerce, argued that 'as an APEC member, China should not look at TPP just as a US strategic dream, it should also be China's strategic dream' (as quoted in Chen 2013). Others, such as Zhang Jianping at the powerful National Development and Reform Commission, have argued that joining the TPP talks can help promote domestic reforms. In other words, the TPP agenda is a vehicle for pushing faster domestic reform in much the same way as reformers used 2001 WTO entry as a way to promote domestic liberalization to meet WTO entry conditions. Indeed, this accords with the official policy on RTAs which are seen as 'a new platform to further opening up to the outside and speeding up domestic reforms' (Mofcom 2013).

The pro-reform financial journal *Caixin* has been supportive of China's involvement in the TPP for these reasons, arguing that the TPP can act as an 'anchor for domestic reforms' with the argument advanced that 'the best top-down reform design is to open the economy to global competition. Joining the WTO exposed a big chunk of China's economy to global competition . . . It is time to expose most of the remaining markets to global competition' (Xie 2013). The new Shanghai Free Trade Zone is also invoked as an experiment which can lead China to TPP membership. More generally, pro-reform groups have argued consistently that entering into trade agreements, especially those with binding rules such as the WTO and the TPP, can force further domestic economic reform. For example, in 2011, a *Caixin* editorial advanced the case that 'TPP's proposed free trade zone in fact echoes the aims of China's economic reform policy, and should be seen as an opportunity for the Chinese government to liberalise the economy, to the nation's benefit. Beijing should treat this trade pact as it did its accession to the World Trade Organization.' It went

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on to address the geopolitical suspicions of those opposed to the TPP by arguing, rather disingenuously, that 'the United States was not its originator, nor did it shape its rules and regulations' (Caixin 2011).

Conclusion

The new phase of East Asian regionalism has much more at stake than free trade in widgets between countries joining trade agreements. Different conceptions of how trade agreements can foster development and the conceptualizations of the 'region' play a role just as they did in debates over 'East Asian' regionalism in previous periods. What is new this time is a complex and evolving relationship between regional powers seeking to come to terms with China's rise. China has been seeking, through its RTAs, to convince its neighbours that this can be accomplished smoothly and without fear. ASEAN, for its part, has sought to maintain and promote its own 'linchpin' role in the emerging regional political economy through the RCEP initiative. South Korea, too, has sought to claim a 'linchpin' role. The US, through the TPP, is seeking to advance its own economic interests and support a geopolitical strategy of containing China. Japan's decision to jump aboard the TPP ship has added considerable weight to this and caused consternation in Beijing to the point where it has shifted its outright opposition to the TPP and considered whether to join it; a US–Japan driven trading bloc may be seen as threatening sufficient containment to induce the Chinese leadership to seek to join the TPP. There is an internal constituency within China which is more concerned with pushing domestic reform, and hence favours the TPP as a mechanism to achieve this, than with US geopolitical designs. At the same time, China has sought to deepen its economic and political ties with ASEAN and to rehabilitate APEC as a lead institution for regional trade negotiations. The 'chain reactions' are unlikely to have finished yet; the impacts of China's rise are still being worked out in the region most immediately impacted by it.

Notes

1 The 'new East Asian regionalism' should also include a finance dimension, arising out of the Chiang Mai Initiative (see Chin 2013), but analysis of this dimension falls beyond the scope of this chapter. It should be noted, though, that the trade and finance dimensions of the 'new regionalism' do not necessarily share the same dynamics.
2 See WTO 2012: 16–17 for review of China's recent RTA initiatives.

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3 This probably overstates the case. See McDougall (2012) for more details on the nuanced approaches found in the region.
4 For more on the TPP negotiations see Capling and Ravenhill (2011); Ems and Lim (2012).
5 All quotations from USTR (2011).
6 This is primarily directed at Vietnam at present. But it has significance beyond Vietnam in that whatever is decided will likely serve as the template in the case of any future negotiations with China.
7 While Capling and Ravenhill (2011: 553) examine the trade policy dynamics that the TPP might set in play in terms of producing a comprehensive treaty which might 'tame the tangle of PTAs', the focus here is on the geopolitical dynamics.
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6

The New Chinese Presence in the Caribbean: Towards a Global Understanding

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Introduction

The new role of China as global development agent is much disputed, with polar positions that see China either as the new imperialist on the block or as offering countries of the Global South a more sustainable and sovereignty-respecting path to development and a welcome alternative to the Western model of coercive neoliberalism and structural adjustment. A number of studies suggest that the idea of imperialist China is grossly exaggerated. Indeed, certain versions of this idea are taken to extremes in imputing a conspiratorial relationship between Chinese state diplomacy and Chinese private emigration, which is alleged to be part of a deliberate official strategy of global encroachment and colonization. Huynh et al. (2010, p. 287) cite the example of the award-winning British journalist Andrew Malone, who warns that the 'invasion' of Africa by China has been occurring 'secretly' through the movement of Chinese people to the continent.

At the other end, there are those analysts who see the role of China in the Global South as, on balance, a positive one and, even more, as an example of 'Third World solidarity' or, as the Chinese themselves prefer to call it, 'South–South cooperation'. According to Horace Campbell (2008, p. 91), 'Chinese diplomacy provided space for manoeuvre for Africans by laying the basis for an alternative international system in the 21st century.' He refers to the new relationship between China and Latin America and the Caribbean as an instance of 'Third World solidarity', noting that 'Chinese engagement with Cuba deepened and strengthened the anti-imperialist alliance in Latin America and emboldened the social forces which were seeking alternatives to the crippling effects of the domination of US-based multinational corporations' (p. 98). Contrasting

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it to Western underdevelopment of Africa, he believes that 'Chinese investment potentially provides an alternative for African leaders and entrepreneurs, while providing long-term potential for the development of African economies' (p. 99).

Even Campbell, however, sounds a due note of caution and wariness with regard to Third World governments that do not take ultimate responsibility for their own development strategy and the modalities of their engagement with development partners. Indeed, one can reject 'the idea of a centralized "Beijing consensus" where all actions of Chinese firms and individuals overseas are orchestrated by the Chinese Communist Party (CCP)' (Mohan and Tan-Mullins 2009, p. 580), and still recognize the structural imperatives impelling China's global state-capitalist expansionism and national strategic interests. At the same time, those national interests include the offering of an alternative model of development assistance whose attraction to beleaguered governments of the Global South cannot be underestimated. In addition, whatever China's policies to encourage migration and to harness the power of the diaspora to its own ends may be, it would be a mistake to underestimate the independent momentum of the migration drive and the private initiatives through which it becomes a successful undertaking.

The new Chinese presence in the Caribbean occupies the intersection of two major historical trajectories and is complicated or enhanced by a third. The two major historical contexts are (1) the neoliberal – and now post-neoliberal – development quandary that has characterized Caribbean economies as well as other economies of the Global South since the 1980s, resulting in a search for and openness to less punitive alliances and sources of development aid, and (2) the emergence and assertive 'outward thrust' of global China, in the forms of both state-level bilateral aid and investment initiatives, which have effectively sought to capitalize on the development vacuum in countries of the Global South, and an expanding flow of private Chinese entrepreneurial and labour migrants to those countries. Complicating the intersection of these two historical trajectories is the diplomatic rivalry between China and Taiwan. This has been particularly pertinent to China's push into the Caribbean, given the fact that, until fairly recently, a slim majority of the dwindling number of countries worldwide which still recognized Taiwan over China were located in the Caribbean and Central American region. While the countries of Latin America and the Caribbean were independently attractive to China, given its larger economic global trajectory, the urgency of gaining a foothold was particularly strong because of the need to displace Taiwan from one of its strongest regional

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bases in terms of diplomatic ties. As one author recently put it, the Central American and Caribbean (CAC) Zone 'is the only region in the world where the Republic of China (Taiwan or Chinese Taipei) has more embassies than China, raising diplomatic rivalries to a level not seen anywhere else' (Navejas 2013, p. 148). Even today, despite a rapid succession of defections from the Taiwan camp, the region still accounts for roughly half of Taiwan's remaining diplomatic alliances. Chin (2012) believes that China's primary interests in the Caribbean are 'geopolitical and diplomatic'. He notes that 'China does have some economic interests in the region in terms of securing supplies of raw materials in Trinidad and Tobago (gas and asphalt), Jamaica (bauxite) and Guyana (timber, bauxite, minerals), but these are secondary motivations, given that such resources can be sourced elsewhere in the world' (p. 584). Bernal (2013, p. 3) puts it even more bluntly: 'China's economic activity in the Caribbean has historically been driven by so-called checkbook diplomacy, or aid-based political competition with Taiwan.'

This chapter comes out of a larger research project[1] which seeks to examine the new role of 'Global China' in the Anglophone Caribbean, particularly in the small islands of the Eastern Caribbean, both (1) from the point of view of bilateral Chinese state development aid and investment and (2) from the point of view of the simultaneous or convergent flows of private entrepreneurial Chinese immigrants (and related or accompanying labour migrants) into the sub-region. While the private immigrant flows are often assumed to be directly connected to the Chinese state presence, it is important to note that they are as much in evidence in Taiwan-aligned islands as they are in those islands whose governments have switched allegiance to the People's Republic of China (PRC). Thus the overwhelming majority of recent ethnic Chinese immigrants in all the Caribbean territories are from mainland China regardless of diplomatic alignments. This may well call into question the actual constitution of networks sustaining this new ethnic niche or 'enclave', as the immigrant presence has sometimes been called; however, its historical coincidence with China's outbound thrust and the simultaneity of China's state presence in the Caribbean make it highly likely that the two processes are related, directly or indirectly. Indeed, an entire literature has sprung up that examines both phenomena as parallel and/or intersecting tracks within China's post-1980s globalization trajectory.

The aims of this particular chapter are simple: (1) to provide a brief profile of the phenomenon of the 'new Chinese presence in the Caribbean', and (2) to begin to address the need to construct a conceptual framework for making sense of the emerging Eastern Caribbean patterns by

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briefly considering some of the literatures that might be helpful in this regard. Reference will be made here and there to preliminary findings on entrepreneurial immigrants in Dominica (diplomatically aligned with the PRC) and St Kitts-Nevis (diplomatically aligned with Taiwan), the two islands in which fieldwork has been undertaken so far.

The new Chinese presence: Historical precedents and contemporary contexts

The Caribbean is home to an older diaspora of Chinese whose ancestors were brought in during the nineteenth century as indentured labourers to work in the region's sugar and other plantations (Look Lai 1993). The main destinations were Cuba, Jamaica, British Guiana, and Trinidad, with the smaller sugar islands – the focus of our current research – largely bypassed by this migration. The small numbers of Chinese in the British West Indies came to occupy a predominantly 'shopkeeper niche', evolving into a fraction of the business upper-class, that is, where its members did not get absorbed into other (subordinate) ethnic/class networks. The longest running PRC connection with the Caribbean has been with Cuba, with which the PRC established diplomatic relations in 1960, after that country's own revolution. Official relations with the larger Caribbean Community and Common Market (CARICOM) territories of Jamaica, Trinidad and Tobago, Guyana, and Barbados were all established in the 1970s, while the smaller islands of the Eastern Caribbean mostly held on to ties with Taiwan for varying periods. Cuba's relations with China took on new life in the post-Soviet era, and, more recently, they have ridden on the wave of a particular synergy between post-Fidel liberalization and China's 'go global' push. According to Hearn (2012, p. 157), 'As China becomes more integrated into the existing geopolitical architecture, its government has encouraged political outliers, most notably Cuba, to follow its example.'

China's relationship with the larger Latin America and Caribbean (LAC) region is a graduated and uneven one, reflecting the size and resource endowments of the different sub-regions: over 90 per cent of China's economic ties with the larger countries of South America have been related to natural resource exports (Dosch and Goodman 2012, p. 4), while the Caribbean Basin has seen more of the classic developmentally oriented mix of large infrastructural projects and investments in natural resources and tourism, with the larger territories (Cuba, Guyana, Suriname, Jamaica, Trinidad and Tobago, the Bahamas) being host to more of the latter types of investment and the smaller islands

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being largely recipients of developmental infrastructural projects almost exclusively (excluding from consideration the tax haven investments described below). Jamaica has been reported to be the largest single recipient of infrastructural development loans from China in the CARICOM region, totalling US$662 million (Inter-American Dialogue, online database). This figure is expected to go up with the recent pledge of US$3 billion in concessional financing to those CARICOM countries that have signed on to the One China policy, announced by the PRC president Xi Jinping during his June 2013 three-day state visit to Trinidad and Tobago. Jamaica has made subsequent independent overtures to China, securing even more development assistance and investment concessions, especially with regard to the multi-billion dollar Global Logistics Hub initiative which has become the much touted centrepiece of the government's current development strategy (see http://jamaicalogisticshub.com).

In a recent article, Sir Ronald Sanders (2013, p. 226), a frequent commentator on China's role in the Caribbean, provided further insight into the significance of the Chinese presence, citing a Chinese government official who 'reported [to him] that China's direct investment to the region in 2009 was $8.6 billion'. On a cautionary note, all of these figures being offered as representative of China's 'contribution' to the subregion are sometimes hard to make sense of because of a frequent failure to differentiate precisely among the categories of aid (including grants and concessionary loans), investment, and trade, or to distinguish which 'Caribbean' is being referred to. The following statement made by Jean H. Charles (2012), a syndicated columnist, might be typical of such pronouncements, but it does make a direct reference to *aid*, dramatizing the huge gap between the US and the Chinese in this regard:

> The last time the American contribution to the Caribbean topped $3 billion was during the Reagan administration some thirty years ago. The US aid in the region today is less than $1 billion. By contrast, the Chinese financial and social contribution to the Caribbean is today more than $6 billion.

More modestly, Chin (2012, p. 584) estimates that 'Chinese aid to Latin America and the Caribbean, which was negligible a decade ago, exceeded US$1 billion per year by 2010'.

When it comes to *trade*, the US continues to dwarf China within the Latin American and Caribbean (LAC) region as a whole (and particularly within the CAC), but, even here, its role is declining relative to that of

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China. According to ECLAC figures, exports from the LAC region to the US were reduced by over 30 per cent between 2000 and 2009, while those to China increased nearly sevenfold. During the same period, imports from China to the region had increased more than fivefold while those from the US had decreased by 40 per cent. Indeed, for some of the large South American countries, notably Brazil, Argentina, and Chile, China had already surpassed the US (and, for Chile, the EU as well) as a leading destination for their exports by 2009 (ECLAC, Table II.3, pp. 74–75). In tiny Dominica, whose banana economy has dwindled in the last 15 years, China's share of export/import trade has expanded significantly vis-à-vis those of the US and the EU.

Under the banner of South–South cooperation, China has made a spectacular rise to become the second-largest bilateral donor of aid in the world (after the US), even as it is still the recipient of development assistance, albeit decreasingly so (Chin 2012). Nyíri (2013, p. 1388) notes that capital from China has become 'central to the economic development strategies of countries as diverse as Congo, Cambodia and Ecuador', and that '[i]n particular, Chinese state enterprises have emerged as the prime builders of railways, roads and dams across the globe'. On its website featuring an (already dated) interactive database on Chinese lending in LAC, Inter-American Dialogue claims that '[s]ince 2005, China has provided upwards of $87 billion in loan commitments to Latin American countries', and that China's $37 billion *loan* commitments in 2010 alone 'were more than those of the World Bank, Inter-American Development Bank, and U.S. Export-Import Bank combined'.

From an intelligence-framed US vantage point, Evan Ellis (2011, 2013) has recently sounded a warning to unwary US bystanders about the expansion of Chinese stakes in the Caribbean Basin region, which he calls 'China's new backyard' (Ellis 2013). Politically alarmist or not, his is an account (Ellis 2011) whose factual basis, upon consideration, no longer seems to be overstated. Claiming that 'few parts of the Western Hemisphere have witnessed more strategically significant engagements relative to their size, than has the Caribbean', he presents a list of examples to support his argument: a 'contingent of military police' deployed to Haiti as part of a UN peacekeeping force in 2004; the massive deep-water port and airport facility operated by the firm Hutchison-Whampoa in Freeport, Bahamas, which he dubs as 'China's key logistics hub for the region'; 'the largest population of Chinese students in Latin America' currently studying Spanish, medicine, and other topics in Cuba; 'Caribbean "tax shelter" states such as the Cayman

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Islands and the British Virgin Islands, creating massive opportunities for money laundering and organized crime'; and finally, 'a combination of resorts backed by Chinese investors, and infrastructure projects backed by Chinese banks', permitting the importation of thousands of Chinese labourers into the region, creating 'the largest concentration of Chinese work projects' (Ellis 2011).

Ellis's reference to 'tax shelters' points to a little-known feature of China's Caribbean connection. On paper, investments in offshore financial centres (OFCs) in the British overseas territories of the Cayman Islands and the British Virgin Islands constitute the second-largest source of foreign direct investment into and out of China after Hong Kong – ahead of North America, Europe, and Africa combined (Vlcek 2010, Tables 1 and 2, pp. 113–116). Within this kind of investment, known as 'round-tripping' – essentially a method of tax evasion and 'capital augmentation' (Sutherland and Matthews 2009, p. 5) – Barbados' share is five per cent, making it the third-largest source after the British islands (Rosales and Kuwayama 2012, p. 112).

A more thoughtful essay on China's 'incursion' into the Caribbean (and Pacific) comes from McElroy and Bai (2008), despite the quick rejoinder to it by Crocombe (2009) cautioning against the analytical double standard and presentation of false evidence so frequently found in sensationalistic accounts of China's new global role. The authors see three major motivations for China's presence in the wider region: (1) economic, the key being access to South America's – and, on a smaller scale, the Caribbean's – natural resources, (2) the diplomatic rivalry with Taiwan, and (3) the opportunities for a new development partnership generated by Caribbean frustration at economic neglect and political bullying on the part of traditional allies, and the attractiveness of the Beijing alternative. For the less-endowed, small Eastern Caribbean islands the last two factors are clearly more important.

China's 'real' economic commitments in the politically independent Caribbean nations, then, comprise a combination of investments in primary commodities and tourism and infrastructural development assistance, with some initiatives in manufacturing. Natural resource investments include oil and nickel in Cuba, oil, asphalt, and natural gas in Trinidad; bauxite, timber, mineral, and agricultural resources in Guyana; and sugar production in Jamaica. McElroy and Bai (2008, p. 228) note that '[b]y Latin American standards, the PRC's trade with the island Caribbean is modest, accounting for less than 10 per cent of the LAC total with the lion's share going to the large mineral exporters, Trinidad, Jamaica and Cuba, which supply half of PRC sugar and a third

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of PRC nickel imports'. Chinese investments in the region are geared to the Chinese economy, including those in tourism, which China has encouraged domestically by granting 'Approved Destination Status to allow Chinese tourists to visit some dozen Caribbean islands' (McElroy and Bai 2008, p. 230). To take advantage of the huge tourism potential represented by this, Jamaica recently relaxed visa requirements for Chinese visitors to the island.

Indeed, China's largest – currently underway – single-enterprise investment in the region may well be in the tourist sector: the 1,000-acre, US$3.4 billion Baha Mar mega-resort development in the Bahamas is 'said to be the western hemisphere's largest current resort project, and the most ambitious ever built in the Bahamas' (Nalley 2013). The project is being financed by China's Export-Import Bank and constructed by the China State Construction Engineering Corporation Limited. The original deal authorized no more than 5,000 non-Bahamian workers to be employed on the project at any given time (resonating with Ellis' claim above), with promises of thousands of construction jobs for Bahamians and a projection of 8,000 permanent jobs upon its completion.

In a pattern that by now has become quite familiar, the infrastructural projects being undertaken throughout the Caribbean include roads, housing, state colleges, schools, hospitals, port facilities, power plants, shipyards, and transportation systems, as well as the obligatory prestige or 'vanity' projects, such as state houses, sports stadiums, and convention centres. These projects have been based either on outright grants or concessionary loans. When Dominica established diplomatic relations with China in 2004, for example, the Chinese delivered an outright grant of US$122 million for infrastructural development projects. Since then Dominica has been a favoured recipient of a mix of grants and concessionary loans from the Chinese for several other projects, totalling tens of millions of dollars. It would not be an exaggeration to say that Chinese aid is literally reshaping and reconfiguring the contours of Dominica's man-made landscape.

The new immigrants

In the Caribbean, as elsewhere in new Global South destinations, the warm-bodied Chinese presence tends to be signified through two forms: that of the imported workforces on ready-made public projects and that of the immigrant merchant, the first often seen as usurping potential jobs for locals, the second as taking away the business of or competing unfairly with local merchants.

Large numbers of Chinese workers labouring on signature projects through what appear to be close to 24-hour shifts have become a familiar sight in the Caribbean. In Dominica, workforces of a size previously unknown in living memory, accommodated in encampments at the sites of various projects – the stadium, the Roseau-Portsmouth road, the state house, the state college, among others – have been a recurring presence for the last nine years. Despite constant low-grade rumblings, sometimes sparked into headlined outrage and full-blown opposition campaigns, the Chinese appear to have been successful in masterminding a trade-off between the speedy delivery of prestigious turnkey *and* essential development projects (all destined to become a source of national pride) and relative isolation of these projects from domestic networks of employment, skills, and entrepreneurship during the period of construction. It is a heady phase in the development of an island that has long lagged behind most of the other Caribbean territories in terms of the visible trappings of modernity. The words of the Dominican prime minister himself aptly convey what the Chinese support has meant in terms of a sense of elevated national stature. Responding in late 2012 to opposition charges of wasteful and unnecessary expenditures on a new state house, Mr Skerrit urged his countrymen and women, on their next trip into town, to 'stop by the state house and watch it from outside and you will see how much pride you have in yourself and see that our country slowly but surely is coming of age' (*Dominica News Online* 2012).

Private Chinese immigration into the islands is also changing their *social* landscape, notwithstanding the relatively small numbers involved so far. It is hard to determine just how small (or large) those numbers are on a regional level: the tendency is to either underestimate or overestimate them, depending on the vantage point from which the estimates are being hazarded. On the one hand, an underestimate might result, for example, from a failure to include in the count immigrants brought in to work in the family business as workers without securing proper work permits for those workers. On the other hand, exaggeration of the numbers of Chinese immigrants is not uncommon among those who feel that their interests are threatened by such presence.

When we visited Dominica in August 2012, we spoke to a Chinese Embassy official who placed the number of resident Chinese immigrants in Dominica at around 100 (Dominica interviews 2012). In a 15 July 2013 posting on Sina Weiba (the Chinese equivalent of Twitter), the Chinese Embassy of Dominica released figures which placed the precise number of Chinese residents in Dominica at 142, with the following breakdowns: 98 overseas Chinese (or Chinese nationals), 41 ethnic

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Chinese without Chinese citizenship, and 3 Taiwanese (http://weibo.com/2283177884/A0flylhoz, trans. Yan Liu). Informal conversations with a number of Chinese immigrants in St Kitts in June 2013 placed the estimate at 200 for the island (i.e., not including its sister-island of Nevis; St Kitts interviews 2013). This number is more likely to represent an undercount than an overcount, but it was difficult to secure any confirmation from the government.

As predominantly *entrepreneurial and affiliated immigrants*, however, the Chinese population's impact belies its small numbers. It is noteworthy that numbers of Haitian immigrants in Dominica and Dominican Republic immigrants in St Kitts-Nevis are considerably larger, but they occupy an acutely different and less-threatening socio-economic niche. In Dominica, private-sector representatives mentioned an informal survey they had carried out which revealed 48 Chinese establishments in Roseau alone (Dominica interviews 2012). The July 2013 figures released on Sina Weiba claimed that there were 29 Chinese households running 42 shops and enterprises, and employing 115 local people. Given the small size of the private sector and its concentration in the main town of Roseau, these numbers represent a significant presence. In St Kitts, the presence of immigrant Chinese entrepreneurs is particularly conspicuous because of their prominence in two types of businesses: supermarkets and restaurants. Indeed, they appear to own the largest *number* of supermarkets in Basseterre, if not the largest and most important ones, which are owned by long-established local-level conglomerates.

The circumstances of new Chinese immigrant settlement in the islands, whether as owner or worker, are overwhelmingly related to the ethnic entrepreneurial niche. This niche brings together immigrants of different statuses, not only owners and workers but also different kinds of owners, as illustrated in the two examples below. What is common to this niche is its enclave character. As Harrison et al. (2012 p. 904) remind us, '[w]ith businesses structured around the family, Chinese migrants largely avoid dependence on the labour and skills of the host society'.

At very different points along the continuum of small-to-medium-sized (SME) immigrant entrepreneurs/entrepreneurial immigrants are two examples from St Kitts. At one level is a prominent Chinese businessman in St Kitts described by one of our informants as 'the dean of the Chinese community' there. This businessman appears to have a rather dense and heterogeneous 'glocalized network',[2] including an alleged cosy, mutually beneficial relationship with the local ruling party (a claim corroborated by a wide array of informants). A long-time resident of nearly 20 years, he is reported to have started out as an employee

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for another Chinese establishment in neighbouring St Maarten, a constituent island/country of the Netherlands, where a number of the Chinese to whom we talked had ties. Like most of the immigrant entrepreneurs, he sources labour from China for his establishments (reportedly enjoying special concessions in obtaining work permits), bringing in and maintaining tight control over at least two dozen workers. He owns multiple (small to medium-large) establishments in St Kitts-Nevis and other islands and appears to be the chief patron of an extensive kin-based network of businesses, involving his and his wife's siblings and other relatives.

On another level is a tiny family establishment – a restaurant, run by a young Chinese man and his parents, whom he had sent for after an eight-year period spent working on his own for another Chinese restaurateur. As is typically the case, this young man had entered and remained within the immigrant ethnic entrepreneurial niche from the time of his arrival in St Kitts, but had shifted his position within this circuit from worker to self-employed/co-owner of a small mom-and-pop family venture made possible by the translocal incorporation of his parents. The family is obviously of modest means and does not employ other workers. For this family, 'glocalized networks' seemed to be relatively attenuated, and perhaps more kin-based than commercial per se. Two other siblings had migrated to Canada; indeed, it is perhaps telling that the young man's attempts to get a visitor's visa to Canada had so far been unsuccessful.

The problem of defining labour as an adjunct to entrepreneurial immigrants needs to be addressed. In many other parts of the world, particularly in the countries of the Global North (but also including an 'in-transit' flow through Africa), the Chinese diaspora encompasses a rather vast, relatively autonomous 'transnational ethnic labour market', which essentially comprises a proletarian migrant circuit channelled almost exclusively through the ethnic entrepreneurial niche (Ma Mung 2008, p. 99). While our research is acutely sensitive to the stratification between owners and workers in immigrant enterprises, the transnational flow (more accurately, private procurement or informal contracting) of labourers appears to be too tightly controlled by individual entrepreneurs and on too small a scale within the particular circumstances of the Eastern Caribbean to be usefully conceptualized *within this analytic node* as belonging to a separate and independent transnational ethnic labour market.

A similar situation has been documented by Haugen and Carling (2005) for Cape Verde, a non-traditional Chinese migrant destination,

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which has seen a 'surge' of immigrant Chinese 'baihuo' (general merchandise) merchants moving into the modest private sector of the cities. According to the co-authors, 'a conspicuous component' of the post-1980s Chinese emigration 'has been what can be called the *new entrepreneurial migration*' (p. 642). They note specifically that

> [t]he migrants concerned do not enter established wage-labour markets in existing communities of overseas Chinese but set up their own businesses most commonly engaged in the retail or wholesale of Chinese goods, Chinese restaurants or traditional Chinese clinics. This migration flow also includes workers who are not entrepreneurs themselves but who work for relatives and often aspire to become self-employed in the same line of business. (p. 642)

The phenomenon of the new immigrant Chinese entrepreneurial enclaves in the Eastern Caribbean is of such recency – no more than 15 to 25 years old – that little has been published on it. Finding literatures that might facilitate our understanding and provide the building blocks of a conceptual framework, therefore, takes on a special significance. The most relevant literature for our purpose appears to be that specifically focused on investigating the dual roles of the Chinese state (as donor and investor) and private immigrant entrepreneur, particularly the SME merchant, in poorer countries of the Global South. Occupying centrefield in this literature are investigations of the recent activities of the Chinese in Africa. Among these, the Cape Verdean study demonstrates features that have even greater resonance for the small island Caribbean experience than some of the larger and more heterogeneous and complex continental African scenarios. However, while the authors note that 'Chinese entrepreneurs have so far established themselves in Cape Verde independently of the Chinese state (the PRC)' (Haugen and Carling 2006, p. 650), there is a significant literature that does find evidence of a more explicit connection, often cultivated by the Chinese state itself.

There are two big issues that might drive the search for a certain thematic coherence within the existing literatures as an aid to the wider Eastern Caribbean investigations: (1) the kinds of links that exist (or not) between private immigrant merchant communities and the transnational Chinese state, and (2) the historically specific patterns of the *new entrepreneurial immigration* to 'non-traditional' destinations of the Global South. Among the most important scholars pursuing these very questions today is the 'global anthropologist' *Pál* Nyíri, whose work has

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highlighted both the emergence of a new 'transnational middleman minority' in 'poor' and 'transitional' economies and how the Chinese state has shifted from a more or less anti-immigration stance before the 1980s to a position which 'celebrat[es] migration itself as a patriotic and modern act, thus encouraging transnational practices among people who are in the process of, or just preparing for, leaving China' (Nyíri 2001, p. 635; 2011, 2012, 2013).

Finding meaningful parallels within the wider literatures

As pointed out before, the Chinese development assistance model is a hotly contested one, with some attributing nefarious motives to China's apparent development largesse and others making more sober and measured assessments, based on the evidence unearthed by their research. Negative assessments range from charges of intentions to gain control over Africa's vast resources to claims that China's interest-free loans are a cover for an agenda of political and military imperialism, making China a 'rogue creditor' or the insidious purveyor of 'soft power' (Johnson et al. 2011).

Ma Mung has repeatedly put forward a less-dramatic, more matter-of-fact set of reasons for China's presence in Africa: 'guaranteeing secure access to raw materials . . . expanding China's export market, and obtaining diplomatic support in different international organizations' (Ma Mung Kuang 2008, p. 658; Ma Mung 2008, p. 101). In the same vein he has confirmed a relationship between migration and Chinese development, attributing as much to transnational commercial networks sustained by overseas Chinese as to Chinese state policy. Others have sought to examine more closely some of the claims made about China's 'sinister difference', and have come to three types of conclusion: one, that the Chinese model of development assistance *is* different, but in a good way – at the very least, China is perceived by many on the African continent as the lesser of two evils; two, that China is being held to a disingenuous and uninformed double international standard; and three, that the Chinese system of aid is the target of much misinformation and distortion of the facts. These three main findings (more equitable model – double standard of judgement – misinformation) are not universally or equally shared by the challengers, but there are clear overlaps, particularly with regard to the last two.

Yan Hairong and Barry Sautman (Sautman and Hairong 2007; Hairong and Sautman 2013) have been among the most vociferous academic debunkers of alleged myths about the Chinese model, to the extent of

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mounting a defence of China's relations with Africa. On the question of the double standard they point out that the relationship of the West with Africa is much more exploitative than China's and that African industrialization had already been 'severely damaged' by Western imports following the impositions of the IMF-mediated neoliberal regime (Sautman and Hairong 2007, p. 77). Illuminating, detailed, and sober correctives have also been crafted by Bräutigam (2009, 2011), Mohan and Tan-Mullins (2009), and Hofman and Ho (2012), among others. Bräutigam's careful research on China's development assistance model has been more focused on correcting misinformation about the terms under which China provides such assistance, which she claims is 'widely misunderstood' and unfairly judged (2011, p. 753). While acknowledging China's lack of transparency regarding its aid programme, Bräutigam has been able to establish through her research that a number of the 'rogue' deals attributed to China and widely reported in the Western press are popular media fictions which never took place.

Similarly, much research on Chinese migration to Africa sets out to interrogate the argument that the movement of people is essentially part of a Chinese state project or 'plot'. 'There is no state agenda,' says Giles Mohan (The China Africa Project, online). Huynh et al. (2010, p. 286) aver that 'the vast majority of new Chinese migrants in South Africa arrived (or made decisions to stay) independently, motivated by their desires to improve their lives'. They insist that 'the new Chinese migrants are not taking over Africa as Malone suggests; . . . neither are they flag-toting agents of the state' (p. 290). However, they clearly recognize that 'the migrants' decisions to migrate, destination choices, and relations with local host societies are intimately entangled with Chinese state policies and processes' (p. 290). Ma Mung's work on Chinese immigrants in Africa tends to support this conclusion. He and others have pointed out the diverse sources of Chinese migration and clarified the distinction between temporary labour migrations associated with public works financed by the Chinese state and class-differentiated private migrations of merchants and workers. According to him, the Chinese government has evolved a pro-diaspora policy, which calls on overseas Chinese to 'serve the country from abroad' and encourages inter-diaspora networking among themselves and with China (Ma Mung 2008).

The work of Nyíri has been even more helpful in documenting evidence of the careful and deliberate cultivation of synergies between Chinese state transnationalism and migrant transnationalism. In that sense, the evidence he presents is incompatible with the blanket statement made by Mohan above. However, his is a sober and detailed

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analysis of relatively unhidden state practices (of promoting and building institutional networks with and within an increasingly expansively defined diaspora), not a sensationalistic account of global cloak-and-dagger operations. He gives a fascinating account of how economic, cultural, and political collaborations in Cambodia among Chinese state-investors and managers, Chinese entrepreneurial immigrants, and the upper and middle Cambodian–Chinese business classes are leading to the revival/activation of a transnational ethnic Chineseness and the idea of a transnational nation, centred in the PRC (Nyíri 2012). Others have noted similar trends occurring more broadly around the world (see especially Barabantseva 2012).

According to Nyíri (2011, p. 145), after 1989, entrepreneurial migration from China took on a mass scale, with 'these new entrepreneurial migrants going to countries with no recent tradition of Chinese immigration, but where there was high demand for low-cost consumer goods produced by China and a lax regulatory environment'. This new group relied on the flexible activation of transnational networks with their native China – as a sustaining source of labour, merchandise, and capital – in establishing SME businesses in poor or economically vulnerable countries typically undergoing a transition from socialist or post-colonial state-directed development to more liberalized free-market economies. While focusing so far on select cases in his writing, Nyíri has found evidence of such 'transnational middleman minorities' or transnational ethnic entrepreneurial circuits in Eastern Europe, Southeast Asia, Africa, and South America, all located within the context of the state-capitalist global expansion of China.

This scholarship resonates deeply with processes occurring in the Caribbean as well. It has already proved indispensable in providing focus to the incipient Eastern Caribbean research project and in supplying some of the necessary building blocks for an appropriate conceptual framework within which to study fast-moving developments in the region.

In conclusion . . .

Inspired in part by this scholarship, a decision to focus, ultimately, on the 'warm-bodied' immigrant side of the 'new Chinese presence in the Caribbean' equation might yield particularly fertile ground for a number of reasons: (1) These SME transnational entrepreneurs constitute an accessible, situated, flesh-and-blood representation and dimension of the Chinese presence in the Caribbean, and a key link to the conditions

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and circumstances of ‘outbound China’, and as such they have a lot to teach us about the latter. (In addition, we can gain fresh and intimate insight into the question: What is the nature of any *sustained* relationship between the Chinese state and the private immigrants?) (2) They form, through their glocalized networks, ‘transnational social fields’ which are key sustaining dimensions of globalization today and which need to be closely understood as a set of practices and relations that complicates the politics and economics of locality and ‘emplaced’ life-worlds (see Levitt and Schiller 2004). (3) Their precise niche in relationship to, and impacting on, Caribbean economies and societies needs to be properly understood, in both positive and negative permutations. Furthermore, (how) are they becoming ‘localized’ in and being reinvented by/in these societies, and how are they in turn reshaping the contours of these societies? Finally, we might ask the question: What do their practices and constitutive achievements tell Caribbean people about the way *their* societies are structured?

Further research might also indicate whether these new ethnic entrepreneurial enclaves will reproduce and sustain their particular niche in the Caribbean or their primary economic ties to China through future generations.

Notes

1 The project, undertaken with Sociology graduate student, Yan Liu, and with initial funding from the Office of the Dean, Maxwell School, Syracuse University – both gratefully acknowledged here – aims to study Chinese immigrant entrepreneurial communities in four Eastern Caribbean islands, evenly split in diplomatic alignment between the PRC and Taiwan. Preliminary research, employing participant observation and interviews, was undertaken in Dominica in August 2012 and in St Kitts in June 2013.

2 Chen and Tan (2009, p. 1080) define this as ‘networks with both local and global connection’.

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7

The New Geoeconomics of Capital in Latin America: Alternative Trade and Development in an Era of Extractive Capitalism

Henry Veltmeyer

Introduction

Capitalism is a system in crisis. An oft-repeated truism, but what does it mean – beyond a succession of different phases of capitalist development in which the system is pushed to the limits of its capacity to expand the forces of production and then restructured by mobilizing the forces of change released by the crisis? Take the post–World War II process of capitalist development, which has been periodized as an era of state-led development celebrated by historians as the 'golden age of capitalism' (two decades of unprecedented rapid economic growth that came to an end with a system-wide production crisis at the turn into the 1970s), followed by a decade of restructuring and transition to what has been described as a 'brief history of neoliberalism'. The beginnings of this historical epoch can be traced back to the early 1980s in conditions of a fiscal crisis of the capitalist state, attributed by conservatives to the excessive costs of the social and development programmes of the liberal reformist development state; a matrix of forces released by actions taken to find a way out of the crisis and restructure the system; and a new world order based on market fundamentalism and the Washington Consensus regarding the virtues of free market capitalism and the 'structural reforms' needed to bring it about.

This chapter will delineate the forces of change generated in the neoliberal era of capitalist development in Latin America. The main idea advanced can be summed up in the proposition that capitalist development under these conditions resulted in the construction of three alternative economic models, each used to mobilize forces of change in one direction or the other, each associated with a particular type of polity and policy regime,

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and a particular system for arranging and managing trade and investments as well as relations with US power and the agencies of global capital.

The argument is constructed as follows. First we outline the contours of capitalist development within the institutional and policy framework of the neoliberal world order, with a focus on the economic model used by governments as a template and script for the structural reforms mandated by the Washington consensus. Here it is argued that the structural reforms implemented in accordance with the neoliberal agenda (privatization, financial and trade liberalization, market deregulation, and administrative decentralization) resulted in, inter alia, a massive inflow of global capital liberated from the regulatory constraints of the developmental state. This capital took the predominant form of foreign direct investment (FDI) directed towards non-traditional or modern manufacturing, high-tech information-rich services, and natural resource extraction. Other outcomes included the project of a free trade regime designed to deepen and extend the financial and trade liberalization process, and a process of uneven capitalist development that was materialized in the construction of a model to promote development (inclusive growth: boosting economic growth while reducing extreme poverty) and conduct international relations of trade and investment within the policy framework of the new world order. This model is associated with projects for the North American Free Trade Agreement (NAFTA), which took effect in January 1994, and then, close to a decade on (in 2003), the project to establish a Free Trade Area for the Americas (FTAA), which was defeated by an anti-imperialist alliance, and more recently (in 2010) the Pacific Alliance (PA) that has brought together Chile, which hitherto had avoided joining any regional integration project, with Peru, Colombia, and Mexico, in a regional alliance of neoliberal regimes on the Pacific coast aligned with the US in a series of bilateral trade arrangements. The PA, a nascent regional economic integration bloc formed less than three years ago but in which up to 92 per cent of trade has been liberalized (tariff free), is the world's seventh-largest recipient of FDI, receiving US$71 billion in 2012, much of it attracted by the profit-making opportunities provided by the most liberal regime for resource extraction in the mining sector (in the case of Mexico, zero royalties and an effective tax rate of 1.2 per cent on the value of exported minerals) (Bárcenas 2012: 31).

The next part of the chapter elaborates on the outcome of these developments in the 1990s, with a third cycle of neoliberal structural reforms and a broad popular movement of resistance against the neoliberal policy agenda. Here it is argued that the neoliberal 'structural

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reform' process not only failed to deliver on the promise of economic growth but it generated unsustainable conditions of inequality and poverty and a level of social discontent that threatened to destabilize the political system of neoliberal regimes, leading to governability concerns as well as the construction of a model for another more sustainable form of development and an alternative trade regime. The result was a new consensus on the need to bring the state back into the development process and move towards a more inclusive form of development – which would take shape and become known as the 'new developmentalism' (Bresser-Pereira 2006, 2007, 2009).

Development in these conditions also took form as a project taken on by some governments to realign their international relations of trade and investment, resulting in a rejection of the neoliberal model of free market capitalism and the construction of alternative trade schemes focused on expanding intra-regional trade and regional integration, as well as diversifying trade relations in a global context, and breaking out of the orbit of US power. This project took a number of forms, including in particular, MERCOSUR an alternative trade scheme established in 1991 that bound together Argentina and Brazil, two of the region's largest economies, with Uruguay and Paraguay, two of the region's smallest, into what would become the world's fourth largest trade bloc and what some regarded as 'the most progressive trade integration scheme in the developing world' (Paiva and Gazel 2003: 117).

The concluding part of the chapter points towards the uneasy coexistence in the region of three different political regimes, each associated with a distinct economic model and a particular system for organizing international relations of trade and investment. It concludes with an assessment of the correlation of forces engaged in the development process related to these three models and a brief discussion of the pitfalls and challenges presented by extractivism as a strategy of national development – a strategy common to each of the three models used to organize production and trade in Latin America today.

Neoliberalism: Capitalist development in the new world order

The neoliberal era of capitalist development was constructed in the early 1980s within the framework of what has been described as the 'Washington Consensus' on the virtues of and need for free market capitalism and the 'new world order' (Petras and Veltmeyer 2001). This new world order was designed with the aim of reactivating the economic growth process

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and liberating the 'forces of economic freedom' (the market and private enterprise) from the regulatory constraints of the 'developmental state'. The means of bringing about this new world order (rules to govern international relations of trade and investment) and globalization process was a programme of 'structural reforms', which was designed as a method of integrating economies in the region into a global economic system governed by the same rules of free trade and marked by increasing interdependence, liberalization, and competition for investments.

The aim of the neoliberal agenda, in the form of the World Bank's 'structural adjustment program', was to pave the way for an expansion of capital, particularly in the form of FDI, the bearers of which were the multinational corporations (MNCs) that dominated international trade in goods and services. In addition to the destruction of significant forces of production in industry and agriculture, the consequences of the massive increase in the inflow of FDI in the 1990s included a reduction in intra-regional trade as well as an expansion of 'unequal exchange' on a north–south axis. Other outcomes included an expansion of the market for US-produced goods and services, leading to an overall favourable trade surplus of the US with economies in the region, allowing the government to balance the growing deficit on its trading account with economies in other regions of the world economy.

To expand the Latin American market for US-based exports, the US government promoted a policy of 'open regionalism' together with a scheme, NAFTA, designed to integrate the three North American economies (the US, Canada, and Mexico), and then to further integrate them into a continental-scale free trade zone: the FTAA, a project that in 2003 fell victim to diverse forces of anti-imperialist resistance as well as the opposition of governments such as Brazil, was concerned to counter the power of the US to impose an arrangement serving US economic interests and to advance the economic interests of the country's agro-export agri-business elite. Thwarted in its efforts to impose a continent-wide free trade zone the US subsequently turned towards a strategy of à la carte bilateral agreements with different governments in the region, creating a kind of hub-and-spoke arrangement of trade agreements.

The new geoeconomics of capital under the Washington consensus

Washington consensus policies in the 1980s promoted inter-regional trade on a south–north axis rather than intra-regional trade. This was reflected in a reduction of intra-regional trade and the growth of trade

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along a north–south nexus. But the 1990s also saw the emergence of what Economic Commission for Latin America and the Caribbean (ECLAC) economists termed the 'new regionalism' – expanding intra-regional trade on the basis of existing blocs but by integrating these into the global economy. In this context ECLAC, formerly an exponent of an industrialization policy based on state intervention in the form of subsidies, protectionism, and regulated markets, declared itself a proponent of 'open regionalism' within a global economy marked by increasing interdependency, liberalization, and competition for investments. Accompanied by domestic market-oriented reforms in the form of privatization, deregulation, and balanced budgets ('stabilization'), open regionalism implied the orientation of production towards both inter- and intra-regional forms of international rather than local markets – a reliance on international trade rather than the domestic market as the fundamental engine of economic growth, a strategy that profoundly reshaped the political-economic landscape in the region but led to less rather than more intra-regional trade.

The most important expression of this open regionalism is MERCOSUR, an arrangement that binds together four countries in the Southern cone of South America (Argentina, Brazil, Paraguay, and Uruguay) into a regional trade scheme that encompasses 47 per cent of Latin America's population, representing more than half of its GDP. Although MERCOSUR has evolved as a predominantly commercial initiative, based on the successful implementation of a trade liberalization programme, it has gradually incorporated a variety of non-trade issues to its agenda. Referring to the inherent 'trade and cooperation nexus', which distinguishes its integration scheme from a pure free trade agreement, from the beginning the bloc sought to enhance regional cooperation in matters of technology transfer and industrial policy as well as a range of sociopolitical and developmental concerns such as education, justice, environment, energy, technology, health, and foreign policy.

Addressing these issues was crucial for the establishment of a sense of community and a regional identity based on shared values and principles. To face and mitigate the societal impact of greater economic integration, MERCOSUR's labour ministers proposed, only two months after the signing of the Asunción Treaty (1991), the creation of a *Social Charter* for MERCOSUR. The charter addressed labour aspects and improved working conditions, as well as issues of development and poverty alleviation. The decision to establish a structural fund of US$100 million per year, to address the problem of asymmetries and inequalities within the bloc, was momentous. The main objective of this Fund for Structural

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Convergence (FOCEM) was to develop competitiveness; to encourage social cohesion, particularly in the smaller economies of Paraguay and Uruguay; to support the functioning of the institutional structure; and to strengthen the integration process. Nonetheless, the fund was clearly undercapitalized in consideration of the large number of people living below the poverty level in the Southern Cone, approximately 95 million, according to ECLAC (2012). Given that poverty is the outcome of the structure of social inequality in regard to both income and land rather than the effect of overall underdevelopment, FOCEM evidently did not address the crucial problem of national income inequality. In this MERCOSUR reflected the limitations of the post-Washington consensus – in viewing neoliberalism and social exclusion (extreme poverty) rather than capitalism and structured social inequalities in the distribution of income and land as the essential problem.

Changing dynamics of foreign investment in Latin America

As noted earlier the neoliberal reforms implemented in the 1980s as the price of admission into the new world order not only released 'forces of economic freedom' from the regulatory constraints of the developmental state but generated a massive inflow of capital in search for profit-making opportunities related to assets, resources, and markets. This was in the 1990s, which saw a sixfold increase in the inflows of capital in the form of FDI in the first four years of the decade and then another sharp increase from 1996 to 2001, which tripled in less than ten years the foreign capital accumulated in the region in the form of foreign-company subsidiaries (ECLAC 2012: 71). Another major inflow occurred in the first decade of the new millennium, in conditions of a primary commodities boom worldwide that affected (benefitted?) primarily South America. In 2009 Latin America received 26 per cent of the capital invested globally in mineral exploration and extraction. And according to the Metals Economics Group (MEG), a 2010 bonanza in world market prices led to another increase of 40 per cent in investments related to mineral exploration and mining, with governments in the region, both neoliberal and post-neoliberal, competing fiercely for this capital.

The main targets for FDI in Latin America over the past two decades have been services (particularly banking and finance) and the natural resources sector – the exploration, extraction, and exploitation of fossil and biofuel sources of energy, precious metals and industrial minerals,

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and agrofood products. In the previous era of state-led development FDI had predominantly served as a means of financing the capitalist development of industry and a process of 'productive transformation' (technological conversion and modernization), which was reflected in the geoeconomics of global capital and the dynamics of FDI flows at the time. However, the new world order and two generations of neoliberal reforms changed and dramatically improved conditions for capital, opening up in Latin America the market for goods manufactured in the North (the US, Canada, and Europe) and providing greater opportunities for resource-seeking capital – consolidating the role of Latin America as a source and supplier of natural resources and exporter of primary commodities, a role that was reflected in the flows of productive investment away from manufacturing and services towards the extractive industries (see Table 7.1).

The noted sectoral shift in the distribution of FDI was particularly evident and very pronounced in the wake of what has been described as a 'global financial crisis', a crisis that had a relatively minimal repercussions in Latin America, so much so that some analysts would ask, 'What crisis?' (Porzecanski 2009). In the wake of this crisis, the inflow of resource-seeking investments in 2008 reached unprecedented levels, accentuating the trend towards 'primarization' – or, more precisely, 'reprimarization' – that can be traced back to 2003, in the context of the growing demand for energy and minerals, and foodstuffs for the expanding middle class in the emerging markets of China and the other BRIC countries.

In 2000, at the turn into the new millennium, the service sector still accounted for almost half of FDI inflows, but data presented by ECLAC (2012: 50) point towards a steady and increasing flow of capital towards the natural resources sector in South America, especially mining. In 2006 this grew by 49 per cent to reach US$59 billion, exceeding the total FDI inflows of any year since economic liberalization began in

Table 7.1 Percentage distribution of FDI by sector in Latin America

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Resources	10	12	12	11	12	13	12	15	30
Manufacturing	25	26	38	35	38	37	36	35	22
Services	60	61	51	48	46	48	51	49	47

Source: Adapted from Arellano (2010, table 2), based on ECLAC data.

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the 1990s (UNCTAD 2012 figure II.18). Despite the global financial and economic crisis at the time, FDI flows towards Latin America and the Caribbean reached a record high in 2008 (US$128.3 billion), an extraordinary development considering that FDI flows worldwide at the time had shrunk by at least 15 per cent. This countercyclical trend signalled the continuation of the primary commodities boom and the steady expansion of resource-seeking capital in the region.

The rapid expansion in the flow of FDI towards Latin America in the 1990s reflected the increased opportunities for capital accumulation provided by the neoliberal policy regimes in the region, but in the new millennium conditions for capitalist development had radically changed. In this new context, which included a major realignment of economic power and relations of trade in the world market, and the growth in both the demand for and the prices of primary commodities, the shift of FDI towards Latin America signified a major change in the geoeconomics and geopolitics of global capital. Flows of FDI into Latin America from 2000 to 2007 for the first time exceeded those that went to America, only surpassed by Europe and Asia. And the global financial crisis brought about an even more radical change in the geoeconomics of global capital in regard to both its regional distribution (increased flows to Latin America) and sectoral distribution (concentration in the extractive sector). In 2005, the 'developing' and 'emerging' economies attracted only 12 per cent of global flows of productive capital but by 2010, against a background of a sharp decline in these flows, these economies were the destination point for over 50 per cent of global FDI flows (CEPAL 2014). In the same year FDI flows into Latin America increased by 34.6 per cent, well above the growth rate in Asia, which was only 6.7 per cent (UNCTAD 2012).

The flow of productive capital into Latin America has been fuelled by two factors: high prices for primary commodities, which attracted 'natural-resource-seeking investment', and the economic growth of the South American sub-region, which encouraged market-seeking investment. This flow of FDI was concentrated in four South American countries – Argentina, Brazil, Chile, and Colombia – which accounted for 89 per cent of the sub-region's total inflows. The extractive industry in these countries, particularly mining, absorbed the greatest share of these inflows. For example, in 2009, Latin America received 26 per cent of global investments in mineral exploration (Sena-Fobomade 2011). And together with the expansion of oil and gas projects, mineral extraction constitutes the single most important source of export revenues for a majority of countries in the region.

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Progressive extractivism: A new model for Latin America?

A wave of resource-seeking FDI was a major feature of the political economy of global capitalist development at the turn into the first decade of the new millennium. Another was the demise of neoliberalism as an economic doctrine and model – at least in Latin America, where powerful social movements successfully challenged this model. Over the past decade a number of governments in South America, in riding a wave of anti-neoliberal sentiment generated by these movements, experienced a process of regime change – a tilt towards the left and what has been described as 'progressive extractivism'. The political victories of these democratically elected 'progressive' regimes opened a new chapter in Latin American history, notwithstanding the fact that the wide embrace of resource-seeking FDI, or extractive capital, has generated deep paradoxes for those progressive regimes in the region committed to addressing the inequality predicament and the crisis of nature.

Some leaders and social movements in this context have spoken of revolution – Venezuela's 'Bolivarian' revolution, Bolivia's 'democratic and cultural revolution', and Ecuador's 'citizens' revolution' – and, together with several governments that have embraced the new developmentalism (the search for a more inclusive form of development), these regimes have indeed taken some steps in the direction of poverty reduction and social inclusion, using the additional fiscal revenues derived from resource rents to this purpose. Yet, like their more conservative neighbours – regimes such as Mexico's and Colombia's, committed to both neoliberalism and an alliance with 'imperialism' – the left-leaning progressive regimes in the region find themselves entangled in a maze of renewed dependence on natural resource extraction (the 'new extractivism') and primary commodity exports ('reprimarization'). Further, as argued by Gudynas (2010), this new 'progressive' extractivism is much like the old 'classical' extractivism in its destruction of both the environment and livelihoods, and its erosion of the territorial rights and sovereignty of indigenous communities most directly affected by the operations of extractive capital, which continues to generate relations of intense social conflict.

Despite the use by 'progressive' centre-left governments of resource rents as a mechanism of social inclusion and direct cash transfers to the poor, it is not clear whether they are able to pursue revolutionary measures in their efforts to bring about a more inclusive and sustainable form of development, or a deepening of political and economic democratization, allowing the people to 'live well', while at the same time continuing to toe the line of extractive capital and its global

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assault on nature and livelihoods. The problem here is twofold. One is a continuing reliance of these left-leaning post-neoliberal regimes (indeed, all but Venezuela) on neoliberalism ('structural reforms') at the level of macroeconomic public policy. The other relates to the so-called new extractivism based on 'inclusionary state activism' and continued reliance on FDI – on striking a deal with global capital in regard to sharing the resource rents derived from the extraction process.

The problem here relates to the inherent contradictions of extractive capitalism. These contradictions are reflected in a process of very uneven economic and social development – economic concentration tending towards the extremes of wealth and poverty – and what economists choose to call 'the resource curse' (the fact that so many resource-rich countries are developmentally poor, while many resource-poor countries have achieved a high level of economic and social development). One expression of this resource curse is what economists term the 'Dutch disease', reflected in the slowdown currently experienced by Brazil in its engine of economic growth – down from an average of over 6 per cent a year from 2003 to 2010 to 0.9 per cent in 2012. Another is the boom-bust cycle characteristic of extractivism and natural resource development. The slowdown of the commodity supercycle in the same year (Konold 2013) suggests that extractive capitalism has not yet outgrown this propensity.

Perhaps the most serious 'contradiction' of 'natural resource development' – development based on the extraction of natural resources (as opposed to human resource development based on the exploitation of labour) – is that a large part of the benefits of economic activity are externalized, that is, appropriated by groups outside the country and region, while virtually all of the costs – economic, social, and environmental – are internalized and disproportionately borne by the indigenous and farming communities contiguous to the open pit mines and other sites of extraction. These costs have given rise to powerful forces of resistance – social and environmental movements that form the social base of the contemporary search in the region for 'another development' – development that not only seeks to move beyond neoliberalism but that rejects capitalism as well ('the socialism of the 21st century', as conceived by Hugo Chávez).

ALBA: New trade for new times

The Alternativa Bolivariana para los Pueblos de Nuestra América (ALBA) was conceived in 2004 by Hugo Chávez and Fidel Castro as an alternative

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to the FTAA (in Spanish, ALCA); the neoliberal project was defeated the year before by the mobilizations of the anti-imperialist movement and the opposition of Brazil and other governments in their concern to accelerate the process of regional integration and – in the words of Chávez – to 'counterbalance the global dominance of the US' (Wagner 2005). Advanced as a new model of intra-regional trade, an alternative to schemes of regional integration within the neoliberal world order, ALBA now encompasses nine countries including in addition to Venezuela and Cuba, Bolivia, Ecuador, Nicaragua, and several CARICOM countries. Unlike the neoliberal or WTO model, which is based on a simple reciprocity of commercial exchange in which each party agrees to exactly the same rules of trade, ALBA involves a series of bilateral trade arrangements that are differentiated to take into account the development status and needs of each country. Thus, Venezuela in its agreement under ALBA with Bolivia or Cuba does not require reciprocity in the removal of all trade barriers. Nor do the regional agreements between governments seek trade liberalization or base trade on world market prices. Moreover, regional integration under ALBA is explicitly designed to advance the specific and different national development agenda of each country, and any bilateral or multilateral agreement is tailored to the development requirements of each country, recognizing the asymmetry of economic and social development (Girvan 2011). Thus, ALBA is based on an entirely new model of regional integration that reflects the socialist values and principles of the Bolivarian Revolution. However, in addition to a shared commitment to socialist principles the model also reflects the thinking and worldview of the indigenous communities in the region. This is evident in an emerging radical consensus engineered by a coalition of social movements in support of a *minga* of resistance (collective action) and popular action.

On 29 February 2009, a regional alliance of indigenous communities and peasant social movements convoked a 'minga of resistance' in association with 'other peoples and processes' (Abya Yala 2009). And such collective action, in the search for an alternative to capitalism as well as neoliberalism, is indeed underway in the popular sectors of different countries in the region, especially in the Andes. See, for example, the Convocation (20 January 2009) of the Social Movements of America at the World Social Forum in Belém. Departing from a diagnosis of the 'profound crisis' of capitalism in the current conjuncture that the agents and agencies of capitalism and imperialism are seeking to 'unload' (*descargar*) on 'our people', the representation of a broad regional coalition of American social movements announced the need, and the

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intention (*un 'proyecto de vida de los pueblos' frente al* 'proyecto del imperialismo'), to create a popular form of 'regional integration' (ALBA) 'from below' – 'social solidarity in the face of imperialism' (Abya Yala 2009).

From this perspective the global crisis was, and remains, not a matter of dysfunctional financial institutions and unregulated capital markets but rather a systemic crisis, a crisis of the model used to formulate public support in relation to agricultural production as well as the rules used to govern international relations of trade and investment. Thus, at issue is not the regulation or freedom of capital flows and trade but the sustainability of the global food regime and local markets, rural livelihoods and food sovereignty, small-scale production for local markets, indigenous territorial rights regarding land and resources, and protection of the environment and the ecosystem on which both livelihoods and local communities, and life itself, depend.

For example, along the line of principles ratified in a succession of ALBA summits, and supportive of popular action against the neoliberal model and neoliberal policies, a coalition of organizations in Mexico's peasant movement proposed that the government's anti-crisis plan in 2009 include a policy of local production regarding corn and rice, milk, vegetable oil, pork products, and so on, ending the policy of free agricultural imports under NAFTA, which, as the Zapatistas had predicted, has been the cause of a major production crisis in the agricultural agriculture, if not its 'death knell'. As for the local production and importing of vegetable oil, the president of the Senate's Rural Development Commission pointed out that in just one case (the elimination of import duties for vegetable oil) government policy put at risk many rural livelihoods and cost the economy up to 10,000 jobs in the sector plus an additional 30,000 indirect jobs (Pérez 2009).

At issue in this and other such actions taken in the popular sector is whether the political and intellectual Left in the region are up to the challenge levelled by *Abya Yala* – willing to actively support, if not lead, the forces of resistance and revolutionary change that are being formed in the popular sector. As for the Mexican government – by no means progressive or leftist in orientation but, indeed, explicitly neoliberal – it responded to this challenge in the same way as have other governments such as Brazil, which is self-defined as post-neoliberal in the sense of the post-Washington consensus on the need for 'inclusionary state activism', by implementing a 'new social policy' geared to poverty reduction and inclusion of the rural poor in programmes of development assistance. In Mexico's case the basic mechanism of this anti-crisis response is Oportunidades (Opportunities), a programme designed to assist those

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with scarce resources and most directly negatively affected by the global crisis. With a negotiated World Bank loan of US$500 million this programme was expected to pump US$4 billion into the countryside and the local economy in 2009, continuing the time-honoured (albeit dishonourable) tradition of using rural development as a means of demobilizing the social movements and defusing revolutionary ferment in the countryside.

In opposition to this approach ALBA proposes an alternative model of regional integration based on socialist principles of social justice, fair trade, and a more equitably shared development of the forces of production. Here ALBA has turned out to be a key centre of reference and organizing space in the formation of a region-wide resistance movement in support of a common programme against neoliberalism, capitalism, and imperialism.

Conclusion

The dynamics of capitalist development in Latin America over the past three decades have given rise to the construction of three alternative models of capitalist development, each giving rise to a particular policy regime and a different way of organizing the forces of production and conducting international relations of trade and investment.

The first model has crystallized around what used to be termed the Washington Consensus but now dubbed (by *The Economist*) the Davos Consensus. It takes the form of a proposal to bring about a process of sustainable resource development, or 'inclusive growth', with 'the private sector' (the MNCs) as the 'driver' of the motor of this growth (Canada, House of Commons 2012). The model is associated with various neoliberal regimes on the Pacific coast (Chile, Colombia, Peru, and Mexico) aligned with US imperialism, and various projects to construct a free trade area based on the rules of the neoliberal world order – NAFTA, FTAA, and the PA.

The second model is based on the post-Washington Consensus on the need for inclusionary state activism and a more inclusive form of national development. It is associated with the left-leaning post-neoliberal regimes formed in South America in conditions of a wave of anti-neoliberal resistance at the turn into the 21st century. The trade regime that best reflects the organizing principles of this model – open regionalism within a system of global capitalism – is MERCOSUR.

The third model has taken shape in the form of an emerging radical consensus on the need to not only move beyond neoliberalism but to

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reject capitalism. The regional intra-regional trade scheme that embodies the principles of this radical consensus is ALBA, an anti-imperialist alliance of post-neoliberal regimes oriented towards 'the socialism of the 21st century'.

Despite the project of expanding intra-regional trade neither MERCOSUR nor ALBA has managed to substantially increase intra-regional trade or reduce the regional differences in the level of development, and this is because of not only the concept of open regionalism within a global economy, but the continuing commitment of both neoliberal and post-neoliberal regimes to extractivism, as well as conflicts internal to MERCOSUR and related to what might be termed 'Brazilian sub-imperialism'. The new extractivism, like the old extractivism, dictates a north–south rather than an intra-regional axis of international trade in that the market for extracted natural resources are predominantly in the Global North or the emerging markets of the BRIC countries, not in the region. Nor does extractivism promote or create conditions for a more inclusive and sustainable form of national development. This is because extractivism and natural resource development, like the 'new industrialism', are both destructive of the environment and technology-intensive with relatively fewer development implications than human resource and industrial development based on the exploitation of labour. Indeed, it is estimated, in the case of the mining sector, that the participation of labour in the fruits of natural resource development – in the profits and resource rents generated from exporting the products – is from six to nine per cent, and the share of the governments is even less.

Thus the issue and remaining concern is not inclusionary state activism or socialism but a continuing reliance of governments on resource-seeking foreign investments. As for ALBA, despite its promise as a model of alternative development as well as trade it is unlikely to serve as a catalyst of a more inclusive and sustainable form of development. This would require abandoning extractivism as a development strategy, because the social and environmental costs far outweigh any benefits, and these benefits are concentrated (and externalized – received outside the country) while the costs are internalized and exceedingly high. And neither extractivist socialism nor socialist industrialization is likely to be any more sustainable than extractivist capitalism, even in its 'progressive' form. The problem is fundamental. Extractivism has undermined ALBA as an alternate development and trade model, limiting its use as an instrument of substantive social change and genuine development.

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Thus it is that extractivism has been rejected not only in the streets but by the social movements united in their support of ALBA.

To conclude, Latin America's problem is not neoliberalism but capitalism. Neither extractivism nor industrialism nor post-neoliberal policy reforms nor diversified fair trade provides a way out of the fundamental problems caused by capitalism. The fundamental problem is a system geared to private profit rather than human needs, a problem that neither globalization nor regionalization nor alternate forms of trade can solve. What is needed is another world and a different model concerned with and focused on small-scale cooperative production and medium-sized business enterprises that are geared to and designed to strengthen food sovereignty and both local and regional markets; socialism and self-reliance rather than capitalism and imperialist exploitation, protection of regional producers and regional integration rather than neoliberal globalization; expansion of ALBA as an economic and political organization with a regional development agenda; the expansion and consolidation of a regional development bank to counter the impact of the Inter-American Development Bank and to replace the current reliance on FDI and the World Bank/IMF for capital and development finance; strengthening and creating other regional political organizations such as the Union of South American Nations (UNASUR, founded in 2008, as a counterweight to the capitalism and imperialism of the 21st century.

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8

Canada, Extractivism, and Hemispheric Relations

Ricardo Grinspun and *Jennifer Mills*[1]

Introduction

This chapter focuses on how extractivism increasingly dominates the direction of Canada's domestic development as well as its hemispheric relations. We describe the instrumental role that Canada's policies are playing in accentuating an extractivist paradigm that is shared by both neoliberal and progressive Latin American governments, and how such policies are shaping north–south relations. Whereas a large majority of Canadians believe that Canada's foreign policy should be based on peacekeeping, mediation, and being a global leader on the environment (Broadbent Institute 2013), the reality of Canada's presence in many Latin American nations is discordant with those values. Canadian foreign policy in the region is increasingly being driven by the interests of Canadian and global extractive capital (Veltmeyer 2013).

Extractivism, in its most literal sense, is the pursuit of primary resource extraction. It refers to a particular style of development that places central importance on the exportation of relatively unprocessed primary products, and our focus will be on fossil fuels and mining. The history of Latin American development is largely a tale of the ebbs and flows of extractivism (Galeano 1997). By the end of the nineteenth century, the unfair and asymmetric integration of Latin America into the world economy as an exporter of primary products was fully articulated. Since that time, Latin American extractivism has become ubiquitous with economic enclaves, horrible social and labour conditions, and central governments subservient to the power of big international firms (Nadal 2012).

The import-substitution industrialization strategy adopted during the post-war period was a response to the perceived evils of primary commodity dependency. The triumph of neoliberalism during the 1980s

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brought a new turn, as the international financial institutions pushed for export orientation based on primary resources and cheap labour as the salvation for debt-ridden economies (and for the banks in the north, which were bailed out through these policies). Structural adjustment policies, market-friendly ideologies, new extractive technologies, and an exploding international demand gave impetus to a massive expansion of extraction during the last three decades. The commodity boom since 2002 driven by China's extraordinary growth accelerated what has been labelled a 'primarization' trend (Cypher 2009). This is also a period in which consciousness about the enormous environmental and social toll of extractive activities came to the fore, with numerous reports about socio-environmental conflicts.

The falling into disrepute of neoliberalism and the growing number of 'progressive' left governments across the region during the last decade catalysed the latest phase of Latin American extractivism. Authors have described the contrasts and similarities between 'neo-extractivism' – the newer version of extractivism adopted by a gamut of left-leaning governments – and the 'neoliberal extractivism' that still is dominant in countries that have not yet been carried away by the 'pink tide' (Gudynas 2010, Veltmeyer 2013, Grinspun et al. 2014). The traditional approach of the left in Latin America – intellectuals, movements, and parties – has consistently been critical of primary resource exploitation by foreign capital. It is thus paradoxical that for these governments, such as those in Brazil, Venezuela, Ecuador, Argentina, and Bolivia, primary resource exports have become a central pillar of their economic strategy. More as a result of practical need than ideology, they have become dependent on fiscal revenues from the extractive sector to fund their commitments for social advance, such as health care, education, poverty alleviation, and infrastructure.

The chapter is organized as follows. The first section brings us to Canada, its staples-based colonial past and extractivist present. The second section shows how the same ideology that shapes domestic policy also drives Canada's role in the hemisphere, and in particular, its focus on promoting Canadian extractive investment in Latin America. This has become even more marked under the Conservative government of Stephen Harper, as policies have become explicit and coordinated across numerous government departments and agencies. The concluding section of the chapter explores how the turn in Latin America towards a new form of state-sponsored neo-extractivism is creating new conditions and opportunities for Canada's engagement, although the Conservative government remains at odds with the move away from neoliberalism in

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large parts of the continent. We believe that Canada's role in promoting a distorted and unsustainable development model must change for the benefit of hemispheric citizens and their biophysical environment.

Canadian extractivism

Staples-based development in Canada

Canada has followed a unique extractivist path, whose history evokes both similarities and contrasts with the Latin American experience. Canada's development has long been based on the exportation of primary resources, from fur, timber, wheat, and fish, to oil, gas, and minerals. Critical understanding was initially embodied in the 'staples approach' put forward by economic historians Harold Innis (1930) and W. A. Mackintosh (1923). This unique contribution to economic and political thinking appears to have developed independently but grapples with similar questions as those faced by their Latin American counterparts. The fundamental assumption was that 'staples' – resource intensive – exports were the leading sectors of the economy and set the pace for economic growth. A limited domestic market and an abundance of land relative to labour and capital defined a comparative advantage in primary production for export markets, which, in turn, shaped the colonial, and later post-colonial, economic relationship to the ruling powers (Easterbrook and Watkins 1967). Innis showed how the characteristics of particular staples fundamentally shaped regional economies – for example, the profound influence of cod fish in the Atlantic provinces – and, in so doing, also helped form economic, social, and political institutions.

From the outset the controversial question was whether the orientation to resource exports would entrench Canada's technological backwardness, in the process deepening the country's dependence vis-à-vis Europe and the United States on unprocessed or semi-processed raw materials – what Mel Watkins referred to as a 'staples trap' (Watkins 1963, Wellstead 2007). What would be the conditions required to overcome this trap and enable, instead, technological advancement, the growth of a domestic market, and inward-oriented industrialization? Here economic history matters, regarding the type of staples, their particular productive structure, and the type of social institutions in place. Albert Hirschman (1958) and Mel Watkins (1963) emphasized the role of 'backward' and 'forward' linkages (on the production side) and 'final demand' linkages (on the consumption side), as well as 'fiscal' linkages in terms of the role of the state in its capacity to appropriate the economic rents generated from natural resources exploitation and

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the nature of its spending policy (Seccareccia 2014). A central theme in staples analysis was whether the state can transcend a single-minded pursuit of the bulk extracting of resource commodities that have a ready export market, with the foreign control, unequal wealth distribution, uneven regional development, and (as we now would label it) the ecological degradation that ensue. Can the state play a role in avoiding the staples trap, transforming such export success into a sustained process of industrialization and economic diversification benefitting wide sectors of the population across various regions of the country?

Those aspects of today's Canada that point to a diversified and advanced economy are the result of policies specifically oriented to overcome the narrow extractivist colonial legacy. They were feasible since staples development itself required an active state, capable, for example, of completing the transcontinental railway in 1885. Advocates of industrialization could harness state levers and policies explicitly oriented to industrialization, such as the National Policy (national tariff) started in 1878, to promote strengthened east–west links, a domestic market, an industrial corridor in central Canada, and increasing value added in staple exports. Still, the tensions between competing economic interests never subsided. The formation of the Keynesian welfare state, with its industrial policies and state agencies, was successful in marking the 1946–1990 period as one of *relative* decline in the Canadian staples political economy (Wellstead 2007).

All this started to change during the late 1980s, under the influence of transformations initiated in the United States that helped mobilize the increasingly cross-border capitalist class to envision a corporate makeover of the Canadian economy (Grinspun and Shamsie 2007). 'Free trade', privatization of state enterprises, dismantling of industrial and regional development policies, greater labour market 'flexibility', subsidies to oil and other extraction, and a more prominent role for Alberta and the West are some of the factors that brought about the deepening extractivist transformation that is currently underway in Canada. The Harper government, in power since 2006, embodies fully that transformation, placing mining, oil, and gas at the centre of both domestic and international policies.

Extractivism under the Harper government

Canada's approach to resource extraction has seen substantial shifts as a function of changing political and economic conditions both domestically and internationally. Key is the prominent role that the Athabasca bituminous sands play now in the formation of Canada's natural

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resources, energy, and environmental policies. The Athabasca sands underlie approximately 140,000 square kilometres of the boreal forest in northern Alberta and are the fastest-growing source of greenhouse gas (GHG) emissions in Canada. Although a project of such scale is bound to have substantial ecological impacts, weak regulatory requirements aggravate the concerns in terms of greenhouse emissions, contamination of forests, wetlands and rivers, and impacts on wildlife and human health. The government has already approved tripling the volume of extraction within the next two decades, and it is pushing for the infrastructure (including pipelines) required to bring the product to market (Pembina Institute 2013).

The classic features of a staples trap are becoming visible as the bitumen boom gathers momentum, including heavy investment in production and transportation infrastructure, growing reliance on foreign capital, disproportionate political influence of staples-producing corporations, and growing regional inequality (Clarke et al. 2013). The industry wants to expand hydrocarbon extraction further using new technologies. Natural gas is a key component of the dominant resource mix, Canada being the third-largest producer in the world (CAPP 2014). Although traditional production is declining, British Columbia is now considering a multibillion-dollar liquefied natural gas capability (Lee 2013). Lobbies are also pushing for the exploitation of unconventional gas and oil using hydraulic fracturing ('fracking'), which has raised serious environmental concerns (CoC 2013).

This is happening in a framework of industry-guided regulation and in the absence of an independent Canadian energy policy. In effect, Canada has become, thanks to NAFTA's unusual energy sharing provisions, part of a North American energy market driven by corporate and Washington interests (Laxer and Dillon 2008). These energy policies have profound consequences beyond that sector. Resource exports raise the value of the Canadian dollar, increasingly seen as a 'petro-currency', while diminishing the competitiveness of industrial sectors in central Canada. Canada may be witnessing a 'Dutch disease' phenomenon that is crowding out non-resource sectors and bringing about structural transformations that are sharpening the economy's extractivist profile (Stanford 2012).

It is not surprising that environmental policies – in a country that was at the vanguard of environmental advance during the late twentieth century – would suffer. The accentuation of extractivist policies has brought a parallel devolution of Canada's commitment to ecological protection, while, simultaneously, there is a stepping up of

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public relations to obscure that fact. Instead of regulatory action in the Athabasca sands, there is a large-scale branding campaign of 'responsible development' by the Canadian Association of Petroleum Producers. In terms of climate change, Canada is the only signatory of the Kyoto agreement to formally withdraw, in 2011, and is viewed as not taking serious action to diminish GHG emissions (Ljunggren 2013). The 2012 federal budget implementation bill brought about drastic changes to key pieces of environmental protection legislation, with the purpose of achieving 'streamlined' environmental assessment and of getting 'the government out of the way and let corporations flourish', according to the media pitch (Canadian Press 2012). In response to harsh criticism from environmental organizations, the government has portrayed them as 'radical', accusing them of 'taking foreign money to undermine Canada's economic health'. Former Natural Resources Minister Joe Oliver acknowledged that at stake 'is $500 billion in new energy and mining investment over the next 10 years' (Canadian Press 2012). Unsubstantiated fear-mongering is being used to justify the weakening of regulatory processes, such as adding time limits to the environmental assessments of pipelines. However, not only investment in Canada but also Canadian extractive investment in Latin America is at stake, as we see next.

Promoting Canadian extractive capital in Latin America

An explicit focus on creating ideal conditions for extractive investment is not only evident in Canada's domestic policies it also permeates its international relations, particularly in Latin America. This approach started under former Liberal governments but under the Harper government it has become explicit and guides the direction of numerous government departments. It was formalized in the Global Markets Action Plan announcing 'that all Government of Canada diplomatic assets are harnessed to support the pursuit of commercial success by Canadian companies and investors' (GoC 2013). Extractive industries represent powerful Canadian business groups; over 75 per cent of global mining and exploration companies are based in Canada (DFAIT 2009). These companies are heavily invested in Latin America, with substantial exploration in countries like Mexico, Chile, Peru, and Colombia (countries that are initial members in the Pacific Alliance and also countries with which Canada has free trade agreements and investment treaties). They are members of industry associations, such as the Prospectors and Developers Association of Canada (PDAC), which are considered

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some of the country's most influential lobbyists (Shane and Foster 2013). Industry positions have been taken up by government officials who equate the financial prospects of such companies to an imagined 'national interest'. Joe Oliver, the former Minister of Natural Resources, epitomized the extractivist ideology when he stated that 'the resource sector is the cornerstone of our economy, our long-term prosperity and our quality of life' (Oliver 2012). This mentality extends across borders into Latin America, where Canadian investment in mining represented over 60 per cent of the regional total in 2010 (North-South Institute 2014). The region's significance for mining companies continues to grow, with Latin America being the top region for exploration spending in 2012 (SNL 2013). Total Canadian mining assets abroad reached US$146.2 billion in 2011 with more than half of that going to Latin America and the Caribbean (SELA 2013).

Canada's engagement with Latin American governments is oriented to create ideal conditions for Canadian extractive investment, with federal departments and agencies providing political, financial, and moral support. Embassies provide diplomatic support for Canadian businesses, lobby, and facilitate high-level meetings. In Honduras, the embassy organized meetings between Canadian corporations and Honduran officials on mining and corporate social responsibility (CSR) policies, and arranged for Honduran officials to attend the annual PDAC conference and trade show in Toronto (Moore 2012). Export Development Canada (EDC) provided a total of US$4 billion financial support in 2008 for Canadian extractive industries operating in Latin America (Blackwood and Stewart 2012, p. 232). For all regions in 2008, EDC facilitated US$27.4 billion of exports and investments in the extractive sector (PDAC 2009a). The indirect support is even larger, as EDC financial guarantees help companies obtain loans from private financial institutions. Although EDC is a Crown corporation (state agency), it is secretive about its operations, including its criteria for choosing projects and what ethical standards those projects should meet (Denault and Sacher 2012).

The new Department of Foreign Affairs, Trade and Development (DFATD) helps lay the groundwork for the industry's operations abroad through favourable policy frameworks such as free trade agreements and bilateral investment treaties (labelled Foreign Investment Protection Agreements, or FIPAs). These agreements contain provisions such as equal treatment of foreign and national firms, guaranteed repatriation of profits, and the prohibition of direct or indirect expropriation without compensation (CCIC 2009). The latter has been interpreted to include lost potential profits due to regulatory changes. Investment

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treaties secure investor rights and embed them in both national and international law, even when these 'rights' come into conflict with legitimate and legally recognized human rights, such as indigenous rights, access to water, and a clean environment. The dispute settlement mechanism that the Canadian government includes in these agreements allows foreign companies to lodge multimillion dollar lawsuits against Latin American countries. For example, the Canadian company Infinito Gold sued Costa Rica for US$1 billion (since lowered to US$94 million) through the Canada–Costa Rica bilateral investment treaty and, as of February 2014, is seeking arbitration through the dispute settlement body of the World Bank (MiningWatch 2014). The firm's operations were stopped after a change to the country's mining code banned open-pit mining in 2010.

While in this case the amendment to the mining code limited mining operations, there are numerous examples throughout the region where Canadian officials have worked to ensure that mining codes are favourable to Canadian businesses. This is often framed as capacity building and provision of technical and financial support for amenable governments. The Canadian government provided over US$10 million to improve the capacity of Colombian government ministries, alongside technical support for redrafting mining legislation (Denault and Sacher 2012, p. 40). The results of these interventions, in the form of stronger safeguards for investment, lower royalty rates, and weaker environmental and labour standards, are advantageous for foreign investors at the expense of workers, local communities, and host governments (Blackwood and Stewart 2012). Similarly, Canadian officials arranged for Canadians to provide technical advice for the new Honduran mining legislation, which has been criticized for prioritizing industrial water needs, streamlining the approval processes, and failing to require community consultation (Moore 2012). In Argentina, Canadian officials have quietly supported Barrick Gold's efforts to obstruct the country's Glacier Act, enacted to protect precious mountain glacial water from mining operations (Grinspun 2013). By working behind the scenes, Canadian officials can truthfully state that Canadian companies are following foreign laws, while conveniently omitting who is shaping these laws and, most importantly, in whose interest.

The government agency that has received the most attention in recent years for its promotion of Canadian mining is the Canadian International Development Agency (CIDA), which was merged into DFATD in 2013. This agency was responsible for providing development

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aid and was traditionally mandated to focus its efforts on poverty reduction. Under the Conservative government, CIDA was retasked with fostering economic growth through the development of the private sector, with a particular focus on extractive industries. According to Julian Fantino (2012), then Minister of International Cooperation, supporting the private sector did not necessarily mean fostering local businesses and employment, but instead 'opportunities for Canadian businesses that work in foreign markets'. The minister explicitly linked CIDA's work in shaping the legislation of foreign countries and building the capacity of their regulatory agencies with opportunities and stability for Canadian businesses operating abroad (Fantino 2012). Prior to PDAC's 2013 conference, CIDA held a day-long workshop with mining executives devoted to the topic of 'Maximizing the Value of Extractives for Development'. The baseline assumption of the forum was that Canadian mining companies act ethically and are beneficial for local communities. Blackwood and Stewart (2012) rightly questioned how a strategy for promoting Canadian companies, particularly those with poor human rights records and community relations, was compatible with CIDA's legislated mandate to reduce poverty, listen to the perspectives of the poor, and follow international human rights standards. The disbanding of CIDA and its reappearance as a development section within DFTAD does not represent a radical departure but rather an entrenchment of earlier policy direction. Rather than refocusing on its poverty mandate, the government is formalizing its new role as a promoter of Canadian industry (McLeod Group 2013).

Many of CIDA's (now DFATD's) recent projects and programmes are framed around the extractive sector; this is evident by browsing the projects CIDA has funded in Latin America. In Peru, most of the projects that started since 2010 focus on areas such as preventing community conflicts, managing mining and energy revenues, and enhancing the impact of extractive industries. This contrasts markedly with projects prior to 2010 that emphasized education and training, cultural recovery, as well as water and sanitation (DFATD 2014). One key exception is the Peru–Canada Mineral Resources Reform Project (PERCAN) started in 2002 which helped the Ministry of Energy and Mines move to digital systems, reduce the time to process reports from companies, streamline the approval of mining certificates, and adapt regulations on mining emissions (CIDA 2013). It benefits Canadian mining companies by providing clear processes as well as quick approvals; but very few details and information on other impacts are publicly available.

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Besides working with host governments, CIDA worked directly with Canadian mining companies to fund social and environmental projects. CIDA committed US$20 million for the 'Andean Regional Initiative' in Colombia, Peru, and Bolivia to 'strengthen the capacity of local governments and communities' and 'improve dialogue between communities and the private sector' (CIDA 2011). Also in 2011, CIDA launched pilot projects in three sites in partnership with Devonshire Initiative[2] NGOs and Canadian mining companies (CIDA 2011). In Peru, CIDA (now as DFATD) is working with World Vision and Barrick Gold. The Canadian government is contributing US$500,000 while the other two parties are contributing an additional US$500,000 combined. In Burkina Faso, Canada is financially contributing nearly six times as much as its industry partner, Iamgold (CIDA 2011). Coumans (2012) argues that the Canadian government is essentially subsidizing global mining companies, and there is no transparency on how these sites were chosen or whether community consent is a factor. However, this represents a major reputational risk for the Canadian government and its NGO partners if the mining companies are found to engage in unacceptable practices. As we see next, these practices are far too common.

The Canadian government provides material and ideological support for the mining industry and also fends off calls for greater regulation. There is also little help from the legal system; several lawsuits launched in Canadian courts by Latin American communities harmed by mining have failed to provide relief (North and Young 2013). There have been several attempts in recent years to hold mining companies accountable for their actions abroad and to induce better corporate behaviour through legislation. Bill C-300, a private opposition member's bill, advanced the furthest. It aimed to create a ministerial review process to deal with foreign complaints and to impose ethical criteria for companies to follow in order to receive support from Canadian agencies like CIDA, EDC, and the Canadian Pension Plan.[3] Bill C-300 was strongly lobbied against by industry associations, despite being what Denault and Sacher (2012, p. 80) term 'an extraordinarily timid piece of legislation', and was defeated in 2010. Another bill tabled by the opposition, Bill C-323, takes a different approach and aims to amend the Federal Courts Act to hold Canadian citizens and corporations accountable to Canadian laws when operating abroad (Denault and Sacher 2012, p. 80). This would be similar to the Alien Tort Claims Act in the United States and would allow foreigners to sue Canadian companies for human rights abuses committed outside of Canada. Under a Conservative majority, this Bill has gone nowhere.[4] The authors of these bills recognized that voluntary

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commitments are not sufficient in the areas of environmental degradation and human rights abuses.

Nevertheless, the Conservative government and industry associations prefer a voluntary approach to CSR. In a 2009 newsletter, PDAC suggested that the answer to better practices is more collaborative work, industry-designed guidelines, and strengthening the capacities of host governments. The article came out strongly against Bill C-300, deeming it 'punitive' and risky for the reputations of mining companies. PDAC considers such legislation '"unnecessary" because of the progress made in CSR over the past few years' (PDAC 2009b). However, a report commissioned by PDAC in the same year directly contradicts this assertion. The leaked report by the Canadian Centre for the Study of Resource Conflict found that Canadian companies have been involved in 'more than one in three incidents that have occurred in the developing world in the last ten years' (CCSRC 2009). Poor community relations were involved in 60 per cent of these incidents. The report states that while most Canadian companies produce annual CSR reports, these are usually short in content, often produced after a scandal has occurred, and lack independent auditing. Overall, the study concludes that the evidence depicts a 'less than ideal picture of CSR in the Canadian extractive sector' (CCSRC 2009, p. 16).

One example is the Canadian company Barrick Gold, which selectively boasts about its inclusion on investor sustainability indexes, such as the Dow Jones Sustainability World Index, while facing severe allegations over its human rights and environmental records in countries such as Argentina, Tanzania, Papua New Guinea, and Chile (Grinspun 2013, Protest Barrick 2013). Coumans (2012), in her work with MiningWatch Canada, argued to a House of Commons committee that regulations are necessary to hold Canadian corporations accountable for their poor performance. Self-regulation is not effective. Despite such reports as well as testimonies from negatively impacted communities, the Canadian government continues to promote a voluntary approach for extractive industries.

All these actions by the Canadian government are fostering relations with Latin American governments that revolve around resource extraction and the interests of Canadian companies. While the staples literature once portrayed Canada as the victim of foreign companies and British and American power, the Canadian government and Canadian companies are now contributing to the entrenchment of the staples trap in Latin American countries. We conclude with remarks on how those bilateral relations fit within the current political and economic context in the region.

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Canada and the extractivist resurgence in Latin America

In the 2000s, which witnessed high global commodity prices coupled with the rejection of various aspects of neoliberalism in some countries and the continuation of those policies in others, the evolution of extraction in the Americas has led to contradictory developments. In Canada, the Harper government, in power since 2006, deepened an extractivist orientation initiated under earlier Liberal governments and reversed previous attempts to foster a more diverse economy. Canada is undergoing a process of structural change and deindustrialization, with the dynamic sectors centred on primary goods, but with a broader mix of resource exports than in the past (Stanford 2008, Drache 2009). Opposition parties and some parts of civil society are advocating for a more inclusive model of resource extraction with stronger regulations and better monitoring, without necessarily calling for an end to extractive activities (Pembina Institute 2014). Similarly, in many Latin American countries, governments have come to power that continue with the extractivist model of their predecessors, while differentiating their policies through greater wealth distribution, higher royalty rates, and a tougher stance, sometimes rhetorical and sometimes tangible, towards foreign companies and governments. The implications of these transformations for equity, democracy, and sustainability in the region deserve intense scrutiny (Veltmeyer and Petras 2014).

The crucial difference between neoliberal extractivism and neo-extractivism is the more prominent role of the state in the latter (while by no means absent in the former). State intervention takes a variety of degrees and forms, a common feature being a larger appropriation of the rents from extraction. In the Bolivian case, strong intervention in the hydrocarbon sector has taken the form of renegotiation of contracts, dramatically raised taxes, and boosting the state petroleum business. More market-friendly policies in Brazil have included strategic energy investments supported by the Brazilian Development Bank (BNDES), as well as increasing the state's ownership share in Petrobras, the oil and energy mammoth that is the largest enterprise in Latin America (Gudynas 2010).

An important consequence of a prominent state role is broader legitimacy for extractivism, as governments extol the social benefits of larger fiscal revenues, and the advancement of broader developmental goals through larger control over the industry. Such was the case with former president Luiz Inacio Lula da Silva arguing that 'Brazil is relying on the country's oil wealth to help raise the nation's 192 million people out

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of poverty', and asking 'Vale SA, the world's largest iron ore company, to invest in steelmaking plants in Brazil instead of sending iron ore abroad' (Millard 2010). Even among left critics of extractivism, the substantial social investment that happened in Venezuela under the Hugo Chávez administration, which would not have been possible without oil revenues, brings second thoughts about the potential benefits of neo-extractivism (Ismi 2013). Others suggest that, from an ecological perspective, there is benefit to increased state control over resources, as one may expect a slower rate of extraction. As more resources, in particular hydrocarbons, stay in the ground, for a longer period of time, there are benefits to the environment; such is the case with the nationalization of Exxon in Venezuela (Weisbrot 2012).

Still, contradictions abound, and the government of Ollanta Humala in Peru provides an apt example. In the 2011 elections, Humala campaigned on raising the revenues that Peru receives from intensive extraction and on defending the rights of communities in opposition to these projects. Once elected, Humala did negotiate with the companies to raise taxes and royalties in the mining sector (Reuters 2011). However, by capitulating to rates that the companies found acceptable, Humala ensured Peru still had some of the lowest mining taxes in the region to continue to attract foreign investment. He also continues to use police oppression like his predecessor against communities protesting mining projects (ENS 2012).

The stances towards foreign resource companies vary among Latin American governments, with Bolivia and Venezuela likely taking the strongest position. The Chávez administration in Venezuela was well known for its nationalist stance towards foreign investors and its willingness to expropriate foreign assets that are not considered to be supporting the national interest. Governments in Venezuela, Bolivia, and Ecuador have also spoken against free trade agreements and investment treaties pushed by countries such as Canada to weaken state sovereignty and facilitate foreign investment. These positions have been at odds with the interests of Canadian extractive companies, and therefore also the Canadian government. However, this conflict has not been as evident in the case of other Latin American governments.

The analysis of neo-extractivism in Latin America suggests there may be an odd coming together of dissonant partners: the conservative Canadian government and Canadian extractive companies, on the one side, and neo-extractivist governments in Latin America, on the other. Canada's extractivist drive seems to be facing fewer tensions than expected, at least in regard to the milder forms of neo-extractivism.

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Particularly in the case of mining, even left-leaning governments are pursuing market-friendly approaches and enticing foreign investors with great zeal. This is the situation in Argentina under Nestor Kirschner and now Cristina Fernandez, in a country that has seen huge growth in Canadian mining activity, including Barrick Gold's transborder Pascua Lama Project. The governments of Canada and Argentina publicly emphasize the importance of mining and share the vision of progress embodied in the extraction process, while limiting environmental laws that could disrupt that process.

However, what is challenging in analysing these developments is that policy-making and categories are not clear cut – one cannot really refer to the Fernandez government as neoliberal in the traditional sense. For example, on the one hand, by nationalizing the assets of the Spanish oil firm Repsol (Bronstein 2012), Cristina Fernandez has demonstrated that her government expects projects to be managed in a way that maximizes government revenue and production. On the other hand, the conservative government of the then Chilean president Sebastián Piñera across the border, not known for its progressive politics, fined Barrick Gold over its Pascua Lama project and subsequently suspended the project until environmental violations are fixed (Dakin 2013). It is noteworthy that Barrick does not face the same level of resistance to this project on the Argentinian side. In summary, there is no simple relationship between political orientation and extractivism in Latin America, nor a simple pattern linking these to Canadian interests in the region.

The pragmatism in these north–south links reflects the moderation in much of the relevant national policies. While many governments in Latin America have negotiated better terms with foreign companies, these terms are often incremental improvements. Companies often willingly agree to these increases in royalty and tax rates in exchange for continued access to resources and the increasingly crucial social licence to operate. Neo-extractivist governments may have more legitimacy in arguing for the financial benefits of extraction by foreign companies given that, as mentioned, these governments have done more to share the wealth among their citizens than previous neoliberal governments. However, this legitimacy only extends so far. Social mobilization continues against resource extraction and faces subsequent repression in more traditional extractivist countries like Guatemala and Peru, but also in neo-extractivist countries like Ecuador, where some indigenous groups are furious that President

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Correa is auctioning off concessions in the Amazonian rainforest to Chinese oil firms (Amazon Watch 2013).[5]

While neo-extractivist governments are collecting greater resource rents and substantially increasing social spending, the underlying structure of their extractive economies and the concentration of foreign capital in these countries largely remain unchanged. In response to community resistance, neo-extractivist governments have mobilized military and police forces against their citizens to defend the assets of Canadian mining companies. In this sense there is an economic alliance between extractivist governments in Latin America and the Canadian government where both parties are defending the rights of Canadian extractive capital. This is not the place where we can expand on the analysis of what this means in different cases; the circumstances and politics of each country are very unique (Grinspun et al. 2014). However, what is clear is that this model of extractivism, whether older or newer, is unsustainable at many levels and cannot be the answer to the long-term, inclusive well-being of citizens throughout the Americas.

Notes

1 The authors acknowledge useful feedback from Gavin Fridell and Kate Ervine on an earlier draft.
2 An initiative that seeks industry/NGO collaboration in regard to Canadian mining companies operating overseas. It is co-chaired by a PDAC officer (DI 2014).
3 Rather than creating an ombudsperson position with power, the Harper government created a CSR office that cannot compel companies to participate in mediation with aggrieved parties.
4 The third one is Bill C-438, introduced by a Bloc Quebecois MP.
5 Interestingly, this may relate to the fact that Ecuador is heavily indebted to China, which reminds one of an earlier phase of extractivism in the 1980s when indebtedness to the IMF forced greater resource extraction.

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9

The Commodities Boom in South America: A Case of Regressive Restructuring?

James M. Cypher

From the primary export model to import substitution industrialization to neoliberalism

In the late 19th century, the Second Industrial Revolution in Europe and the United States drove up demand for raw material exports from South America. This resulted in the creation of enclave economies across much of the region without many backward or forward linkages.[1] Thus when demand collapsed for primary exports in the Great Depression (1929–1940), the region was left without a growth pole. A formalized theoretical critique of Latin America's primary export model was developed by Raúl Prebisch and Hans Singer in the late 1940s (Bértola and Ocampo 2012: 25–28). They demonstrated that raw material export-based economies were destined to confront both sharply falling export prices (due to overproduction, the substitution of synthetic products for raw materials and declining income elasticity of demand for many primary products) *and* increasing long-term prices for imported manufactured goods from industrialized nations. A solution to this structural situation of falling terms of trade (TOT) can be found – but not through a laissez-faire approach that would rely on price information and 'market forces' to redirect the national production base of a nation.

It is the hypothesis of this chapter that South America's latest commodity boom – wherein the terms of trade dramatically improved – actually confirms, rather than contradicts, the Prebisch-Singer (PS) hypothesis. This conclusion is fully evident when considered in light of a historically contextualized, *augmented* PS hypothesis – which takes into account recent research on the rise in the volatility of commodity prices, as discussed below.

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From the 1930s, national projects of state-led development were quickly improvised in an effort to create an autonomous industrial base. These policies are erroneously recalled as 'import substitution industrialisation' (ISI), suggesting that the massive transformations sweeping South America consisted of a mechanical focus on the elimination of the importation of consumer goods. In fact, complex 'industrial policies' (IP) were broadly adopted to promote, deepen and diversify internal markets (Bértola and Ocampo 2012: 138–197). This became the central focus of the *developmentalist coalition* – thereby inverting the export-led structures that had endured for centuries. During this relatively brief interlude (the 1930s into the 1970s) state-led projects registered major, unprecedented, socioeconomic improvements as recorded by the Human Development Index in terms of rising levels of education, declines in infant mortality, lengthening of life expectancy and rising standards of income as measured by average per capita income (pci) (Astorga et al. 2003: 30; Thorp 1998: 357–361). '[The] region achieve[d] the highest rates of GDP growth and productivity in its history' (Bértola and Ocampo 2012: 189).

The turn towards state-led development, or *developmentalism*, met with major opposition from those whose interests had been well served under the export-led structure. Now, under the state-led project, a broad range of beneficiaries were included – to varying degrees – in the socioeconomic mechanism that distributed a rapidly growing National Income. By design, these new elements entailed, in particular, the organized working class, and an emerging 'middle class' of professionals, whose existence was required to operate and manage the new systems of production and the public infrastructure constructed as their necessary compliment. As the new structure rapidly advanced, elements of the now superseded power structure – those who had dominated through their control of mercantile activities, the large landholders and the owners of national financial capital – who had prospered under an asymmetrical alliance with foreign capital during the era of the 'primary export model' adapted, assimilated and bided their time. The major intellectual proponents of the state-led process were unable to balance the advances in the industrial structure with policies that would conclusively curb the power of this traditional national power bloc.

In Asia the state-led development project in the post–World War II era consolidated because the preceding power bloc suffered a categorical defeat due to widespread land reform which undercut the material and political basis of the elite of the export-led era (Kay 2002). In contrast, in

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Latin America the retrograde elements of the export-led era assimilated with the new dynamic through complex processes of metamorphosis while simultaneously guarding forms and spaces of ideological resistance and autonomy. In some instances, such as Argentina, state-led developmentalist policies failed to solidify due to the ability of the *ancient regime* to successfully exploit internal power struggles which inherently arose as programmes of structural change were initiated, but never consolidated (Sikkink 1991: 72–121). These intrinsic contradictions were eventually resolved, via a series of military coups, beginning in Brazil in the 1960s and sweeping the Southern Cone in the 1970s. The coups originated through initiatives of the old power structure which had always maintained a strong operational and ideological relationship with the (untouchable) military caste. As well, they drew on the insurgence and transference of the emerging neoliberal nucleus emanating from the Mont Pèlerin Society, principally through programmes designed at the University of Chicago intended to undermine and transform 'collectivist projects', including especially the ideologically threatening project of 'developmentalism' in Latin America (Fischer 2009; Mirowski 2013; Plehwe 2009). This neoliberal ideological thrust gained broad acceptance through the apparatuses of the US state which orchestrated the policies of the International Financial Institutions (IFI), by way of the following:

1. *Hard power* entailing large flows in military assistance funds that were extremely fungible – thereby extending their influence well beyond the well-placed officers of the military caste – as well as strategically important, ideologically charged officer training programmes designed to support programmes of destabilization of the state-led regimes.
2. *Soft power* via the cultural offices of US embassies offering scholarships for promising university students where 'new' ideas could be assimilated, as well as a range of AID programmes, including the Peace Corp from the 1960s. The 'Chicago Boys' specious plan, eventually adopted as national economic policy in Chile shortly after the 1973 coup, was underwritten through a long-term programme offering graduate scholarships for Chilean economics students at the University of Chicago, where A. Harberger and his neoliberal colleagues could intensely socialize an ambitious cadre regarding the alleged powers of the 'free' market to organize all human affairs relating to national economic organization, production and distribution (Fischer 2009; Valdés 1995).

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3. *Financial power* through US dominance of the World Bank (WB), the International Monetary Fund (IMF) and the Inter-American Development Bank (IDB) – as well as through the surging economic power of large US mining and manufacturing corporations – which involved the following:
   a. Programmes of 'conditionality' and 'austerity' – as implemented through short-term IMF loans – imposed 'correct', free-market national economic policies in total opposition to the methods and objectives of the nationalist policymakers who had designed and implemented state-led projects of national accumulation.
   b. Long-term 'project loans' funded by the WB and IDB were designed primarily to redirect major infrastructure projects to service the interests of transnational capital (Payer 1982).
   c. US transnational corporations tended to concentrate in emerging 'strategic' sectors – such as auto assembly. Ironically, these were the sectors that received subsidies from the state-led programmes designed to build a base for autonomous manufacturing. The rapid emergence of US-owned manufacturing firms throughout much of South America resulted in new industrialist organizations and pressure groups. They mounted policy initiatives designed to oppose nationalist programmes that delimited the operative 'degrees of freedom' of foreign capital – such as laws restricting majority foreign ownership, or those that restricted participation in key sectors to national capital or to state-owned firms, or policies that inhibited the inflow of cheaper inputs (parts and components, capital goods, etc.) or national content legislation.

In essence, this brief interlude (1930s–1970s) entailed *both* the realization of broad-based advances in a range of objective socioeconomic categories *and* eventual re-emergence of a range of factors and forces that would fuse into a determinate countertendency. Revanchist elements were able to ride the crest of a neoliberal tidal wave that would eventually crash upon those who had engineered an apparent socioeconomic transformation through state-led development strategies.

For those many nations who were not pulled down via the undertow of the military coups, it was the Third World debt crisis that imposed neoliberalism, dismantling the national productive apparatus through forced reorientation to export production (Cypher 1989). In Latin America, the ratio of exports plus imports divided by GDP, or the 'trade ratio', rose from 28.6 per cent in 1990 to 38.5 per cent in 2000,

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and then to 44.7 per cent in 2010 (de Medieros 2012: 33). In 2007, Argentina, Bolivia, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay and Venezuela were all classified as 'commodity exporters' with more than 51 per cent of exports in commodities – and by 2010 even Brazil had also been so classified (Cavalcanti et al. 2012: 38; De Negri and Varela 2011: 8). Thus, when commodities prices rose from 2002, so did the region's economic performance (e.g. Peru's real pci leaped by two-thirds, during 2002–2012). But given the historical data on declining TOT for commodity producers (discussed below), does this commodities boom represent a way forward or a step backward?

The commodity boom of the 21st century

This boom is commonly attributed to China's entry into the World Trade Organization in 2001 – which allowed a surge in Chinese exports, raising China's demand for primary commodities (as industrial inputs) and foodstuffs for a large population experiencing increased incomes. In 2000, China's commodity imports were only $60 billion; thereafter they soared to $380 billion in 2008 and $460 in 2010 (Akyüz 2012: 19). Despite the outbreak of the financial crisis in 2007–2008, the commodity boom did not lose too much momentum until 2012 (see Table 9.1). China's urbanization and industrialization, along with rapid growth in India and several other Asian nations, drove the demand for South America's commodities exports.

The boom was reflected in the price index for all commodities, which soared from 66 in 2002 to 160 in 2008. Then the index plunged to 115 in 2009 – reflecting the impact of the 2008 crisis. However, an explosive rebound, in part reflecting China's growth (10.3 per cent in 2010 and 9.2 per cent in 2011), drove the commodities index to its maximum in the third quarter of 2011 (United Nations 2013, Table 1.1). Nonetheless, the great commodities boom has, apparently, ended – as signified by the two-year decline of 20 per cent in the commodity index, from 2011 to 2013 (Table 9.1).

By mid-September of 2013, the commodities index of the *Economist*, adjusted for inflation, had fallen by nearly one-third.[2] China, the 'locomotive' of the commodities boom, experienced a growth slowdown at a moment when cumulative supply leaps had outpaced demand growth for most commodities (Bradsher 2012: B1). Thus, while the consumer-oriented composition of China's import demand will rise for luxury foodstuffs, overall commodity imports (once sustained by an infrastructure

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Table 9.1 Index of commodity prices: 18 September 2011–18 September 2013 (2005 = 100)

Products	2011–2012 (% change)	2012–2013 (% change)	Total (% change)
All primary products (*excluding petroleum*)	–2.9%	–16.8%	–19.7%
Food items	+4.6	–20.6	–16.0
Industrial products	–12.2	–11.2	–23.4
Metals	–5.0	–14.9	–19.9
Petroleum (WTI[a])	+10.4	+10.4	+20.8
Real price for all primary products in emerging and developing nations	–9.25	–22.8	–32.1

[a]West Texas Intermediate

Sources: *The Economist* (22 September 2012: 105; 21 September 2013: 101); IMF (2013: Table 1).

boom) will decline since growing excess capacity has become critical (Bradsher and Duhigg 2012: A1, A10–A11; Roberts 2013). These entropic forces have been reinforced by an even stronger slowdown of the Indian economy – real growth fell from an annual average of 8.2 per cent, during 2004–2011, to less than one-half of that in the following two years (World Bank 2014).

The Prebisch-Singer thesis

Extensive historical data from 1862 to 2012 has confirmed the PS hypothesis of a secular decline in TOT between nations of the periphery and those of the industrial core. Between 1862 and 1999, for example, a given quantity of exported primary commodities lost 80 per cent of their value in terms of their ability to purchase imports, with a median trend of long-term falling prices at the rate of *minus* 2.0 per cent per year from 1862 through 1999 (Cashin and McDermott 2002: 183, 186). Alternatively, for a commodity producer in Latin America, the purchase of a constant quantity of imported manufactured products from 1862 to 1999 required a *fivefold increase in the quantity of commodity exports*. The short-term commodity boom (2002–late 2011) momentarily suspended the PS hypothesis, particularly for nations exporting petroleum and minerals. In spite of these changes that overcame a dramatic decline in TOT from 1980 to 2002, the *average* real price for all commodities during the peak of the boom merely approximated levels that had been reached *in the 1960s* (UNDP 2011: 63).

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Volatility

As recorded in column 2 of Table 9.2, the all-commodities index is extremely volatile – rising by 142 per cent from 2002 to 2008, falling by 28 per cent from 2008 to 2009, and then rising again by 62 per cent from 2009 to 2011. Continued confirmation of the PS hypothesis (Erten and Ocampo 2012) has been overshadowed by recent research emphasizing the additional negative impact of *price volatility* as the primary reason for abandoning path-dependent specializations in commodity exports. Table 9.2 demonstrates the extremely high degree of volatility for all commodities, and for three major categories of commodities, since 1995. It is important to note that there has been a substantial *increase* in volatility over the past 40 years (Cashin and McDermott 2002).

Table 9.3, summarizes results from an *augmented (or combined) approach* to the PS hypothesis, highlighting four recent studies that have asserted that the impact of price volatility is *greater than* the impact of the long-term secular (negative) trend in the TOT.

In the four studies referenced in Table 9.3, there are two consistent conclusions that transcend any particular time period and span studies undertaken for a broad number of commodity producing nations (62 in the case of the research conducted by Cavalcanti et al. 2012). First, the PS hypothesis is strongly confirmed in all three studies that measured a TOT trend. Second, the *short-term* volatility of prices, such as those included in Table 9.1, exerts a *greater adverse* effect on economic growth than does the negative trend in the TOT. In the UNDP (United Nations Development Programme) study, this result is asserted, and appears well supported by a mass of data on price variations, and is

Table 9.2 Short-term price instability[a] of commodities, 1995–2010 percentage change per month (absolute values)

Commodity classification	1990–1999	2000–2009	1995–2010
Foodstuffs	9	25	20
Minerals and metals	17	40	34
Petroleum products	31	28	31
All commodities	9[b]	26	22

Source: Data from UNDP (2011: 63).
[a] Instability is the percentage deviation of the variables concerned from their exponential trend levels for a given month (UNDP 2011: 75).
[b] The 'All commodities' index is not equal to the sum of the three classifications (Foodstuffs, Minerals and metals, and Petroleum products) because non-food agricultural commodities (hides, wool, cotton, etc.) are not included in the above table.

Table 9.3 Terms of trade trend and volatility

Research source	**Time period**	**TOT or price trend (in %)**	**Volatility**
UNDP (2011)	1960–2003	–1.2 annually (all commodity prices)	Volatility effect > TOT effect
Cashin and McDermott (2002)	1862–1999	–1.2 average annually	Volatility effect > TOT effect
	1917–1999	–2.3 average annually (industrial commodities)	
Cavalcanti et al. (2012)	1970–2005	No estimate	Volatility effect > TOT effect
Blattman et al. (2004)	1870–1939 (1910–1919 excluded)	–0.49 annually (all commodity prices)	Volatility effect > TOT effect

consistent with one of their major findings: 'Examining economic growth rates for developing economies against the annual rate of change of commodity prices for the period 1995–2009 finds an 87 percent correlation between the two variables' (UNDP 2011: 68) This study also found that 'volatility has been increasing sharply – by 175 percent from one decade (1990–2000) to the next (2000–2009) – evidence that commodity-dependent countries are becoming even more susceptible to price shocks' (UNDP 2011: 59).

In the remaining studies, econometric tests (sometimes of great complexity) are utilized to confirm that the volatility effect is greater than the TOT effect. The most intricate and broadest study was undertaken by the IMF, conducted by Cavalcanti et al., using national data for two large contrasting samples (commodity producer nations vs non-commodity producers) for 118 nations. Their major innovation is to *combine* a measure for the TOT trend with another calculating its volatility which generates the estimated impact of these two variables on the growth of real pci. Their conclusion is that an increase of one unit in this measure results in an overall decline of 0.3 per cent in pci over five years (Cavalcanti et al. 2012: 19–20). A similar result was found in Blattman et al.'s study, where a modest two-digit *reduction* in the volatility measure of the TOT (the standard deviation) would have resulted in an estimated 20 per cent increase in the growth rate of pci (Blattman et al. 2004: 16–20). The Cashin and McDermott study stressed that 'within-sample trends in commodity prices are completely overwhelmed by the observed variance of price movements' (Cashin and McDermott 2002: 196).

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High volatility has numerous nefarious effects: moments of booming prices tend to lead to excessive, unsustainable, investments. These investments are subject to *the fallacy of composition problem* – numerous nations simultaneously try to capture fleeting resource rents through rapid increases in production capacity. On a per-country (or per-firm) basis, such investments appear to be sound. But, over a time period sufficient to allow the *collective* increase in capacity to be put into operation, the booms become reliable predictors of a worldwide collapse in many commodity prices, due to excess capacity. Such violent surges in production capacity produce widespread 'collateral' damage in terms of financial failures in the credit system, supplier bankruptcies, unemployment, migration, lowered export earnings and reduced fiscal revenues, as well as declines in the rate of growth of the GDP and pci.

Contextualization: Short-term versus long-term, terms of trade decline versus volatility

While the forceful results of this mass of research must be recognized, and the importance of volatility as a reason for advocating a restructuring of the production system *away from commodity production* has been strongly confirmed, it is not necessarily the case that the adverse effect of the negative trend in the TOT variable is any less important than is that of volatility. The studies reviewed above compare an annual negative TOT trend of slightly more than 1 per cent per year, against volatility measures based on absolute price swings of perhaps 20 per cent per year, *over a five-year* (or somewhat longer) period. Using this assumption, it might well be the case that a producer, or a nation, operating under neoclassical behavioural conditions pertaining to a small, competitive Marshallian firm, would find it economically advantageous to 'shift resources' to 'other uses'. However, in a non-neoclassical world, embedded in a historically specific context such as that which has existed in many Latin American nations at least since the 19th century, 'committed' resources invested in plantations, fazendas, haciendas and estancias as well as in mining, petroleum extraction and timber operations entail massive fixed costs that can be recovered only over a long period of time. Thus the frame of reference is *not* five years or ten, but, perhaps forty or fifty. These conditions apply regardless of ownership – state or private sector. Under prevailing conditions of enormous 'sunk costs' in indivisible assets – that have no opportunity cost – a commodity producer might well be *more adversely* impacted by a 2.5 year increase of

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20 per cent in commodity prices above a certain baseline, followed by a 2.5 year decline of 30 per cent, from the baseline, than by the modest annual long-term decline in TOT.

However, commodity producers do not face a series of discrete five-year periods. Nor would they necessarily be operating a standard rising-average-cost operation, due to economies of scale. Nor would their total unit costs necessarily be close to their unit market price – the profit margin might well be ample. Producers might have the option of substantially increasing production during the 2.5 years of low prices, and such a tactic might lower total unit costs by spreading sunken capital costs over greater volume of output. What is missing from the econometric studies referenced in Table 9.2, then, is *historical context*. Such context might well include power variables that defy neoclassical modelling – such as the institutionalization of land-holder status. There is also an extant 'culture' to consider – 'oilmen', for example, appear undeterred by price collapses, and realize outsized returns from short oil booms. This also applies across all categories of well-established commodity producers, including giant mining TNCs (Transnational Corporations). In short, a wide range of commodity producers operate in a *path-dependent, historically determined context*. Others may have more fungible assets, but all have to face the reality of the *lock-in effect* in commodity production: bad conditions in one commodity are normally part of a larger, universal, situation. Unlike the neoclassical model of fungible assets and unlimited opportunities for the redirection of capital, commodity producers have area-specific knowledge, which impedes exit from commodity production. Hence, under these conditions, where operations can easily proceed for 40 or 50 years, it might well be that the TOT effect is greater than the volatility effect. In Chile, major copper mines, such as the El Teniente Mine – the largest underground copper mine in the world – have been in operation for over 100 years. Elite Chilean business associations understand very well the validity of the PS hypothesis; yet they consciously continue to emphasize resource-intensive activities because of the extremely large economic rents they reap during price surges. During price collapses these rents can be diverted to the financial sector, generating another stream of earnings, while owners essentially wait for the next boom. Thus, the aggressive tone of the neoclassical microeconomic-based critiques in the IMF studies do not either undermine the salience of the PS hypothesis or advance understanding regarding the structural *persistence problem* of commodity-based export nations.

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Staples trap versus staples thesis

The staples trap hypothesis, loosely interpreted and *stylistically presented below*, analyses the entropic tendencies of a resource- and export-based national economic production system (Watkins 1977). The nation confronts a significant long-term decline in TOT and debilitating, volatile commodity price swings. Major enclaves of modern extraction production (mines and oilfields) are likely foreign-owned. There is a low tendency to reinvest due to the desire to repatriate profits and also due to the large (indivisible) sunken costs of expansion. Periodic bouts of excess capacity further deter reinvestment. Aside from intermittent moments of upgrading, technological change rarely occurs. Production takes place under conditions of unlimited supplies of labour resulting in extremely low wages and, therefore, a small internal market restricted to the most basic goods. Reinvestment is also low because national commodity owners (particularly landholders) operate in structurally limited sectors. Investment and reinvestment are also low because of the petty merchant nature of the financial structure which allows for the extension of credit only under the most usurious conditions – usually for short-term purposes relating to export/import activities. The national elite, as Kaldor meticulously demonstrated in the case of Chile, has a very high propensity to consume and to import luxuries and an extremely low propensity to save and invest (Palma and Marcel 1989: 250–253). Finally, the endogenous economy suffers from a near total absence of the positive impulses to be derived by a variety of Hirschman-style linkage effects (Hirschman 1977). Pervasive low state capacity combined with a ubiquitous rentier perspective determines that there are no social forces to build and nurture endogenous technological capacities. Consequently, given this interactive matrix of forces and tendencies, such a nation will *lock-in* to commodity-based production, suffering the cyclical effects of extreme volatility and the structural effects of long-term declining TOT. Short periods of intense growth are possible, but since the structure is fundamentally unchanged, the economy is incapable of shifting to self-reinforcing processes that would be conducive to sustained and significant long-term growth in pci. Most South American nations today operate within the broad confines of this stylized structure.

The staples thesis

There are numerous examples of the ephemeral effects of the many commodities booms experienced in Latin America, but the contrast between

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those nations that have managed to turn such booms to advantage and the passivity that has prevailed in Latin America under such conditions is rarely drawn. The *staples thesis* is, essentially, the converse of the 'staples trap'.

A brief focus on two nations' reactions to a gold rush leads to an understanding of the importance of the 'staples thesis' (Watkins 1963): With the onset of the 18th century, Brazil entered a gold and diamond boom that lasted for more than 50 years. The revenues from the boom passed through Portugal and into England where they comingled with domestic savings that were then transformed into capital goods, produced under dynamic conditions of ongoing technological improvement, that were the basis for Britain's ascendency as the hegemonic industrial power until the late 19th century. Furtado noted that the goldfields and diamond mines left no recognizable results in Brazil once the boom had ended (Furtado 1971: 92–93).

Furtado's purpose here was not to recount the lamentable history of the collapse of the gold and diamond boom, but rather to contrast the inability of Portugal to imagine and implement a viable strategy to counteract the devastating downturn in its most important colony with the Australian gold boom under a strikingly different structure. Furtado showed that a cohesive national state could use a staples-based economy to its own advantage, exercising sufficient *state capacity*. Australia's gold boom resulted in a threefold increase in population in only a decade (1851–1861). Miners poured into the nation, but Australian farm workers also left the agrarian sector to participate in the gold rush. Australia was determined to maintain a *diversified*, commodity-based, export economy because the TOT for wool and many other agricultural commodities were favourable. Distinct from massive *hacendado* landholdings in South America, yeoman farmers and squatters were able to access landholding prior to the gold rush. They reacted to the new economic situation of labour scarcity and higher demand for foodstuffs by adopting scientific advances to modernize production techniques, frequently substituting capital for labour. This resulted in more than doubling the area under cultivation and the export of wool in the same decade as the gold rush. With the collapse of the goldfield economy Australia began a process of proto-industrialization through a promotional trade policy and a complementary state-led programme to undergrid the country with a modern infrastructure (Furtado 1971: 93–94). The drive towards industry demonstrated that the woolgrowers were denied political economic hegemony – their laissez-faire outlook would have condemned Australia to the *path-dependent lock-in effects* of

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low value-added production. Instead, in an early example of the *staples thesis*, Australia was able to engineer itself onto a new, more diversified path that promoted the internal market and the creation of a dense web of forward and backward linkages (Hirschman 1977).

According to the staples thesis, there is a strong induced response on the supply side to the growth of exports: complimentary investments occur in a range on national supply industries and the positive impulses of rising TOT are transmitted inwards, creating virtuous-circle effects of reinvestment, diversification, employment growth and expansion of the *internal* market. Staples theory has been used to interpret the economic development of several successful resource-based economies including Australia, Canada, Finland, New Zealand and Norway.

In the classic staples case, independent commodity producers, such as Canadian wheat farmers, played an important role in helping to create backward industrial linkages (farm equipment), final demand linkages (clothing, food and consumer durables) and forward linkages (flour milling). At the same time, wages remain relatively high in industry (creating final demand linkages) because otherwise workers will exit the labour force even more rapidly to become farmers. These mechanisms functioned to create *spread effects*.

Extractionism, primarization and extractivism

Analysis of the current conjuncture in South America has led to widespread usage of key terms and concepts – particularly *extracciónismo*, *primarización* and *extractivismo* – to encapsulate complex processes of *regressive restructuring* in most of the region's nations during the course of the commodities boom. In outline form, these concepts entail the following characteristics and effects:

- *Extractionism*: A growing role for oil and/or mining corporations, without adoption of an industrial policy that would create linkage effects to support a national supplier base, and/or achieve learning effects or technological spillovers, and/or increase the national content of production in the extractive sector(s), in a structure where the state cannot control/maintain the rate of extraction, nor the flow of royalties and taxes necessary in order to manage the long-term usage of non-renewable resources.
- *Primarization*: *A regressive restructuring* towards the production and export of low value-added (1) raw materials, (2) agricultural products and (3) barely processed, so-called 'manufactured' primary products,

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where capital-goods investments *lock-in* this restructuring process and the state becomes incapable of mounting an alternative development strategy due to its growing reliance on revenues from the primarized activities.

- *Extractivism*: The state captures some of the economic rents from the petroleum, or mining or agricultural sectors and then re-channels them to the poorest social strata, thereby initiating a redistribution of income which boosts aggregate demand and stimulates national producers of basic consumer goods, creating a short-term, non-sustainable, non-endogenous process of shared economic growth dependent on the soon-to-fade commodities boom, without any adequate attention to the use of this temporary economic surplus to initiate a transformative industrial policy. Such governments are not neoliberal; 'they all share a critique of the reductionism of market-based analysis' but they are passive in the face of temporary benefits of static comparative advantage that they receive (Gudynas 2011: 76). Perhaps surprisingly, Kaup demonstrates that this analysis even applies to the case of Bolivia under President Morales (2013: 131–159).

Argentina and Brazil: Two distinct cases

Nonetheless, according to Cypher (2014) and Herrera and Tavosnanska (2011) among others, this interpretation is inadequate in at least two important cases: Argentina cannot be understood as a simple case of 'primarization'. The spectacular growth of real GDP achieved from 2003 through 2010 – 7.6 per cent – was not due to the supposed protagonist sectors, such as grains and natural resources. Although activities linked to the primarization hypothesis such as basic steel, petrochemical, edible oils and meat refrigeration were important, they were less so than activities 'intensive in engineering and labour, such as agricultural machinery, medical instruments, electronics . . . textiles [and] plastics' (Herrera and Tavosnanska 2011: 121). According to these authors, Argentina's recuperation and growth during the commodity boom is the result of a mutually reinforcing process led by both the expansion of the domestic and export markets. From 2002 through 2010 while total exports increased by 166 per cent, industrial exports grew by 197per cent (Weisbrot et al. 2011: 7). In these years, the Export/GDP ratio actually fell, from 24.9 to 18.4 per cent (Weisbrot et al. 2011: 8).

The Brazilian case also fails to fit the general pattern of the primarization hypothesis. Primary commodity exports did, indeed, rise from 37 per cent of the total in 2000 to 51 per cent in 2010 (De Negri and

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Varela 2011: 8). But, even in 2000 – before the boom – when 'minimally processed exports based in raw materials' were combined with raw materials, they amounted to 51 per cent of all exports, and only slightly more (56 per cent) in 2010 (De Negri and Varela 2011: 8). Thus, the situational trend is unclear. Furthermore, Brazil's economy is not export dependent – the Export/GDP ratio was only 9.1 per cent in 2000 and 9.6 per cent in 2010.

In the 1990s, deindustrialization was experienced in important sectors, but this carried important political consequences in terms of the victorious rise of the workers party (PT) by 2002. In recent years the deindustrialization theme regained currency particularly as a result of the commodities boom. Booming commodities exports and a very high exchange rate value for the real (Brazil's currency unit) have caused manufacturing exports to fall as a share of total exports. Beyond this, however, the general situation is not clear. Industrial employment, for example, declined relative to total employment from 2003 through early 2012 – from 17.4 to 16.5 per cent. Meanwhile the total number *employed* in industry rose from 32.5 million to 36 million (Grupo de Análise e Previsôes 2012: 4).

Brazil has, since Lula's election in 2002, firmly followed a neo-developmentalist path, emphasizing a 'growth with redistribution' strategy that has reduced the Gini coefficient, and pushed over 30 million above the poverty line. Neo-developmentalism goes well beyond strategies to increase aggregate demand, achieve full employment and redistribute income (Cypher 2014; Morais and Saad-Filho 2011). The state has harnessed an *industrial policy*, particularly through the national development bank, BNDES, that has played a catalytic role through its capacity to strategically allocate public investments to state firms as well as to the private sector. Among the many promoted industrial and agricultural activities, petroleum is the linchpin. The objective is not production for export, but rather energy independence and the promotion of a vast complex of national suppliers in all areas of petroleum production and the refining of all derivatives. Unique to Brazil, this has been accompanied by a concerted effort to create a national innovation system in order to achieve an adequate degree of technological autonomy. In short, Brazil's national development project evokes the 'staples thesis'.

Conclusions

Commodity production generally conforms to *lock-in conditions established via a path-dependent process*, reinforced through cumulative

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causation. With the major exceptions of Argentina and Brazil, the commodities boom of the 21st century has led to a situation described by Gudynas, and others, as 'extractivismo progresista' throughout the remainder of South America. Even in Argentina and Brazil, processes of expanding 'primarization', while not dominating accumulation, are nonetheless of growing importance.

The commodities boom ended in 2011. While the trajectory since then has been one of slow decline in prices, such declines are translated quickly into slower (real) GDP growth: South America's unweighted average (excluding tiny Paraguay) fell from 6.1 per cent in 2011 to 4.3 per cent in 2012 and then to 3.9 per cent in 2013, according to Cepal. Oil is, by far, the largest single commodity export for South America, but one of its most important markets – the US – is undergoing a rapid, unanticipated, transformation. Shale gas production has experienced explosive growth, causing net oil imports to fall by over 50 per cent from 2005 to 2013.

The research and analysis presented in this chapter has demonstrated the continued viability of the PS hypothesis of the secular decline in the TOT. An important conclusion of the research and analysis is that the PS hypothesis must incorporate volatility effects. The PS hypothesis as conventionally presented requires modest updating. A *PS⁺ hypothesis* – incorporating both the negative long-term trend and the volatility of commodity prices – will be adequate. Under the *PS⁺ hypothesis*, in the short term the volatility effect will exert a greater impact than will changes in the TOT on the growth of pci. Over the long term, the negative trend in the TOT, driven by many factors, will constitute the stronger force, while important volatility effects will continue to exercise significant influence on macroeconomic performance.

The conclusions derived from this theoretical analysis, and from an empirical examination of the latest commodity boom in South America, remain essentially the same as those reached by Prebisch, Singer, Furtado and many other Latin American structuralists. Hence, endogenous programmes wherein industrial policy forms the basis for autonomous development based in the first instance in the expansion of the internal market are necessary (rather than exploiting static comparative advantage determined exports that are subject to the 'staples trap'). Brazil, and to a lesser degree Argentina, now show the way forward. Attempts to reduce poverty and address basic human needs throughout South America via projects based on 'extractivismo progresista' are well intended, but merely palliative and opportunistic strategies that will fade as the latest commodity boom further subsides.

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Notes

1. There were, in some nations, attempts to create an industrial core in this period – this movement has been termed 'proto-industrialization. However, there were no national economic policies in place to generalize this process to undergird a self-reinforcing process of ongoing industrialization (Weaver 2000: 81–83). There were indications of intermittent *spontaneous industrialization* and significant state interventions (Font 2010; Topik 1980, 1987). Still, such interventions took place within the strict confines of a *liberal* political economic regime (Topik 1980: 615).
2. The trends noted in Table I continued through early 2014; *The Economist*'s index of real commodity prices showed a one-year decline of 9.2 per cent (February 2013–February 2014).

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10

Trading on the Offshore: Territorialization and the Ocean Grab in the International Seabed[1]

Anna Zalik

Introduction

Property relations in oceans have a complex history, shaped in part by the deep seas' distance from processes of territorialization on land. While the national marking of some coastal space through the largely accepted, if not universally ratified, premises of the United Nations Convention on the Law of the Sea (UNCLOS) sets specific territorial extensions for states, the metaphorical and practical fluidity of oceans exemplify how their care is essentially an issue of global governance (Steinberg 2001). The oceans are the quintessential commons onto which contaminants and wastes can be externalized (Clapp 2002); the reduced social relations on those spaces distinguish them as a frontier zone, removed from terrestrial relations. The offshore, and particularly the 'deep' offshore, is isolated from human settlements. This places a physical limit on the capacity of external, and even internal, actors to observe and account for the rush to extraction there. Indeed, the marine zone offers spaces freer from public disruption and constant forms of social accountability than on land. As applied to finance, the term *offshore* refers to regions where state oversight and regulatory rules are attenuated (Hudson 2000, Cameron and Palan 2004).

At the 2013 annual meeting of the International Seabed Authority (ISA), the nominally Canadian firm Nautilus Minerals presented a proposal for a joint venture with the *Enterprise* in the deep seabed of the Pacific Ocean. The ISA, the implementing arm of the United Nations Convention on the Law of the Sea (UNCLOS), initially articulated the aspirations of the Bandung era and is located in Jamaica, the only UN agency that holds regular assembly meetings at headquarters in the Global South.[2] The *Enterprise*, an as-yet-to-be-established operational arm

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written in to the 1982 UNCLOS, was intended as a mechanism to fulfil the socio-economic principle that the oceans are the 'common heritage of mankind'. As set out in the UNCLOS, it would serve as the ISA's own mining operator for exploitation of the deep seabed. But the premise of the *Enterprise* now appears a holdover from a compromise between Northern and Southern states under post-war developmentalism and may never be established.[3] Rather, the ISA has allotted recent exploration contracts for the deep seabed to companies sponsored by the signatory states to the UNCLOS, whose interests are ultimately tied to global capital markets. At the ISA today, Brazil, Russia, China, the UK, the Netherlands, and to some extent India – that is, 'BRIC Plus', appear as strategic players, accompanied by Japan and a range of island and coastal states.

Although the Nautilus proposal was deemed by the Council of the ISA to be premature at the 2013 meetings, the firm's pitch is a manifestation of the recent flurry to develop minerals from the marine areas beyond national jurisdiction. The region to which Nautilus sought enlarged access, known as the Clarion Clipperton Zone (CCZ), forms part of the ocean space beyond national jurisdiction called the *Area* and is located in the Eastern Pacific Ocean, between Hawaii and Mexico. But in marked contrast to the principle of economic equity that shaped the initial design of the UNCLOS, the ISA and the *Enterprise*, Nautilus' proposal for a joint venture with it may be understood as a tactical move by that firm towards increased indicator reserves, through the acquisition of seabed mineral access in a significant portion of the CCZ Area. Tactically, Nautilus represents its proposal to establish the Enterprise as an appeal to the principle of equity, given that the Enterprise plays the role of a parastatal in terms of ensuring global (and via the ISA Assembly primarily Global South) sovereignty over resources deemed as 'common heritage'.[4] If successful, Nautilus' partnership with the Enterprise would set it apart from a key competitor, Lockheed Martin; the latter, through its subsidiary UK Seabed Resources, seeks a range of partnerships with state-sponsored firms to gain blocks in the CCZ Area.

Nautilus already holds positions with the ISA, through the state-sponsored firm Tonga Offshore Mining Capital. It also previously held a space via Nauru Ocean Resources, which the firm divested to a competitor given ISA concerns regarding monopolization. Thus Nautilus, an arm of established mining capital that seeks seabed dominance, pursues lease blocks in ISA-regulated space in part to shore up its position in the deep offshore – a zone that Nautilus, and the offshore oil and gas industry specifically, describes as experiencing 'reduced social disturbance'

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from such activities on land (Els 2012). Nautilus' presence expresses the imperialist tendencies and/or pretentions of capitalist firms including venture capital – and states where its major shareholders are based: Canada, Russia, Oman and the UK.[5] Its companion interests are based in Australia and New Zealand.

On this empirical terrain, this chapter analyses the recent pursuit of deep-sea mineral access, and the role of state firms and state-sponsorship of firms through the ISA, as a particular form of conjoint state–capital territorialization of the oceans. It outlines what I call the growing phenomena of 'ocean grabbing' by extractive companies seeking to gain strategic control over the international seabed. While akin to widely documented instances of contemporary 'land grabbing', ocean grabbing is unique in that oceans are removed from state view and human settlement and therefore produce distinctive forms of territorialization and alliances between state and extractive capital in the offshore. Ocean grabbing is not something conducted through a nominally 'free market' devoid of political and ideological interference, but rather is being led by mercantilist alliances between private capital and powerful states, regulated via a UN body. Employing the terminology that Southern states adopted as the basis for collective sovereignty over the deep sea in the post-colonial period, these state–capital alliances also adopt the ideological aspirations of the 'common heritage of mankind' to pursue access to seabed minerals.

Because of the as-yet-to-be-established provisions of the ISA with regard to actual extraction and production, strategic pursuit of Area control prior to the formalization of the extractive regime offers advantages to those who gain rights early. The dynamics undergirding these trends express the interests of the middle-income BRICS, as well as parastatal and state-sponsored mining firms which hold most contracts. Yet the remaining aspirations of the New International Economic Order (NIEO) era, which sought equity with regard to formerly colonized Southern states, also shape the regulatory context. Indeed, the protection of the 'common heritage of mankind' was heralded by the G-77 (established in 1964) and its descendants as a means to advocate for equitable development and distribution of the earth's resources. Consequently, as the pursuit of deep-sea minerals unfolds in space perceived as uncommodified and unterritorialized,[6] the ISA purports to act in the interests of what has until now been understood as the Global South. Yet among the key contractors holding exploration rights in the Area are private firms based in the North, including the US and UK as well as lesser powers such as Canada and Australia. Here Nautilus, positioning itself as a major player in the deep sea via both Tonga operations and a project in Papua New

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Guinea (PNG), offers an example. Its operations are in various ways in competition with, and consolidated by, state and private capital sponsored by the BRICs.

This chapter argues two key points. The first is that the global struggles expressed in the ISA's history shape a somewhat contradictory set of discursive and practical aspirations to which contracting firms in the seabed appeal. The second is that firms positioning themselves as holders of seabed reserves in the Area do so as a means to achieve a conjoint ocean–territorial–financial dominance. As discussed further below, this strategy shares attributes – whether through partnerships with 'sponsoring' states or Nautilus' to date unsuccessful bid to form the Enterprise – with what McMichael (2013) describes as 'security mercantilism' in contemporary global land grabs. In part, these mercantilist attributes arise from a global framing of minerals as finite and essential, in which contracts to the deep-seabed Area, as arbitrated via the ISA, provide states and their surrogate firms with *direct access*, rather than market access, to territory. It is also a manifestation of what Nitzan and Bichler (2009, Bichler and Nitzan 2004) would theorize as the workings of contemporary 'dominant capital', in which moves similar to those made by Nautilus aim to shore up 'differential accumulation' among key global shareholders in the extractive sector. Thus the ocean enclosures that firms generate through gaining contracts in the Area advance a conjoint set of state and capitalist interests, although the attributes of the state and capital configurations at play are highly mutable.

In recent years scholars of agrarian change have paid careful attention to contemporary global 'land grabbing'. The term is applied to a process through which capital (including state-sponsored capital) undertakes a new round of territorial investments in regions previously classified as the Global South, and frontier zones in a range of international sites (Borras and Franco 2011, Margulis and Porter 2013). Among other points, this literature and its antecedents consider how this process acts as a form of recolonization, serves as an expression of changing property relations and new enclosures, brings about the disassembling and reassembling of national territory (Sassen 2013), and operates as both a financial outlet (Moore 2012) and – as just mentioned – a form of 'security mercantilism' (McMichael 2013). Such work and a parallel literature on 'green grabbing' understand these moves as contemporary enclosures of land/nature. In examining carbon sinks/markets as one manifestation of these grabs, the literature collectively offers a potent demonstration of how socio-environmental change and deterioration becomes a strategic subject of investment for different capital sectors

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(Ervine 2007, Osuoka 2009, Bond 2012). Thus social movement pursuit of greater justice in the global economy through (partial) decommodification (social embedding) has been incorporated into carbon trading or other market schemes (Fridell 2010). Likewise, the equity-seeking principle of 'common heritage' first advanced by the G-77 in the 1970s and 1980s was reduced to the neoliberal compromise of the 1994 UNCLOS Implementation Agreement discussed below (Wood 1999).

Although the characteristics of what I describe as 'ocean grabs' diverge from land grabbing, in that they seek out space to extract minerals rather than produce food and biofuels, their partial circumvention of standard market access and their relationship with capital blocs outside the traditional West – including Brazil, Russia and the Middle East – and lesser powers with imperial pretensions, such as Canada, manifest analogous tendencies. In the case of Nautilus strategy, moves to establish the Enterprise employ both the legacy of the NIEO era under which the ISA was first constituted and the neoliberal compromise that led to its 1994 Implementation Agreement. The latter was based on a public–private hybrid that reflected the market principles encapsulated in the World Trade Organization (WTO), signed the same year.

As a branch of critical scholarship in global political economy that pays particular attention to space, the work on land grabs is informed by dependency and world-system schools attention to the shifting terrain of the world system. Here key moments included the emergence in the 20th century of a developmentalist regime during the formal decolonization of the post-WWII era, and the rise of neoliberalism since the end of the Cold War. Throughout much of this period, the role of Western/ Northern imperialism (Wallerstein 1974, Girvan 1975) has played a central role in uneven development and in fomenting the global division of nature (Coronil 2000). Arguably, two conjunctural events since the advent of the WTO have helped to shore up the fortunes of mining/ extractive capital globally (Bello 2006); these include 9/11 and the financial crash of 2008. The former spelled a deepening crisis in US hegemony and a flight to military industrialism/permanent war as a kind of spatial fix (Harvey 2006/1982) and the concurrent shaping of aid institutions as cushions for such crisis (Bello 2006); the xenophobia directed at the Middle East/North Africa as well as increasing demand from China and the BRICS contributed to rising oil and mineral prices, and the pursuit of energy resources outside the Middle East. The flight from finance capital in 2008 deepened this trend, with investment in gold, minerals and hydrocarbons becoming a more attractive, materially embedded outlet for capital given the intensified mistrust of banking.

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Both these events have served to constitute a growing role for Southern capital and foreign direct investment (FDI) in non-traditional Southern markets. For some anti-imperialist analysts, the emergence of the BRICS in shifting capitalist power nodes is viewed as offering renewed resistance to the legacy of Western imperialism – 'the Global South' 'standing up to the North' (Prashad 2012). Simultaneously Southern social movements have been able to advance progressive projects. Through the course of these swings, however, newly powerful elites and imperialisms (Petras and Veltmeyer 2001) have also emerged, as global capital based in secondary regions takes advantage of fissures in US hegemony, and due to the fluctuating role of the extractive sector as a strategic capital bloc.

It is in the emergence of imperialist tendencies from states-societies previously conceived as benign, including Canada (Gordon 2010), and in debates on territorial enclosure opened up through the land grab literature, that this chapter examines the contemporary push to develop the deep seabed. The construction of a mining regime for marine zones external to state sovereignty, a space nominally conceived as 'common heritage', offers one marker of shifting elements of capitalist power and strategies of 'dominant capital' (Bichler and Nitzan 2004). The particular case of Nautilus' and other firms' pursuit of contracts in the Area shares attributes with the phenomenon of land grabbing. The unique characteristics of oceans, removed from state view and human settlement, produce distinctive forms of territorialization and alliances between state and extractive capital in the offshore (Zalik 2009).

To proceed, I first review ocean territorialization under mercantilism and colonialism and the UNCLOS, as well as aspects of the ISA's recent history – including its position vis-à-vis the United Nations Conference on Trade and Development (UNCTAD), and its role from the Washington Consensus/WTO onward. I examine Nautilus from this backdrop. Here the role of mining capital and revenues with relation to Canadian, Russian and other state-backed blocs (as imperialist entities or manifesting imperial ambitions) as well as ongoing dominance of British and US capital is pertinent. Also important is the role of the Global South, including small-island states such as PNG, Tonga and Nauru. The latter as 'sovereign' actors seeking to regulate the spaces under to, or near, their jurisdiction may avail themselves of technological services from the ISA. Concurrently, these smaller sponsoring states become subjects of particular forms of risk capital characteristic of the mining industry, and new deep-seabed mining particularly.[7]

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Oceans commons, UNCLOS and the ISA

Governance of the seas is an important sub-field in international law. Maritime law, indeed, is oft cited as one of its longest existing sub-fields. In that field Hugo Grotius is a key figure whose work *The Freedom of the Seas* in the 17th century has influenced centuries of discussions on common property and global trade (Mansfield 2004, Cowan 2007). As the history of international law and transcontinental resistance indicates, the oceans were central not only to global mercantilism and capitalist expansion (Bunker and Ciccantell 2005), but also to global struggles for emancipation (Linebaugh and Rediker 2000). The rise of the Netherlands as a shipping empire was central to the project of governing the oceans, and shipping has been central to a range of colonialisms and global racisms/apartheids, including the transatlantic slave trade and transoceanic accumulation (Linebaugh and Rediker 2000, Benton 2005, Gathii 2010). In a move to counter the differential power that this ocean history reveals, over the past 50 years the Global South and indeed sub-states in the US context have supported the creation of exclusive economic zones for states. For states of the Global South a position in support of the 'freedom of the seas', still implicitly endorsed by conservative branches in the US, reproduces the dominance of already powerful states or jurisdictions.[8]

Historically, a state's jurisdiction was set to the 'cannon-shot' rule, approximately 3 nautical miles in the 18th century, eventually extended to 12 nautical miles in the 20th. The UNCLOS, whose antecedents date back to the mid-19th century – a period that marked the 'ascendancy of Grotian stewardship' (Steinberg 2001), defines territorial relations in oceans on the basis of customary practice and was especially concerned with the fisheries industry. Concurrent with early negotiations over a law of the sea, the US experienced its first offshore oil boom, which led to the 'Tidelands controversy' between Gulf Coast states and the US federal government over marine jurisdiction (Gramling and Freudenburg 2006). This resulted in President Truman's unilateral extension, in 1945, of US jurisdiction over oil, gas, minerals and other natural resources on its continental shelf, 'responding in part to pressure from domestic oil interests' (. UN Division of Oceans 1998,[9] Steinberg 1999, ibid).

The result of this act was the formalization of the so-called Exclusive Economic Zone (EEZ) as other nations soon followed the US example. As per the 1982 UNCLOS convention, the boundaries of the state's territorial sea – over which it has exclusive sovereignty on water, seabed and airspace – extends 12 nautical miles; its contiguous zone – upon which

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it may exercise customs, immigration and sanitary control, extends 24 nautical miles. Beyond this, a state's EEZ may span 200 nautical miles or potentially to the edge of the continental shelf should a country be able to demonstrate the shelf's extension.

The EEZ was established primarily to determine fishery rights as well as utilization of natural resources of the seabed. It is the zone external to this region that forms *the* Area in maritime regulation. As a property regime, the Area is understood as common, rather than null, property. Negotiations concerning the Area via the UNCLOS process resulted in the hybrid system 'involving both public and private enterprises on one hand and collective mining on the other – the so-called "parallel system" (UN Division of Oceans 1998) overseen by the ISA. This system serves as a compromise between proposals for a "weak" international authority, noting claims and collecting fees, to a "strong" one with exclusive rights to mine the common heritage area, involving States or private groups only as it saw fit' (UN Division of Oceans 1998.).

The ongoing US non-ratification of UNCLOS could potentially complicate an operational regime for extraction from the Area.[10] However, the involvement of US capital in various ongoing contracts, based on exploration initiated prior to the 1994 ratification of UNCLOS, is significant even without US formal participation as a signatory to that agreement or membership in the ISA. This would seem to imply that the US will respect the ISA contracting process. Nevertheless, conservative branches of US political life continue to block US ratification of UNCLOS and are dismissive of the ISA. A recent Heritage Foundation report claims that US firms retain rights to mine in the CCZ based on domestic legislation and an earlier reciprocating states agreements with Europe, as described in the next section (US Council on Foreign Relations 2007, Groves 2012).[11]

The International Seabed Authority and the G-77

A regime for seabed extraction was already under discussion from 1958, when the United Nations General Assembly held the first UNCLOS I negotiation. It was conceived, in part, as a response to growing interests in deep-sea mining in that period. The notion of the 'common heritage of mankind' has shifted in content over the period of the ISA's negotiation. Initially Third World interests, as represented by the G-77, UNCTAD and the NIEO, played a significant role in the UNCLOS negotiations (Hope Thompson 1980). For instance, the ISA was originally contemplated as a body in which industrialized states would not be permitted

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to participate for its first ten years of operation (Wood 1999). The developmental aspirations of the formerly colonized regions, including access to technology, were among its key objectives throughout the UNCLOS negotiations of the 1960s and 1970s.

During the Cold War the deep seabed was of strategic interest, and the NIEO, as one expression of tensions over socio-economic options, ran potentially counter to the interests of the Capitalist West. Thus the US passed its own interim legislation while the UNCLOS was under negotiation. The US Deep Seabed Mineral Resources Act (1980) and laws passed by Germany, Japan, France, Italy and the UK – what the US referred to as the *Reciprocating States* – served as an interim agreement among Western powers who sought non-discriminatory access to the seabed prior to ratification of the UNCLOS. An agreement also existed with the Soviet Union in this period. Both of these 'grandfathered' rights of those states who were 'pioneer' investors in deep-sea mining. The petroleum industry played a part: under the so-called *Reciprocating States* agreement, early contracts in the CCZ were given to large oil companies – several of which lapsed in the 1980s, but which allowed early data collection by private firms.[12] Among US firms with leases under the 1980 US Deep Seabed Mineral Resources Act was the Ocean Minerals Company or OMCO partnership, which included Lockheed Martin, Standard (now Exxon) Oil and Shell. The connection between the development of deep-sea mining and the possession of exploratory technologies shaped by military technology during the Cold War is apparent here. As we have seen, Lockheed Martin holds interests in various existing projects with the ISA, information partially protected under commercial privacy provisions, endowing today's operating firms with data accumulated over various decades.

A team of legal experts for the G-77 argued that the *Reciprocating States* agreement ran contrary to international law (Brown 2001). From the Third Worldist perspective, the Northern countries established the G-7 in 1974 to counter the strength of the NIEO, and with the establishment of the WTO sought to diminish the role of the UNCTAD. Ultimately concessions granted under these agreements expired and, with the exception of the US, the *reciprocating states* all became parties of the UNCLOS and its 'Implementation Agreement' in 1994.

The signing of the Implementation Agreement was a key moment in weakening the position of the Global South at the ISA. In the Law of the Sea Convention, Part XI of the UNCLOS was modified to include this agreement and thus to encourage Western states to accede (Wood 1999, Steinberg 2001).[13] While in retrospect the signing of the WTO in

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the same year would seem to be a crucial parallel occurrence, analyses in the 1990s attributed the compromise to a desire of both the South and the North for consensus in a period of declining mineral prices, when the actual prospect of deep-sea mining was decades away. Ultimately, via the Implementation Agreement, the ISA was reduced to a 'permitting organization' operating via free market principles (Steinberg 1999; Robles 1996).

Since 1995 the ISA Assembly and Council have met annually. The Assembly includes all 163 signatories to the UNCLOS, plus the European Union. Its work includes the granting of contracts in the deep seabed, administration of an endowment fund to support research on the seabed by scientists from developing countries, ongoing research on deep-seabed resources, including marine life, and the development of protocols for specific minerals. At the annual meeting the Legal and Technical Commission (LTC) of 25 states and the rotating Council of 36 states take decisions relating to contracting parties and procedures, upon which the full Assembly must act.[14]

With rising commodity prices since the new millennium, contracts have been granted. Since 2001, the ISA has granted contracts for polymetalic nodule exploration in the CCZ, and a total of five contracts for polymetalic sulphides have been granted in the mid-Atlantic, Southwest Indian zone and Indian Ocean as well. The geological variation between these two resources is salient to negotiations over the ISA's parallel mining system, which splits reserve areas evenly between prospective contractors and the authority, as it was developed for nodules; nodules are better studied and more evenly distributed than sulphides (ISA 2008). Such techno-scientific uncertainty shapes various debates concerning the mining regime in the seabed. Franckx (2010) points out that the possibility of further creep of coastal state claims towards the Area, as the mapping of the continental shelf becomes more detailed, is something that the ISA is ill-equipped to manage. Here seabed mining firm strategy involves partnerships and sponsorship of its exploratory projects via different states. For Nautilus, this has centred on Pacific Island states – Nauru, PNG and Tonga.

Resource sovereignties, resource imperialisms and the Nautilus case

As we have seen, current scholarship on land grabbing examines the tendency towards territorial enclosure through direct access to land appropriate for food, fuel and carbon sinks. With regard to mining, the

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'grabbing' analogy has not been employed to the same extent, likely due to the long history of sub-soil concessioning that marks extractive industry. The royalty and revenue rules governing specific extracted resources vary considerably, petroleum and gas frequently managed through a regime differing from other minerals, including hydrocarbons such as coal. Such differences are also notable transnationally, and manifest a range of state–capital alliances. Apparently opposing interests find collective strategy for profit generation under both explicit and implicit cartels and alliances; for instance, historically Organization of the Petroleum Exporting Countries (OPEC) states diverged from those Western oil and gas importers represented under the rubric of the International Energy Agency but they share conjoint interests in maintaining resource scarcity in markets (Mitchell 2011).

Nautilus Minerals manifests both the significance of the Toronto Stock Exchange as the key trader of mining capital and the alliance between settler colonial frontiers of the British empire; its main office is in Canada and operational office is in Australia. With regard to venture capital, at present Nautilus majority shareholders include Omani-based capital through a subsidiary of MB Holdings known as Mawarid Mining, the Cyprus branch of the Russian company Metalloinvest, the UK headquartered Anglo American and the Canadian mining company Teck Resources Ltd. Nautilus directors are closely connected to Niugini mining, which prospected a gold deposit in PNG that was subsequently developed by Australia's second largest mining company, Rio Tinto.

On 22 July 2011 Nautilus became the first private company with an exploration contract from the ISA through the company's then Nauruan subsidiary Nauru Ocean Resources, later taken over by what became a Nautilus competitor, Vancouver-based DeepGreen Resources.[15] Nauru was an exporter of phosphate from seabird guano, an extracted resource central to the long history of ecological imperialism (Foster and Clark 2004). Less than a year later, in January 2012, Nautilus' Tongan-sponsored contractor, Tongan Offshore Mining Limited, had its contract with the ISA enter into force. The two other private contractors with exploration rights in the CCZ are UK Seabed Resources, the Lockheed Martin subsidiary sponsored by Great Britain and Belgian-sponsored G-Tec resources. There are rumours of Lockheed Martin/UK Seabed Resource interests in contracts held by various parastatal firms as well.

Nautilus Solwara project with PNG is the first deep-sea mining project for polymetallic sulphides.[16] The guiding agreement for that regime, however, has been the subject of controversy. In June 2012 Nautilus saw its shares drop 12 per cent due to a challenge from PNG regarding the

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division of expenses in the Solwara project (Jamasmie 2012). The project had already seen significant opposition in PNG and among environmentalists (Rosenbaum 2011);[17] industry monitoring organizations in Australia and Canada have also commented on the inadequacies in the environmental review process, as well as human rights violations associated with Nautilus' land-based activities.[18]

While Nautilus won in arbitration proceedings in the PNG case, requiring PNG 'to complete the purchase of the 30 per cent interest in the Solwara 1 Project and pay 30 per cent of all project expenditure incurred to date within a reasonable time after the award' (Nautilus Press Release: 10 October 2013), these funds were only recently released via PNG's nominee firm, Eda Kopa Solwara.[19] Nautlius' 2012 annual report indicated that the figure sought from the PNG government was $62.1 million and $113 million was ultimately released to Nautilus. Notable, here, is that PNG ranks 156 out of 182 on the Human Development Index and has a Gross National Income per capita of $2386 and a Gross Domestic Product (GDP) of $15.6 billion a year. Nautilus annual report indicates total assets of a modest $271 million. However, its majority shareholders reflect its wider venture capital. Metalloinvest is owned by Russia's third-wealthiest individual[20] and Anglo American, among the world's largest mining companies, showed an operating profit of $6.2 billion in 2012. In 2006 Canada's Barrick Gold, whose mining activities in PNG have been marred by substantial human rights violations, purchased an equity interest in Nautilus through its subsidiary Placer Dome.

At the 2013 ISA Council meetings, the Canadian representative indicated that he was puzzled by the critical response to the Nautilus proposal: while he 'understood the need to treat applicants in an equitable manner and to ensure that the rules of the Authority were followed . . . the document from Nautilus was not an application for a joint venture operation but rather a proposal that would be negotiated over a three year period'.[21] At the Assembly meetings, the self-described CAN-Z states (Canada, Australia and New Zealand) spoke collectively of the need to carefully consider the Nautilus proposal, their disappointment that time had been insufficient to consider some of the new proposals tabled and the need for sharing of data among existing contractors.

Most notable in Nautilus overture was its proposal for a joint venture with the Enterprise. Its representatives describe this as an appeal to the principle of common heritage and a means to return a greater proportion of revenues to a kind of transnational parastatal. Purportedly, a greater portion of profits would accrue via the Enterprise to the ISA as a collective, which would then redistribute funds to member states. Nautilus would gain partial financing from those member states through the

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formation of the Enterprise. The business proposal submitted to the ISA in October 2012 pursued eight blocks in the region. When debated by the ISA Council at the July 2013 meeting, the majority of delegates opposed it based on the need for further study by the LTC. The ensuing debate indicated a general consensus concerning the need to further study the implications of developing the Enterprise as well as to facilitate applications from developing countries for the reserved areas. Brazil strongly supported the latter point whereas other parties – including Russia and Singapore – sought to include the language that would protect the interests of firms currently holding exploration contracts (i.e. 'other appropriate or qualified applicants').[22] Ultimately, in 2013, the Council and Assembly decided that neither sufficient information concerning how to establish the Enterprise nor consensus regarding principles for such a transnational sovereign corporation existed to support Nautilus' proposal. It was referred to the LTC for further study, alongside other pending contractor proposals for specific blocks.

Conclusion

The pursuit of contracts in the deep seabed manifests a process of late-capitalist enclosure. But that process remains distinct from concurrent processes on land in that it encompasses space that was not *explicitly* relied upon for human subsistence, wherein new forms of partnerships between states and capitalist firms *outside national jurisdiction* play a role. The securing of reserves is clearly significant to a mining firm's financial valuation, shaping both its share value and its ability to leverage further risk capital. With regard to Nautilus specifically, the firm's position points to the increasing role of sub-imperial states and globally dispersed capital blocs. This particular form of 'ocean grab', like the mercantilist elements in contemporary land grabs, implies the need for a nuanced approach to conceptualizing state–capital projects: Nautilus major shareholders are conspicuously global; the firms that hold the majority of CCZ blocks today are state owned and based outside of the Organization for Economic Cooperation and Development (OECD), that is, the non-West.

Currently, and through the next decade, the ISA will seek to establish an *operational* mining regime in the Area. As the push towards production from the deep seabed accelerates, and in a context of marine ecological deterioration and commodity booms, prospecting, production and trade from the Area serves as a noteworthy site of global market formation and regulation. In contrast to the mid-20th-century collective

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aspirations that prompted the language of equity and common heritage in the UNCLOS, the demarcation of control over the Area, like the recent phenomena of land grabbing, will generate new forms of privatized sovereignty. But unlike contemporary land grabbing inside the states of the Global South, contracts in the deep seabed are governed through a regulatory body which is formally transnational and predates the WTO. The regime is also emerging at a moment where socio-ecological movements might push for a prohibition on global ocean extractivism. Equally, with the growing economic clout of the Global South through the BRICS, state–capital power located in 'non'-traditional regions, such as Brazil, has the potential to foment redistributionist outcomes. Although the use of the Area for 'security mercantilist' purposes by state–capital alliances in the extractive sector is likely and indeed already evident, fissures are equally apparent in the ability of dominant capital to influence the Area's use. These fissures are visible in the ongoing voice of developing countries within the ISA assembly, and rising critique from environmental groups of deep-sea mining (Rosenbaum 2011). It is through these cracks that a range of actors, employing the language of 'common heritage', the aspirations of the mid-20th century, the power of emerging Southern capital and the force of global social resistance, could shape an alternative. While this alternative may merely shift capitalist power spatially, it could also stimulate an equitable and socio-ecologically sound substitute.

Notes

1 Many thanks to Elizabeth Havice, Gavin Fridell and Kate Ervine for helpful comments on this chapter. Thanks also to participants at the 2014 workshop New Directions in Trade and Development for critical discussion and to Social Sciences and Humanities Research Council of Canada for financial support. All errors are mine.
2 UNEP held its first environmental assembly meeting in Nairobi in 2014.
3 Personal communication, senior official – ISA, July 2013.
4 Personal communication, Nautilus representative, 2014.
5 Together Metalloinvest MB Holdings, Anglo American and Teck Resources are the major shareholders and providers of venture capital.
6 As will be seen later in the chapter, major Western powers had set up a means to grant contracts in the area through a 'reciprocating states' agreement in operation before the UNCLOS was ratified.
7 Decisions around the constitution of the Area occur alongside jurisdictional disputes over other marine zones wherein a range of imperial and sub-imperial relations are observable. These include disputes over the Balfour, the South China Sea, the Caribbean and the Arctic.
8 Sub-states and provinces have also supported this principle in debates over federal versus regional control of resources, as per the US Tidelands controversy.

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9 Available at http://www.un.org/depts/los/convention_agreements/convention_historical_perspective.htm
10 While beyond space limits here, US non-ratification stems from divisions between branches of the military and ultra-conservatives concerning global governance of the oceans. The US oil industry endorses ratification to achieve regulatory certainty. See US Council on Foreign Relations (2007).
11 See http://www.heritage.org/research/reports/2012/12/the-us-can-mine-the-deep-seabed-without-joining-the-un-convention-on-the-law-of-the-sea. A senior ISA official indicated that this report is factually incorrect (personal communication, July 2013).
12 A 1987 agreement allowed 'grandfather rights' to the 'eight pioneer investors that had already invested $30 million by 1983'. These were France, Britain, Japan, the USSR and four multinational consortia that included British, Canadian, Dutch, West German Italian, Japanese, British and American interests (Kimball 1987).
13 Franckx argues that, despite the apparent power of the Third World countries as a block at the ISA Assembly, 'when the different, often opposing forces are analyzed in some detail, one (observes) . . . that the ISA might have broad competence, but has few powers' (2010, 549–550).
14 For a description of the logic of categorization see http://www.isa.org.jm/en/about/members/council
15 The Nautilus–DeepGreen split resulted from ISA concerns over monopolization of CCZ blocks (key informant interview, 2014).
16 For a description of Nautilus work in PNG and a critique of its environmental implications see Rosenbaum (2011). Rosenbaum indicates possible exploration licences with PNG covering close to 200,000 sq. km and an estimated annual production from Solwara 1 of '1.3 million tonnes (of ore) producing about 80,000 tonnes of copper and 150,000–200,000' over a brief 2.5-year life.
17 See ramumine.wordpress.com/
18 See http://www.miningwatch.ca/news/nautilus-seabed-mining-experiment-falters-dispute-png-government-opposition-pacific-and. For a discussion of mining-related conflicts elsewhere in PNG, including with relation to Barrick Gold and BHP Billiton, see the work of Catherine Coumans and Stuart Kirsch (see source list).
19 Gus Van Harten (2012) has noted systemic arbitrator bias in favour of Western firms and against Southern states. For the recent release of funds to Nautilus Minerals, see the firm's December 11, 2014 announcement at http://www.nautilusminerals.com/s/Media-NewsReleases.asp?ReportID=687342.
20 In 2013 Bloomberg reported that Metalloinvest owner Alisher Usmanov, the third-richest Russian, had 'moved control of most of his $20 billion fortune last year to a holding company based in the British Virgin Islands . . . The company, USM Holdings, controls the billionaire's most valuable asset, Metalloinvest Holding Co.' Anglo American was founded by De Beers' owner Ernest Oppenheimers in partnership with US capital in 1917.
21 ISA Press Release, 19 July 2013.
22 It was ultimately determined that it was 'premature for the Enterprise to function independently and b) the proposal for the joint venture of Nautilus should no longer be an impediment for applications by developing countries and other qualified applicants'. See http://www.isa.org.jm/files/documents/EN/Press/Press13/SB-19-13.pdf, p. 3.

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Part III
Trading for Change?

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11

Can Shopping Change the World? Fair Trade Social Premiums and Neoliberal Development in the Global Recession

Mark Moberg

Introduction

Many food justice activists in the Global North regard Fair Trade as a moral alternative to retail markets dominated by corporate agribusiness. Fair Trade frames producer–consumer relationships in terms of social justice and environmental sustainability rather than the profit maximising calculus guiding large corporations. Compared to conventional goods, Fair Trade products typically fetch higher sale prices intended to benefit the farmers and workers involved in their production. In addition, a portion of each purchase is returned to producers' groups as a 'social premium' that assists community development. A major goal of the Fair Trade movement is to create alternative circuits of exchange that avert the volatility of world commodity markets. In this chapter, which deals with small-scale farmers on the Windward Islands of St Lucia and Dominica following the deregulation of the European banana trade, it will be seen that Fair Trade producers remain vulnerable to a market with its own vagaries. In particular, as the global recession suppresses demand for higher-priced Fair Trade goods, a development strategy tied to social premiums yields diminishing benefits.

The alternative trade organisation Fair Trade International (FLO), headquartered in Germany since 1998, has instituted standards for the certification of Fair Trade goods and auditing of farm practices. Certification requirements vary according to the commodity and the scale of the enterprise that produces it. To receive a Fair Trade price, FLO requires that small-scale farmers belong to democratically run producers' associations in which membership is open to all regardless of ethnicity, gender, or political affiliation. In addition, Fair Trade farmers are required to minimise the impact of agricultural practices on the

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environment. These mandates are enforced through periodic on-site visits by representatives of FLO-Cert (FLO's auditing body). In addition, FLO broadly defines how the benefits of Fair Trade social premiums are distributed within surrounding communities. For their part, producers have often criticised FLO's mandates or their rigidity or inappropriateness (Lyon 2006) – complaints frequently aired by Caribbean farmers interviewed in this research.

FLO certification standards currently exist for coffee, tea, cacao, many fresh fruits and vegetables, honey, sugar, juices, wine and spirits, cut flowers, and some manufactured goods. In North America, mainstream supermarket sales of Fair Trade items remain largely confined to coffee, tea, and chocolate. A much wider array of Fair Trade goods is available in supermarkets throughout Europe, where they are promoted through broadcast, the Internet, and print advertising as well as ambitious civic and church-based campaigns. Such efforts yielded dramatic growth in Fair Trade consumption during FLO's first decade. Between 2002 and 2005, worldwide retail sales rose from US$510 million to US$1.45 billion; in 2011, they climbed to US$6.5 billion (FLO 2004, 2006, p. 12, 2011, p. 3). Yet aggregate trends mask unevenness in demand and consumption, both by commodity type and market. In recent years total Fair Trade sales have continued to climb (although more slowly than in the past), but demand in more established markets has levelled off. Most current growth is due to the certification of new products and opening of new markets, mostly in Eastern Europe, Asia, and South Africa. For items such as juice, flowers, and fresh fruit (including bananas) – where disparities between conventional and Fair Trade retail prices are much greater than for coffee and tea – consumption has actually fallen. Sales of Fair Trade fruit declined by 24 per cent between 2008 and 2009, another 14 per cent in 2010, and 12 per cent in 2011 (FLO 2009a, p. 15, 2011, p. 3, 2012a, p. 13). These downward trends originate in the continuing severe recession that has dampened sales of higher-priced specialty goods in the Global North.

Discursively, advocates of Fair Trade often assert the primacy of economic morality and justice over an 'impersonal' market. The movement opposes processes 'that devalue and exploit disadvantaged peoples and the environment' and seeks to 're-embed commodity circuits within ecological and social relations' (Raynolds 2000, p. 298). Luetchford (2008) identifies the ideological basis of Fair Trade as one of 'moral economy', much as E. P. Thompson (1971) and James Scott (1976) characterise the demands of workers and peasants for a modicum of economic justice (for more on the movement's conflicting moral

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economy claims see Moberg 2014). Fair Trade advocacy draws upon a heady brew of 'Christian values, the liberal human and labour rights embodied in the conventions of the International Labour Organisation and the UN, and a radical interpretation of the Enlightenment values of social justice' (Fridell 2007, p. 285). Despite the movement's privileging of economic morality over corporate profits, its widely assumed opposition to neoliberalism is probably overstated. Fridell observes that public institutions and corporations regard the movement's 'voluntarist, non-statist program . . . as being fundamentally compatible with neoliberal reforms' (2007, p. 21); indeed, the World Bank prefers Fair Trade over commodity controls and labour laws that interfere with deregulated markets. This begs the question, then, as to how well market-based reforms and community development substitute for state policy. Besky (2010), for example, has shown that Fair Trade labour provisions on Darjeeling tea estates are weaker than the formal rights plantation workers enjoy under Indian law.

Among those who embrace Fair Trade's lofty goals, the movement's appeal lies in its engagement with a rising sense of identity and agency through consumption. Appadurai defines a central attribute of late capitalism as its 'fetishism of the consumer', who is led 'to believe that he or she is an actor, where in fact he or she is at best a chooser' (1990, p. 307). Niche marketing draws upon this illusion by creating a multiplicity of retail brands minutely differentiated by packaging and product details (Klein 2000). Each is targeted at specific demographic groups whose personal identities – including their political beliefs – centre on the goods they consume; as Lyon observes, 'The dominant *modus operandi* of identity construction has become our "lifestyle", which we shape through our choices as sovereign consumers' (2006, p. 380). From the belief that we recreate ourselves through branded consumption, it is a short step to the conclusion that as consumers we can also transform society. These assumptions are made explicit in Fair Trade advertising, as with an English chocolate bar promoted with the message that 'shopping can change the world!' (Dubble 2006). Others are less sanguine about the potential of an often competing array of brands to deliver social justice and conservation. If agency is one illusion of niche marketing, its very real converse might be a 'debilitating excess of choice' (Humphery 2010, p. 27) that for many consumers yields more uncertainty and alienation than pleasure (Schwartz 2005).

Similarly, many critics maintain that Fair Trade's transformative power is limited by existing markets and the entities that dominate them, inviting co-optation by corporations that the movement once

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opposed. Ironically, the sourcing and labour practices of companies such as Nestle, Cadbury's, and Chiquita, all of which have launched Fair Trade labels of their own, are thought to have made Fair Trade necessary in the first place. After early, sustained growth, the movement finds itself sharply divided over who is eligible for Fair Trade certification and the higher producer prices associated with it. FLO specifies that Fair Trade coffee and cacao must be grown by small-scale farmers belonging to producer cooperatives. Following a rancorous dispute between FLO and its US affiliate (Fair Trade USA, or FTUSA), the latter resigned from its parent organisation in 2012 and began certifying large estates not affiliated with cooperatives. FTUSA's directors argue that its standards leverage the marketing capacity of major corporations in the service of ethically produced commodities, while opponents fear that they will strengthen the position of already privileged producers to the detriment of small farmers. The ensuing decision of FLO to operate in the US as a rival to FTUSA effectively divides the world's second largest Fair Trade market, with confusion likely to result among shoppers forced to choose between competing labels. Hence, the notion of what constitutes ethical consumption, taken with declining demand for some Fair Trade goods during the recession, suggests that Fair Trade markets are fraught with their own brand of uncertainty. This in turn poses formidable challenges to a development model premised on social premiums whose volume directly corresponds to retail demand.

Caribbean currents in the global banana trade

The Windward Islands of St Lucia, St Vincent and the Grenadines, Dominica, and Grenada are countries of the Commonwealth Caribbean that won independence from Britain in the 1970s and 1980s. During the 18th century Britain and France vied for control of Dominica and St Lucia, resulting in the use of a French Creole (known as Kwéyòl) besides the official language of English. Caribbean agriculture has long been dominated by a 'reconstituted peasantry' that emerged after slavery (Mintz 1984), a process occurring in various ways on each of the islands. Following an 1897 West India Royal Commission that investigated social unrest and poverty, some Crown Lands were redistributed to create a politically 'stable' class of small landowners (Lobdell 1988). As the region's sugar industry collapsed during the 1950s, Britain promoted banana production as an economic alternative that would also avert a UK retail monopoly by a Chiquita subsidiary (Clegg 2002). Thousands of smallholding banana farms were established during decolonisation

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as island governments dissolved most remaining estates and allocated their holdings to the landless. The industry was consolidated as nationalist leaders such as John Compton in St Lucia and Edward LeBlanc in Dominica gained power by mobilising the votes of rural residents. To reward these sizeable constituencies, government policy heavily favoured banana production until the late 1990s.

Unlike Latin America, where single plantations may occupy thousands of hectares and employ hundreds of workers, Windward Islands farms are labour-intensive, family-run operations. On Dominica, they average about 1.3 hectares in size and employ fewer than two full-time wage workers (NFTO 2010); at 1.6 hectares, St Lucian farms are marginally larger (St Lucia 2002). Most Caribbean growers lack irrigation and contend with steep hillside slopes, placing them at a competitive disadvantage with highly capitalised Latin American estates established on broad alluvial plains. On average, Latin American plantations annually produce about 60 tonnes of fruit per hectare, a figure three times greater than Caribbean farms (Sandiford 2000, p. 12). In addition, at about US$20 per day, farm wages in the Windwards are triple the prevailing rate in Central America (Wiley 2008, p. 214). Despite these greater costs of production, Britain's protected market and a lack of alternative exports left the region heavily dependent on bananas for revenue. Lacking the tourist industry of other Caribbean islands, Dominica held the dubious distinction of being more reliant on bananas than any other country in the world. At the industry's historic peak of production (1991), 75 per cent of Dominica's export earnings derived from bananas and about 70 per cent of the island's workforce was involved in their production or export (Edwards personal communication, 7 July 2004).

Until 1993, Caribbean farmers were insulated from direct competition with Latin American growers by the Lomé Convention, a set of treaties establishing rules of access for agricultural imports into Europe. Lomé specified that bananas from former African, Caribbean, and Pacific colonies of Europe (the so-called ACP countries) could be imported duty-free, while imposing a 20 per cent tariff on 'Dollar Area' (Latin American) bananas. Britain, France, Spain, and Italy, all of which maintained ties to banana-producing colonies or overseas territories, adopted additional preferences in the form restrictive import quotas for Dollar Area fruit. Countries without former colonies, such as Germany, Austria, and Sweden, obtained an exemption from the tariff and imposed no quotas of any kind. Given its higher production costs, ACP fruit was competitive only in those markets protected by both tariffs and quotas. These arrangements were significantly altered in 1993

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under the Single European Market (SEM), which rescinded most trade barriers between European Union members. Under the SEM, national differences in banana import policy were negotiated away in favour of a continent-wide trade regime. The new policies provided transferable licences to importers who were assigned quotas for fruit by country of origin. Insofar as ACP countries did not meet their quotas, licences for the balance could be sold to other importers, including the US multinationals Chiquita, Dole, and Del Monte. This resulted in a flood of Dollar Area fruit shipped into the UK from continental Europe, in turn deeply suppressing producer prices in the Windwards.

Despite the increased access that the SEM afforded to Dollar Area fruit, in 1996 the United States and several Latin American governments, at the urging of Chiquita, challenged the EU's banana policy as an unfair trade practice in the World Trade Organisation.[1] Two years later, the WTO ruled for the plaintiffs, ending more than 50 years of quota protection for Windwards growers. After unsuccessful appeals by the EU, all parties accepted a WTO-compliant tariff-only arrangement, agreeing to defer it until 2006 to provide time for Caribbean farmers to improve their productivity. Long before then, however, the glutting of European markets with Dollar Area fruit had reduced many growers' earnings below their production costs. Island farmers have since abandoned banana production en masse due to a continued slide in prices and widespread pessimism about the industry's future. From approximately 29,000 Windwards growers in 1992, less than 3,000 remained in 2011, with export production having ended completely on Grenada. The region's total exports declined nearly every year since the SEM, from about 280,000 tons in 1993 to 15,000 tons in 2012, only 5.3 per cent of their former levels (Edmunds and Shillingford 2005, Winfresh 2013).

Fair Trade initiatives in the Windwards were advanced in direct response to the deregulated European banana trade. The Windward Islands Farmers Association (WINFA), a regional NGO headquartered in St Vincent, explored alternative markets for Caribbean fruit soon after the creation of the SEM. The WTO ruling added greater urgency to these efforts, and soon WINFA and FLO were organising Fair Trade producers' groups on each of the islands. In 2000, the first bananas bearing FLO's logo were delivered to UK supermarkets by the region's exporter WIBDECO (Windward Islands Banana Development and Exporting Company, now known as Winfresh).[2] They were marketed against a backdrop of indignation towards Chiquita and the US government. The WTO case had provoked outrage throughout the Caribbean, with island leaders predicting an explosion of crime and drug-related activity

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as their fragile economies weathered the loss of farming livelihoods.[3] The British press similarly excoriated the US position in the WTO suit, portraying it as an assault on family farmers and urging shoppers to purchase 'ethically grown' bananas from the former British West Indies. By 2003, Fair Trade fruit from the Windwards and other sources made up about 15 per cent of all retail sales in Britain (Hoggarth personal communication, 13 March 2003). That figure doubled by 2006, when several supermarket chains announced that henceforth they would only stock Fair Trade bananas (FLO 2007).

Fair trade and farm chemicals

By mid-2000, the comparative quiet of Caribbean banana farms was broken by the sputter of two cycle motors and the whine of monofilament grass cutters, sounds more often associated with manicured suburban lawns than tropical agriculture. Under FLO's environmental criteria, most of the chemicals formerly used on island farms are now prohibited in Fair Trade production. The protocols ban all chemical herbicides and nematicides, some of which are implicated in environmental damage, birth defects, and cancer (Bérubé and Aquin 2005). At FLO's urging, many farmers adopted gasoline-powered grass cutters to replace herbicides formerly dispensed from backpack sprayers. The grass cutter is emblematic of the changes that Fair Trade farmers have had to accept, but it also symbolises their ambivalence to certification. Most regard it as an impractical tool imposed by Europeans possessing little knowledge of local agriculture or labour constraints. Conventional farmers, who produce bananas for regional markets outside of Fair Trade networks, continue almost without exception to use herbicides.

More than a decade later, FLO's chemical prohibitions continue to rankle farmers, with complaints focusing on labour demands and pest control problems. Older farmers protest that they lack sufficient strength and agility to operate grass cutters over a hectare or more of thick undergrowth on steep slopes. The average age of the 88 Dominican Fair Trade farmers surveyed in 2010 was 55.4 years, with 19 per cent being 70 or older. To comply with the herbicide ban, almost all older farmers have had to hire younger men to clear weeds, a task that most had formerly performed themselves with chemicals. By 2010, many growers had reverted to hand weeding by machete (locally known as a cutlass) due to the frequent breakdowns of grass cutters. FLO encourages hand weeding as a non-chemical alternative but this, too, increases costs as it requires farmers to hire more workers. Fifty-five per cent of Fair Trade farmers

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report that their wage expenses increased as a result of the herbicide ban by an average of EC$116 (US$44) per fortnight.[4] Deles, president of a Fair Trade group on Dominica, spoke of the demands of low-chemical farming:

> It's difficult to weed bananas when you don't use chemicals . . . To bend down in the hot sun and to be weeding with cutlass is no easy thing. Now the grass cutter, the weed cutter they call it, is a good thing, but the machines they bruk up,[5] fuel always going up, and the money that people charge you to grass cutter [*sic*] is very exorbitant.

Some chemicals are still permitted on Fair Trade farms, primarily fertilisers, fungicides, and 'alum' (aluminium potassium sulphate, used to wash fruit before packing). Farmers are required to display placards in their packing sheds indicating the chemicals that may be used, their acceptable volumes and frequency of application, and the maximum allowable residue levels when fruit arrives in England. Growers must maintain extensive records of input use, display warning signs where chemicals have been sprayed, don rubber aprons and gloves when handling chemicals, and store chemicals under lock and key. Record-keeping is particularly daunting for an older rural population which on average has completed only about four years of school.[6] Compliance with these requirements is monitored by a disconcerting array of foreign and island-based auditors. Fair Trade standards are enforced annually on a random sample of farms by visiting inspectors from FLO-Cert in the UK. Prior to these audits, field officers from the islands' National Fair Trade Organisations visit every farm under their jurisdiction to inspect records and prepare farmers for likely visitors from FLO-Cert. Satisfying FLO's requirements does not necessarily guarantee farmers access to the British market. Five supermarkets remain the sole outlets for Windwards bananas, and each has its own code of social and environmental practices annually enforced by UK-based auditors. Finally, Winfresh field officers perform spot checks to oversee pest control and compliance with EU import requirements. Should inspectors detect Sigatoka fungus on as much as one banana leaf, the entire farm is quarantined (or, as farmers say, 'condemned') until the disease is under control. To avoid likely confrontations, inspectors usually conduct spot checks when farmers are absent. Both FLO and Winfresh require farmers to make their fields accessible whether or not they themselves are present. Not surprisingly, it is the Winfresh officers who are most resented, especially as they speed through farming areas in latest model air-conditioned SUVs. Most

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farmers transport their fruit to buying depots on broken down pickup trucks from the early 1990s, the last time they earned enough to replace their vehicles.

Can shopping change the world?

If farmers considered multiple certification and auditing protocols to be burdensome early in the last decade, they also tolerated them as the price of accessing the Fair Trade market. During my 2004 fieldwork on St Lucia, net returns from Fair Trade fruit far outpaced those of conventional bananas. Table 11.1 summarises the results of a survey conducted that year of 133 Fair Trade and conventional farmers in St Lucia's Mabouya valley. Fair Trade farmers reported that wage costs increased as a result of FLO's herbicide ban, but they were more than offset by the higher Fair Trade price and greater yields. Their harvests were usually greater due to the fact that conventional farmers spent more time in off-farm work to compensate for lower fruit prices. Growers of premium conventional bananas received prices 16 per cent lower than Fair Trade, while those growing fruit for the UK wholesale market or for sale on other islands received a 40 per cent lower price.

In addition to a higher producer price, Fair Trade generates a social premium: a portion of the retail price is returned to farmers' groups

Table 11.1 Economic characteristics: Fair trade and conventional farmers (all figures in Eastern Caribbean dollars; EC$1 = US$0.38)

		N	**Mean**	**Std Deviation**
Annual non-farm income	Fair Trade	58	2,141	7,553.7
	Conventional	75	3,095*	8,587.5
Paid non-harvest workers on farm	Fair Trade	58	2.8*	1.0
	Conventional	75	2.4	0.9
Wages paid fortnightly	Fair Trade	58	410*	324.5
	Conventional	75	285	195.5
Net earnings from most recent harvest	Fair Trade	57	776*	544.3
	Conventional	74	538	400.1
Most recent shipment (boxes)	Fair Trade	58	82.7*	51.4
	Conventional	75	70.1	63.6

*t-statistic significant at $p<0.05$.
Source: Author's survey data from the Mabouya Valley, St Lucia, 2004.

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for investment in local needs. Until 2005, each box of fruit earned a US$1.75 social premium, US$0.20 of which was transferred to WINFA and US$0.55 to the National Fair Trade Organisations on each island. The remaining net premium of US$1.00 per box was allocated to Fair Trade farmers' groups to invest in projects designed to meet local needs. FLO specifies that all members have the right to propose projects to be funded with social premiums, and that such proposals should be voted on by the membership at large. FLO also specifies that no more than 30 per cent of the premium may be used for purposes that benefit the farmers' groups themselves, and none expended on behalf of individuals. Instead, most premiums have been spent on equipment for schools and health centres, road improvements, sports fields, and vocational training for youth, among other uses.

During an interview in 2003, when many greeted Fair Trade as a possible salvation for the banana industry, a St Lucian organiser extolled social premiums as a means to 'build community'. He pointed to events such as athletic competitions, talent shows, dances, and 'Seniors' Days' honouring older residents for their contributions to the community. Premiums underwrite such activities by providing refreshments, entertainment, and prizes that promote attendance. He also observed that the investment of social premiums helps fill the void in health care and education resulting from state services whose scale and reach have contracted due to declining export earnings and government revenues. 'It used to be that people looked to government to do these things', he explained, 'but since the 90s, when the bottom fell out of bananas, government tells us it doesn't have the funds. It can't even provide essential services, like schools and roads . . . So Fair Trade groups are stepping into this vacuum. They're providing services and development that don't come from anywhere else.'

The organiser's comments have been echoed by leaders such as Dominican prime minister Roosevelt Skerrit, who has praised Fair Trade for providing some services that his government – currently under IMF structural adjustment – can no longer afford (Vidal 2007). While few growers interviewed in 2003 and 2004 felt that Fair Trade could fully substitute for government, many looked with pride on community projects funded by sales of their fruit. With the passage of time, however, many now question the fairness of a model of development that shifts the costs of services from the state to farmers. Such complaints became more pronounced at the end of the decade as the volume of social premiums declined in tandem with banana exports. As the secretary of one Dominican Fair Trade group explained in 2010, 'Certain projects, like

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fixing up roads and such, that should be what government does, because we're paying taxes. Roads and streetlights, that should be government's job, not Fair Trade's . . . Why should the farmer be spending money on things that don't benefit him?'

By the end of the decade, much had changed about Fair Trade in the Windwards, but not for the better in the eyes of most participants. In 2005, Walmart's UK subsidiary Asda, which stocks exclusively Chiquita bananas in its supermarkets, initiated a retail price war.[7] A widening disparity ensued in store prices of conventional and Fair Trade fruit, with the latter costing up to 110 per cent more. Winfresh attempted to bolster its market share by lowering the Fair Trade wholesale price, in turn reducing producer prices to FLO's basement Fair Trade level of US$6.75 per 18 kg box.[8] The Caribbean's National Fair Trade Organisations responded by reducing the social premium from US$1.75 per box to US$1.00, with the balance redirected to bolster producer prices that lagged behind production costs. Despite such subsidies, by 2009 Caribbean growers generated lower net earnings per box of fruit than they had six years before, largely because of a rapid rise in the cost of farm inputs. In Dominica, whose government was compelled by the IMF to increase import duties, fertiliser prices rose nearly 40 per cent between 2004 and 2010. Five years into the price war FLO raised the Fair Trade minimum price on Windwards bananas to US$9.00 per box. Yet even with this adjustment, FLO conceded that for many growers the new price did not fully offset input and labour expenses; at best, it allowed them to satisfy 'production costs *as much as possible* while allowing retailers to continue selling Fairtrade bananas in an extremely competitive market' (FLO 2009b; emphasis added). Similar, if less-pronounced, trends followed on the other islands, where the reduced number of farmers and their corresponding loss of political clout emboldened cash-strapped governments to also introduce duties on imported inputs. Such measures would have once been politically perilous, if not suicidal.

After increasing slightly in mid-decade, the number of active farmers again declined in the ensuing years. Falling prices, an unprecedented drought, outbreaks of Yellow and Black Sigatoka, and the unsatisfactory conclusion of EU tariff[9] negotiations reduced the Dominican Fair Trade farmer base to 856 by 2012, compared to about 1,400 seven years earlier (FLO 2012b, p. 3). Among the remaining farmers there is palpable economic distress: 56 per cent of those surveyed in 2010 worked off-farm because of declining prices, with their wages in effect subsidising banana production. Self-reports from the same cohort indicated that only 22 per cent earned off-farm income five years earlier. Throughout

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Dominica, collapsing packing sheds and farms given over to chest-high weeds poignantly confirm the exodus from agriculture. Thousands of those displaced from farming have sought livelihoods elsewhere, indicated by census data revealing an 11 per cent fall in population since 1990. Faced with continued and even increased monitoring of their production practices, the farmers who remain have turned sharply against Fair Trade protocols and the field agents who enforce them.

The Fair Trade certification regime was never seen as 'fair' in the minds of most growers, and the language of its advocates held little resonance for farmers entering an ostensibly 'new world' of consumer–producer relationships. Earlier in the decade, farmers often said that they submitted to FLO's requirements as part of a 'bargain', in exchange for the higher prices that Fair Trade provides. In the words of a St Lucian farmer interviewed in 2004, 'This is what we must do to get a better price. This is our dance with the devil.'[10] Farmers operated with an implicit moral economic understanding of the Fair Trade relationship based not on the goals of social transformation emphasised in the movement's discourse, but nonetheless involving some expectation of reciprocity. As the benefits of Fair Trade dissipated, farmers' resentment has grown at the surveillance of their working routines, with particular ire focused on the Winfresh officials who continue to enjoy stable salaries and perks (Moberg 2014, p. 10).

FLO's restrictions on the use of social premiums have also come under criticism. As farm earnings declined while premiums continued to be spent on community-based projects, many objected that returns from the sale of their fruit primarily benefitted non-farmers. Calvin, a farmer on Dominica, noted the irony of farmers funding services for neighbours who often disparage those who make a living from the land:

> [A] lot of town people, especially the younger men and these boys, they look down on farmers . . . They rather be out on the street making mischief than working the land. When we pass [them] on the way to farm, they sometimes laugh and call us country bookies [i.e. hicks]. But then they turn round and play football on the same very field our premiums paid for! I think to myself, hypocrites! Why should we farmers be doing things for people who disrespect us? Is that fair?

Most project proposals originate when village councillors, school principals, or clinic directors approach the officers of Fair Trade groups with a request for funding. They, in turn, present proposals to the entire group which is to discuss and vote on them. In practice, however, there is little debate over most proposals. Members of four Dominican Fair Trade groups

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interviewed in 2010 could recall no instances in which an officer's proposal was voted down. This may be due to the greater levels of education usually possessed by leaders or their greater command of standard English than most members, which might limit open debate. Reluctance to challenge proposals ultimately originating with comparatively privileged officials in the community, such as village councillors, may also stem from a fear of retaliation in the distribution of jobs, permits, and resources. Helene, a Fair Trade farmer on Dominica, summed up many farmers' displeasure with the way social premiums are spent:

> When the social premium arrives, . . . the greater membership is called . . . to take a decision. But what we always found that the ideas have already been taken. As it were, they seeking confirmation to make it seem as though the general membership giving its approval . . . For example, once they decided that they were going to give some money to the village council to complete the roof of a building that they started. Maybe it's a worthy project, but the people, the farmers them, they are not asked to brainstorm as to how $5,000 or $10,000 are to be used . . .

Ironically, such complaints grow in intensity as the amount of premiums returned to the islands declines. Dominican Fair Trade farmers groups generated EC$3,216,265 (US$1,254,343) in premiums during 2005, the peak year of Fair Trade production. As islanders abandoned banana farming, exports and premiums declined as well. By 2009, Dominica earned only US$313,271 in social premiums, falling to about half that level in 2010 (NFTO 2010). As the social premiums available to maintain feeder roads or subsidise inputs dwindle, farmers cast an envious eye on the lion's share FLO requires them to spend on community-wide projects. That their efforts sustain such initiatives strikes many as profoundly unfair, as Rayfeen, a Dominican farmer explained: 'From that $1.75 we gettin', the farmer get just 35 cents from it . . . You won't help me, but you will help to buy bus, help to buy bus stop, help to build road, help to buy fridge for the health centre, . . . you can do all these things, but you can't help me? . . . They say that Fair Trade, but that not fair. That is unjust trade!'

Conclusion

A decade ago, I wrote that Fair Trade farmers were more optimistic about the banana industry than at any time since 1993 (Moberg 2005). By 2006, the number of export-oriented banana farmers on the Windwards

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had climbed to 3,347 (FLO 2007), marking the first time since 1990 that the industry's productive base had grown instead of contracting. Yet in that guardedly optimistic context I also noted the limits to Fair Trade's ability to transform the world market or to alter the position of small farmers in it. In the realm of certification, Caribbean realities have always fallen short of Fair Trade's claims of transparency and mutual respect. Farmers perceived little difference between the new standards to which they were held by FLO and the earlier dictates of Winfresh and supermarkets to which they continued to be subject, all of which they characterise as rigid and costly. In mid-decade, what distinguished Fair Trade from these earlier directives was that for the first time the benefits in price offset the costs of compliance.

As seen from those interviewed in 2010, the implicit Fair Trade contract – in which farmers consented to intrusive governance in exchange for higher returns to their labour – has since been broken. Their unconcealed anger at this rupture represents a textbook illustration of a violated moral economy of the poor. Farmers have long recognised that the movement's lofty discourse failed to reflect the quotidian experience of Fair Trade in their working lives. Much as Thompson demonstrated for pre-industrial England and Scott for Malaysia, farmers did not hold Fair Trade to its own stated, abstract standards of economic justice, but to a simpler calculus of what it offered in exchange for its demands. When its producer prices failed to keep up with production costs, for many farmers Fair Trade became, in Rayfeen's words, 'unjust trade'. What remained was an authoritarian system of governance permitting few responses other than to withdraw from the export market. Revisiting the moral economy of the peasant in his later work, Scott (1985) explored the clandestine 'weapons of the weak' by which subaltern groups resist domination in place of overt rebellion that brings with it catastrophic perils. Sabotage and foot-dragging may be effective or at least cathartic strategies for wage labourers responding to abusive and demeaning employers. Such avenues are closed off to own-account farmers whose work is under constant surveillance and property subject to inspection without warning. Farmers tempted to use banned chemicals to reduce their labour costs must balance temptation against the close monitoring of their fruit for conformity with certification standards from abroad. Any violation of these protocols, easily detected when fruit is measured for chemical residue in England, brings a permanent expulsion from the export market.

The primary lesson here is that efforts to tame commodity markets through consumer choice alone face formidable if not insurmountable challenges. Caribbean farmers were once told that the Fair Trade label

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and all that it signals to socially conscious shoppers would insulate them from a deregulated market whose terms have long dictated a worldwide 'race to the bottom' in labour rights and environmental conditions. When the WTO dismantled a trading regime that had sustained farmers for generations, Fair Trade provided, for a time, a lifeline for a small number of survivors. Throughout the persisting 'Great Recession', however, when even the most conscientious shoppers have closely guarded their spending, Fair Trade farmers have found themselves no less vulnerable than the producers of any other commodity to shifting consumer priorities. Their survival in coming years faces an even more dire threat from the recently announced merger of two industry giants into Chiquita-Fyffes, a behemoth that by itself will control more than half the world's banana trade. However sincerely held by Fair Trade advocates, the moral sentiments that animated the movement in the past are likely to offer little match against the increasing consolidation of political and economic power that will define the future of global markets.

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Notes

1 A sizeable literature addresses the WTO dispute over banana imports (Raynolds 2003, Tangermann 2003, Wiley 2008), including the role played by campaign contributions in President Clinton's decision to file the suit (Moberg 2008, pp. 82–85).
2 In 2009, the company changed its name to Winfresh, reflecting the fact that bananas were less central to its business model. Most islanders continue to refer to it by its former name.
3 Many of these predictions proved to be accurate. On St Lucia, where I was robbed in 2000, levels of violent and drug-related crime increased by 36 per cent and 304 per cent, respectively, between 1995 and 2000 (Moberg 2008, p. 3).
4 As harvests usually occur every two weeks, growers measure production and income by fortnight.
5 That is, 'break down'.
6 In rural St Lucia, where about 35 per cent of those over 60 are monolingual in Kwéyòl, farmers frequently have to call on better-educated children and grandchildren to maintain records. Although most rural Dominicans understand Kwéyòl, few are monolingual.

7 Many supermarkets treat bananas as a 'loss leader'. They are sold at prices that yield little or no profit to attract shoppers who invariably purchase other items sold at a mark-up.

8 Before the price war of 2005–2010, Winfresh had paid slightly in excess of the Fair Trade basement for standard Fair Trade fruit – and considerably in excess for specialty Fair Trade, such as 'kid's sized' bananas. The basement Fair Trade price for the Windwards reflects the input and labour costs of a representative sample of growers over all four islands. Because this figure is an average, by definition many find that their costs of production exceed the basement price. And, as input costs rose in the latter half of the decade without a corresponding annual adjustment of the minimum price, ever greater numbers of farmers found it impossible to make ends meet based on FLO's minimum.

9 In 2006, the EU imposed a Dollar Area tariff of 176 euros per tonne, which Caribbean governments claimed would not offset their competitive disadvantage. The US and Latin American plaintiffs took the EU back to the WTO and won an even lower tariff of 114 euros.

10 Ironically, Jaffee (2007) employs the same metaphor to describe the arduous relationship between Fair Trade activists and large coffee companies.

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12
On the Margins of the Rising South: ALBA and Petrocaribe in the Caribbean

Gavin Fridell

Introduction

Growing attention has been paid in recent years to new political and economic trends encapsulated under the notion of the "rise of the South." After centuries of uneven integration into the world system, a number of Southern countries have experienced decades of substantial economic growth – often faster than those historically experienced by the North – and gradual improvement in social indicators. Large developing economies led by Brazil, India, and China have been at the forefront of these changes, which have included intensified and expanded economic and political linkages between Southern partners; South–South Foreign Direct Investment (FDI) flows grew from $2 billion in 1985 to $60 billion in 2005, and the share of South–South trade of world merchandise trade increased from 8 per cent in 1980 to 26 per cent by 2011 (Shirotori and Molina 2009, UNDP 2013, p. 2). Changing South–South trade and investment patterns have been interwoven with new regional integration projects and increased action among wealthy countries to expand their relations with Southern partners.

Not all Southern countries, however, have been magnets for new investment, nor have they experienced rapid economic growth and substantial increases in their political and diplomatic weight. The rise of the South is experienced differently among smaller, weaker, or more vulnerable economies at the margins than those at the emerging new poles of the global economy. A "new geography of international trade" is developing, involving uneven "hub and spoke" relations between Southern countries, the rise of powerful Southern transnational corporations with global reach and influence, and the emergence of new forms of Southern cooperation and competition, all of which present more

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vulnerable Southern states with novel challenges and opportunities (Shirotori and Molina 2009, p. 4).

This chapter will explore the differential impacts of the rise of the South through an examination of new forms of South–South cooperation in the Caribbean that have emerged in the wake of the decline of "non-reciprocal" trade and assistance with the EU. In section one, I critique the political and ideological biases of the "free trade" notion of "reciprocity," and argue that international trade must be understood as inseparable from the uneven politics of capitalist statecraft. Section two explores new, non-reciprocal arrangements between the Caribbean and Southern partners, focusing on ALBA and Petrocaribe. I argue that South–South cooperation, despite certain shortcomings, offers Caribbean states both short-term lifelines and longer-term alternative pathways for Southern statecraft aimed at greater "policy space" for endogenous development and a renewed emphasis on employing the tools of statecraft to mitigate market volatility and construct comparative advantage.

The free trade "package" and capitalist statecraft

Given limited movement on multilateral negotiations over "free trade" at the World Trade Organization (WTO), bogged down by major disagreements over protectionist barriers, intellectual property rights, and agricultural export subsidies, many countries have turned increasingly toward bilateral or regional Free Trade Agreements (FTAs). FTAs are easier to conclude as they involve fewer participants and frequently occur between uneven trading partners, allowing more powerful states to gain greater concessions than they otherwise would in multilateral forums. However, FTAs have been widely criticized for failing to evenly eliminate trade barriers, serving instead to expand and entrench pro-corporate protections around intellectual property, services, and investment rights that limit the ability of states to act on key social, environmental, and labor issues (Stiglitz 2002, Bhagwati 2008, Grinspun and Mills 2012). Less than a genuine goal of FTAs, "free trade," as Jodi Dean has observed, is primarily a contradictory "ideological fantasy," reproduced by powerful corporate and state institutions and embedded in everyday practices that obscure the lack of actually existing free trade (Dean 2009). Far from a neutral technical or policy issue, as it is so often portrayed in mainstream media and policy circles, "free trade" is an intricate political, economic, and ideological "package" rooted in complex social, historical, and cultural forces (Peck 2008, p. 8, Fridell 2013).

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One aspect of the free trade package that is central to FTA negotiations is the idea of "reciprocity." In place of previous trade agreements, some of which allowed for a degree of preferential or "non-reciprocal" market access for Southern countries, new FTAs are premised on "reciprocal" commitments from all partners, rich and poor (Orbie 2007). The idea that genuine reciprocity can be attained between unequal players, however, is highly questionable as it assumes that such a goal is *possible* and *desirable* for smaller or poorer Southern states. While reciprocity might seem attainable or advantageous for large Southern economies, such as China and Brazil, it is much less likely that smaller or poorer states can engage reciprocally with more powerful ones given the formers' level of economic development, historical path dependencies, and locations in the international division of labor. It is not at all clear, for example, how Caribbean companies are to be able to compete on anything akin to a level playing field with much larger transnational corporations, both in the North and South, that dominate access to key global markets (Sanders 2012b).

Moreover, the idea of reciprocity assumes that modern states that create and conduct FTAs are *able* and *willing* to carry out such a task. Reciprocity in this context means a reciprocal reduction in state market intervention, which assumes that the state and the market, the economic and the political, can be separated. Critics of this understanding, however, have effectively demonstrated the impossibility of this task: the capitalist state is required to protect private property and enforce a vast range of rules and regulations on society, regardless of whether or not the policy paradigm is "free trade" or some version of "market interventionism" (Polanyi 1944, Wood 2005, Chang 2008). Connected to this, the goal of reciprocity assumes a relatively benign state, not only capable of removing itself from the market but willing to do so for the sake of the assumed long-term benefits that would emerge from a liberalized world order.

The motivations and goals of the modern capitalist state, however, are more varied and complex than this. As Peter Gowan (1999) has observed, far from being neutral or benign, the capitalist state is highly political, driven by the interests of dominant classes, and often employing "economic statecraft," through strategic market management, to gain advantage over other capitalist states. Building on this, David Harvey (2003) argues that capitalist states are deeply motivated by geostrategic interests driven by two dominant logics that can be compatible or competing depending on the specific context. The "territorial logic" involves the actions of political leaders as they seek power for their state

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over other states to promote the interests of economic sectors perceived to be essential to providing employment, state revenue, social stability, and institutional legitimacy, while meeting the specific interests of dominant classes – for example, elites in the financial sector or the auto industry. The "capital logic," involves state action to develop, protect, and reproduce on a global scale a capitalist economy, based on specific social relations and commodity production. This entails protecting private property, managing class conflict, defending the interests of capital at home and abroad, and, as Ellen Meiksins Wood (2005) has argued, ensuring the artificial separation between the economic and political realms.

Seen through the lens of the two logics of capitalist statecraft, the central impetus behind the push toward FTAs would appear to have little to do with genuine reciprocity. Instead, "reciprocity" works as an ideological fantasy to obscure the strategic interests that underpin FTAs, in particular the needs of dominant states to seek out new markets, investment opportunities, and sources of cheap labor and resources in the context of declining profit rates and investment opportunities for Northern-based corporations (Harvey 2003). It is within this context that the EU–Caribbean Economic Partnership Agreement (EPA) was signed in 2008, an FTA involving the EU and 15 Caribbean nations. The EPA was designed to replace previous preferential trade arrangements that were part of a package of preferences offered to all members of the African, Caribbean, and Pacific (ACP) group of countries under the framework of the Lomé Conventions (1974 to 1999), and applied to dozens of exports entering the EU market, including such things as rum, beef, bananas, sugar, rice, and mining products. The decline of preferential trade has been devastating for the Caribbean, destroying traditional industries in bananas and sugar, intensifying unemployment and out-migration, and fuelling public debt crises as governments scramble to make up for revenue shortfalls (Fridell 2011, Richardson and Richardson Ngwenya 2013). Far from a passionate concern for "reciprocity," the EU's declining support for preferential trade has been largely driven by the changing nature of EU development cooperation aimed now at the poorest developing countries, intense pressure from the United States and Latin American countries opposed to the preferences, and the perception that defending preferential trade distracted EU trade negotiators from bigger priorities with booming Asian economies (Rose 2010, Bulmer-Thomas 2012, p. 342). Caribbean states, for their part, rather than embracing the new "reciprocal" relationship with the EU, have turned increasingly toward new alliances with Southern powers seeking to meet their

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own statecraft needs through non-reciprocal South–South trade and cooperation.

ALBA and Petrocaribe in the Caribbean

While traditional North–South non-reciprocal trade and commitment to "special and differential treatment" have waned, Caribbean states have become increasingly involved in a number of new South–South projects. Among the most significant have been the Bolivarian Alliance for the Peoples of Our America (ALBA), launched in 2004 by its founding members, Venezuela and Cuba, and since expanding to include Bolivia, Ecuador, Nicaragua, and the Eastern Caribbean states of Antigua and Barbuda, Dominica, St. Lucia, and St. Vincent and the Grenadines (SVG), and Petrocaribe, launched in 2005 by Venezuela, which offers 18 Caribbean nations preferential oil sales. Their emergence, notes Norman Girvan, has been part of a larger "process marked by a relative decline in U.S. power and the emergence of new geo-economic poles of influence" (Girvan 2010, p. 218). Within Latin America, the rise of ALBA and Petrocaribe, both dominated economically and politically by Venezuela, have occurred at the same time as the growing regional and international influence of Brazil and the general emergence of new Southern institutions and agreements. The traditional hegemony of the United States, the World Bank, and the International Monetary Fund (IMF) has been diminished in recent years by these trends, which have included the establishment of the Bank of the South (BancoSur) in 2009, a development bank composed entirely of Latin American states; the 12-member Union of South American Nations (UNASUR) in 2011, which aspires ultimately to create an EU-style customs union; and numerous other initiatives that both complement and compete with each other, but in general reflect rising Southern influence and economic weight (Kellogg 2007, Girvan 2010, UNDP 2013).

Within this context, ALBA has emerged as one of the most distinct and conscious alternatives to FTAs. Whereas FTAs are typically framed around the goals of deregulation, privatization, and reciprocal liberalization, ALBA is framed around prioritizing social goals through cooperation to meet basic needs through health care, education, and food sovereignty, while recognizing the necessity of non-reciprocal trading arrangements between asymmetrical partners through such things as concessional financing and preferential trade (Kellogg 2007, Girvan 2010, Hart-Landsberg 2012). As Paul Kellogg observes, "Where traditional trade deals use language like 'comparative advantage,' ALBA instead

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argues, 'the political, social, economic and legal asymmetries of both countries have been taken into account'" (2007, p. 201). Characteristic of the orientation of ALBA has been one of its first projects, an oil-for-doctors agreement wherein Venezuela has exported thousands of barrels of petroleum a day to Cuba in exchange for the latter sending thousands of medical specialists to poor and rural areas in Venezuela – by one estimate providing medical services and training to 17 million people. This has been part of a wider Cuban project wherein thousands of medical specialists have been sent to dozens of countries around the world, providing free or low-cost health services and training to tens of thousands. For the Eastern Caribbean islands, four of whom are ALBA members, Cuba has given free medical training to hundreds of students and free surgery to hundreds more sent to Cuba and Venezuela to have their sight restored through "Operation Miracle" (Gibbs 2006, Girvan 2010, p. 221).

Emerging around the same time as ALBA has been Petrocaribe, a major South–South initiative through which 18 Caribbean states are able to purchase oil from Venezuela under the terms of preferential credit and low-interest rate loans.[1] Petrocaribe has also emerged as a major source of grants and concessional loans used to fund an array of development projects aimed at providing social and economic infrastructure and technical assistance. Combined with funds from ALBA, the two have become among the largest source of concessional financing in the Caribbean. This is highly significant, especially given that ALBA/Petrocaribe funds generally lack the demands associated with official development assistance from traditional donors such as the World Bank, the IMF, the EU, and the United States, which typically require extensive neoliberal adjustments aimed at liberalization, privatization, and state downsizing (Girvan 2010).

ALBA/Petrocaribe assistance, in contrast, seeks to avoid directly intervening in domestic political and policy priorities as determined by national governments. Both agreements are, in fact, composed of loose bilateral or multilateral commitments and statements of principle, as opposed to the rigid conditions typically associated with FTAs. ALBA and Petrocaribe are considerably more flexible, allowing members to determine arrangements on a case-by-case basis, and frequently pay attention to "special and differential treatment" considering both political and economic capacities of members. This flexibility also means that ALBA/Petrocaribe, as Girvan observes, do not legally bind members under international treaty law and do not formally conflict with other international obligations, such as those associated with membership in the Caribbean Community (CARICOM) (Girvan 2010, pp. 221–226).

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Perhaps the most unique aspect of ALBA/Petrocaribe assistance, however, has been various projects involving "in-kind" assistance through bartering, lending, or donating services, equipment, and goods among members, to avoid the costs of financial transactions and promote non-market mechanisms for cooperation. This has taken the form of in-kind payments; for example, in 2013, Venezuela negotiated separate oil debt agreements allowing Jamaica to repay a portion of its debt through the provision of English language teachers, and allowing Dominica to repay a portion of its debt through bartering bananas, coconuts, and citrus (Dominican.net 2013). It has also frequently taken the form of in-kind assistance. In SVG, for example, since 2008 Venezuela and Cuba have provided free engineering services, heavy machinery, wind stations, and an on-site laboratory to help construct the country's first international airport, designed to promote tourism, trade, and service industries in the wake of the declining banana industry. The value of this in-kind assistance has been estimated at around \$112 million, nearly 13 per cent of the over \$840 million cost of the airport. The remaining expenses have been paid for largely from grants and concessional loans from diverse sources, with ALBA and Petrocaribe leading among them.[2]

Despite the benefits offered by ALBA and Petrocaribe, neither initiative can free Caribbean islands from the challenges of having vulnerable economies and contending with a world system dominated by much more powerful states. These powerful states, both North and South, generally present non-reciprocal assistance as free "gifts," whereas, in fact, gifts invariably enhance the coercive power of the giver, entailing subtle or indirect forms of payback or indebtedness – which, in the international arena, can involve a variety of diplomatic and economic concessions (Kapoor 2008, pp. 76–94). When Caribbean states engage in non-reciprocal trade and accumulate growing external debts through ALBA and Petrocaribe, they increase the leverage of Venezuela and other ALBA members over them. Alongside international cooperation, ALBA members have their own statecraft needs centrally in mind, which include the desire to build and strengthen alliances with Southern governments on the basis of common interests, encourage the emergence of a "multipolar" world with enhanced political clout for Southern blocs, confront deeply entrenched economic and technological dependence on the North, and stymie attempts by the United States and other imperial powers to isolate them economically and politically. Venezuelan oil diplomacy is a major case in point, being driven by both international cooperation and the desire for economic

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diversification. Petrocaribe has facilitated an expansion of Venezuelan oil exports throughout the South in the attempt to diversify away from the United States, which remains the largest importer of Venezuelan oil (Ellner 2007). Within the Caribbean, Petrocaribe has allowed Venezuela to eclipse Trinidad and Tobago as the largest supplier of oil to the region, a matter of great diplomatic and strategic concern for the latter (Bulmer-Thomas 2012, pp. 397–399).

In spite of major power imbalances between ALBA and Petrocaribe partners, however, it would be incorrect to see small Caribbean states as having no geostrategic cards to play. As others have noted, Caribbean states are not just "vulnerable," but can also be highly "resilient," adapting strategies that can "resist" and "reshape" wider structural forces through careful foreign and domestic policy choices. Most notably, in the case of ALBA, Caribbean states have drawn on a long history of "[leveraging] the attributes of the Westphalian system in their favour," taking advantage of international norms assigning one vote and one seat to individual sovereign states (Cooper and Shaw 2013, pp. 2–4). Thus, while the combined population of Eastern Caribbean ALBA members represents only 0.6 per cent of the combined population of all ALBA members, Eastern Caribbean states constitute four of nine full members. In signing up to ALBA, Caribbean states have offered an important political and ideological chip (allowing ALBA to claim a wider international membership) while also increasing their leverage over larger members; to some extent, Caribbean members must now be kept content to avoid a major diplomatic embarrassment should one decide or threaten to pull out.

While ALBA and Petrocaribe cannot ultimately transcend the geostrategic interests of states, they do offer alternative visions of how unequal interstate relations can be managed in a more economically and politically balanced and more socially efficient way. First, as a direct challenge to the free trade package and the framework of FTAs, ALBA and Petrocaribe openly promote non-reciprocity between asymmetrical partners on a case-by-case basis. ALBA specifically represents a political advancement over the previous EU–Caribbean preferential arrangement, which was formally an EU project with Caribbean countries assigned only a consultative role. Under ALBA, non-reciprocal treatment does not mean unequal political status, and all ALBA members, big or small, have the same official status in governing political, economic, and social councils. This formal equality cannot, of course, erase real geopolitical inequalities between small Caribbean states and much larger international partners. However, it stands as an important political and ideological alternative to FTAs that frame equality as a formal or technical

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matter – achieved by agreeing on reciprocal commitments from all parties – while ignoring uneven geopolitical and economic relations that undermine this formal equality. ALBA, in contrast, suggests that non-reciprocal arrangements are often required to support and advance the goal of more formal political equality between members.

Second, several projects put in motion under ALBA and Petrocaribe have been designed to put cooperation and the goal of strengthening South–South alliances ahead of competition, even in areas where market dynamics themselves would otherwise impose competitive behavior. One such example is an ALBA coffee initiative involving Dominica and Venezuela. In 2009, the Venezuelan government shipped the components for the construction of a new coffee processing plant to the island to assist it in diversifying into coffee exports in response to the failing banana industry. Venezuela itself has been placing increasing attention on promoting its own coffee growing, primarily targeting national and regional markets. Despite this, Venezuela has encouraged the coffee industry in Dominica, with the stated intention of developing joint ventures aimed at Caribbean and Latin America markets. The Dominican coffee project has not yet become operational and the government estimates that production on the island will have to increase by over fivefold to operate the coffee processing plant to full capacity and be competitive on global markets. The government seeks to attain this by encouraging farmers with advice, materials, and inputs. The proposed coffee project is certainly no panacea for development, involving as it does continued dependence on unstable commodity markets. The hope, however, is that dependence on high-quality coffee with a unique Dominican branding will be a relatively more solid market for farmers compared to the failing banana market, and will also allow the island to "forward integrate" into the final stages of coffee processing, typically reserved for Northern-based roasters (Dominica Central Newspaper 2011).

Third, ALBA reasserts and further legitimizes a growing tradition within the South of prioritizing human development alongside economic growth – seeing support for such things as education, health, and public infrastructure as a necessary component to facilitating long-term social and economic development (Lebowitz 2010, UNDP 2013). Regional integration and cooperation schemes are invariably built upon and designed to support specific political-economic models at the state level. In Latin America, the "old" regionalism of the 1960s and 1970s was designed to support state-led Import Substitution Industrialization (ISI), whereas the "new" regionalism of the 1990s was designed to support the withdrawal of the state from direct economic

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activity and the expansion of foreign investment, trade, and services under neoliberal reforms. ALBA, in contrast, is part of an emerging post-neoliberal consensus supported by a diversity of essentially social democratic models aimed at a regionalism that supports greater social inclusion, democracy, and state autonomy vis-à-vis Northern powers. Within this new "new" regionalism, ALBA offers, in the words of Pía Riggirozzi, a "trans-national welfarist space" (Riggirozzi 2012, p. 435).

One such social democratic model has been that pursued by the current government in SVG, headed by Prime Minister Ralph Gonsalves, which since gaining office in 2001 has boosted public spending to combat the effects of the global economic recession, the declining banana industry, and high unemployment (Payne 2006). The government has promoted construction and service jobs and developed several significant social programs, such as constructing hundreds of low-income houses, providing significant supports to public employees to buy their own homes or attend university, and distributing antiretroviral drugs free of charge to HIV patients. The government has pursued an extensive public education program, spending around EC$1.5 billion from 2001 to 2011 to expand schools and teacher training, resulting in universal secondary education on the island and raising the number of primary school teachers with university degrees from only 4 in 2001 to around 500 in 2011. Currently, the government is carrying out a "One-lap-top-per-Student" program, which has distributed 15,000 laptops at a cost of US$18 million, and is developing a universal childcare program.[3]

ALBA is, ultimately, not responsible for social reforms such as those pursued in SVG, which are driven by their own internal political logic and social dynamics. Since the 1960s, Caribbean islands have carried out major public sector expansions which, while causing deficit and debt crisis in many instances due to insufficient tax collection to cover new costs, have led to major gains in education, health care, housing, social services, and infrastructure (Bulmer-Thomas 2012, p. 368). Internationally, small Caribbean islands, given their "vulnerability" to international trade, have a significant history of "resiliently" pursuing "unconventional" economic strategies (offshore financial services, remittances, Internet gambling, selling fishing rights, and cruise-ship hubs) and lobbying for preferential trade arrangements such as those built into ALBA and Petrocaribe (Cooper and Shaw 2013). Recently, after years of neoliberal austerity, several countries in the Eastern Caribbean have demonstrated what Anthony Payne (2006, p. 27) refers to as "a renewed interest in rethinking national development strategies."

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It is the collective emergence and revival of new social democratic governments with a more *dirigiste* vision of state action in the Caribbean and Latin America that has given birth to ALBA and not the other way around. What ALBA does represent is a forum for cooperative development between like-minded states with vastly different economic and political resources (Hart-Landsberg 2012). For small economies in the Eastern Caribbean, ALBA provides additional "policy space" to pursue alternative state projects and has offered various lifelines in the form of economic, technical, and diplomatic assistance that facilitates government efforts to pursue countercyclical public spending and major investments in social and economic infrastructure in the context of a global economic recession and a real-world economy offering little of the dynamic market-driven opportunities assumed to exist by the free trade package.

ALBA and Petrocaribe are not the only significant forms of new South–South relations in the Caribbean and their projects are increasingly difficult to separate from other regional and international initiatives. For example, several core members see ALBA as part and parcel to wider and more extensive forms of regional economic and political integration for all of Latin America and the Caribbean. Cuba's health missions, while central to various ALBA projects, have also been offered to dozens of nations throughout Latin America and Africa. Rising Southern powers from outside the region have also shown growing interest in the Caribbean, channeling hundreds of millions of dollars into the islands to meet their own geostrategic interests. For instance, while SVG has received the largest aid for the new airport from ALBA members, significant support has also come from Taiwan (in the form of US$20 million in grant funding and US$10 million in soft loans), Trinidad and Tobago (a grant for US$10 million), Iran (a grant for US$2 million), and Mexico (which agreed to do the Airport Master Plan free of cost) (Gonsalves 2012). These non-reciprocal forms of assistance invariably involve less direct concessions on the part of SVG – most notably, regarding Taiwan, the government of SVG recognizes it as the "Republic of China on Taiwan," a diplomatic chip in Taiwan's long-standing political dispute with China.

It has been China, however, which has emerged as one of the dominant players in the Caribbean, as it has throughout the globe. Over the past three decades China's share of imports to the region has grown from nearly zero to almost 10 per cent, and China has funneled hundreds of millions of dollars into the Caribbean in the form of new investment, soft loans, and grants (Bulmer-Thomas 2012, p. 345). In addition to

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facilitating trade and access to key natural resources – such as oil, minerals, gas, and forestry products – China has sought support for its "One China" policy (entailing refusal to recognize Taiwan as an independent state), wider diplomatic support in international bodies like those of the UN, and new locations to absorb China's growing migrant labor population. Beyond this, Chinese assistance comes without extensive conditionalities typically associated with international development assistance and has been welcomed throughout much of the Caribbean. Dominica has been one of the largest recipients of new assistance from China. In 2004 – the same year ALBA was launched – Dominica broke diplomatic ties with Taiwan and officially recognized China's "One China" policy. In exchange, China announced $100 million in grants for four infrastructure projects devoted to the construction of a new sports stadium and a new grammar school, and the rehabilitation of a major road and the island's main hospital (Sanders 2011, 2012a, Sanchez and Tu 2012).

On the margins of the rising South

Despite the benefits of new forms of South–South cooperation, Southern partners have not yet been able to match the extensive impact of previous preferential agreements from the EU, which allowed for industries in bananas, rice, rum, and sugar to expand for decades, in some cases producing impressive human development outcomes relative to other Southern competitors (Fridell 2011, Richardson and Richardson Ngwenya 2013). Venezuelan oil now represents around 43 per cent of the energy needs of Petrocaribe members, but there are few other trade and investment ties beyond oil, resulting in a narrow and asymmetrical trade relationship in Venezuela's favor (Bryan 2013, pp. 156–157). In SVG, for example, trading relations with new Southern partners mirror the highly imbalanced global trading patterns common to small Caribbean islands – the total value of SVG's imports of merchandise trade in 2012 was over ten times the country's exports. Whereas Venezuela is now SVG's third-largest source of imports and China is now its fifth, neither country are in any way key markets for SVG exports, the majority of which are aimed at other Caribbean islands, the United States, and the United Kingdom (see Table 12.1).

It remains to be seen if, over time, Southern trade in the Caribbean can come to assume a weight more commensurate with traditional export markets (Bulmer-Thomas 2012, pp. 347–346). New forms on non-reciprocal, preferential treatment from the South, however, must

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Table 12.1 Top ten trading partners of St. Vincent and the Grenadines, 2012 (total merchandise trade value in US$1,000)

	Exports		Imports
St. Lucia	9,360.192	United States	143,408.352
Trinidad and Tobago	5,967.645	Trinidad and Tobago	108,183.154
Barbados	5,873.635	Venezuela	22,487.965
Antigua and Barbuda	5,300.988	United Kingdom	19,315.366
Dominica	3,269.083	China	13,127.358
St. Kitts and Nevis	2,585.516	Antigua and Barbuda	9,210.554
Grenada	1,209.232	Barbados	8,750.715
Suriname	779.645	Italy	7,433.775
United States	699.534	Canada	6,169.963
Jamaica	608.205	Japan	5,184.577
United Kingdom	596.486	Jamaica	5,090.401
World	38,254.599	World	403,101.774

Source: World Integrated Trade Solution (WITS), United Nations Commodity Trade Statistics Database (UN-COMTRADE), retrieved February 17, 2014.

be understood as emerging within the context of very difficult social and economic crises for the Caribbean and in relation to other options that are currently available – the "lifeline" aspects of South–South cooperation should not be underestimated (Bryan 2013). Beyond this, however, South–South cooperation in the Caribbean points the way toward emerging trends globally that offers alternative pathways and visions for small Southern states over the longer term, two of which are particularly salient.

First, beyond their immediate benefits, new forms of preferential treatment offer Caribbean states greater "policy space" to pursue endogenous development and a wider range of domestic and foreign policy options. South–South non-reciprocal aid, of course, does come with a variety of informal concessions, driven by emerging powers' objectives to facilitate access to natural resources, build "support constituencies," and attain other geostrategic goals (Carmody and Taylor 2010). Despite this, South–South assistance does offer greater policy space for more vulnerable countries through much less rigid conditionalities than those associated with FTAs and by offering new economically, diplomatically, and militarily powerful trading partners to offset the traditional dominance of Northern states.

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Second, the emergence of new forms of South–South cooperation in the Caribbean has sparked a growing recognition among politicians and policy makers over the inevitable existence of statecraft – obscured by the fantasies of the "free trade" package – and the benefits of employing it more directly. Put simply, additional policy space does not mean much if policy makers do not have the confidence and conscious intent to make use of it. The rise of the South has brought with it important symbolic and ideological challenges to the free trade package that have resulted in innovative new visions for international trade that are at times subtle, but also significant. Of particular note has been the conscious use of statecraft to mitigate market volatility. ALBA and Petrocaribe are world leaders in this area, pioneering new innovations (in-kind payments and direct exchange) while reintroducing old ones associated with the post-War era (preferential oil prices and special and differential treatment for smaller partners, low conditionality on grants and loans) designed to help mitigate the unpredictability associated with trade and financial exchanges on the global market (Hart-Landsberg 2012).

Another growing trend, on a broader scale, has been explicit attempts to use statecraft to construct "dynamic" comparative advantage (UNDP 2013).[4] South–South cooperation in the Caribbean has played a key role in this regard, greatly facilitating the construction of economic and social infrastructure projects, technology transfer, and general work constructing roads, schools, and hospitals required for an economy to function effectively. While seeking to construct comparative advantage in itself involves accepting further global market integration, the *way* in which comparative advantage is being pursued represents a challenge to the free trade package and its assumption that comparative advantage emerges out of "unhindered" market singles alone. As critics of main stream trade theory have observed, the wealthiest nations in the world over the past several hundred years, as well as new Southern giants, have engaged in unprecedented amounts of trade but often with a substantial role for the state in constructing social and economic infrastructure and imposing a variety of strategic tariffs, subsidies, and restrictions on foreign trade (Arrighi 2007, Chang 2008). Recognition of this, in varied ways, has become a key component of South–South cooperation, which generally assigns a more positive role for "pragmatic" statecraft than international assistance from Northern powers (UNDP 2013).

The enhanced policy space and renewed confidence and vision for a more conscious and direct use of statecraft that has come with the rise of the South, however, must be understood alongside the challenges that the economic and political might of emerging powers also pose for

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more vulnerable Southern states. New forms of South–South cooperation do not – and perhaps cannot – fundamentally alter the economic vulnerability experienced by small Caribbean states that lack much of the economic, political, and natural resources that larger states possess in helping to overcome the legacies of colonialism, slavery, and uneven integration into the world system.[5] Caribbean states are likely to remain subordinate partners with more powerful Southern states, which are not just new partners but also new *competitors* with extensive resources at their disposal. This means that Caribbean states seeking economic diversification, technological and industrial development, and new forms of comparative advantage find themselves up against an increasingly competitive global environment, no longer dominated strictly by rich Northern countries, but also by Brazil, Russia, India, China, and others. New South–South relations are highly uneven, with dominant economies acting as "the center of gravity for the majority of trade flows from other regions," with subordinate regions, like the Caribbean, integrated into South–South trade and investment chains dominated by powerful Southern transnational corporations (Arrighi 2007, Shirotori and Molina 2009, p. 4, UNDP 2013).

The relatively vulnerable economic and political position of smaller Caribbean islands in the global economy is a familiar story, and one without a clear resolution. Whether matched up against former colonial or current neocolonial powers, or new emerging Southern giants, Caribbean states remain at the disadvantage of having to find new ways to negotiate the challenges of conducting economic statecraft at the margins. What makes the rise of the South and new forms of South–South cooperation unique is not their ability to wipe the slate clean and eliminate this historically unjust situation, but rather the new avenues they open up and the new tools they allow Caribbean policy makers to take advantage of. This involves economic lifelines to promote stability in the context of economic crises. Beyond that, however, South–South cooperation offers new policy space and an alternative ideological framework for using this space, providing much-needed relief to the tight and highly ineffective constraints of the free trade package. Despite shortcomings, new forms of South–South cooperation in the Caribbean offer important gains for smaller states in the context of highly imperfect and uneven real-world trade.

Notes

1 The general nature of Petrocaribe concessional oil financing is summed up by Girvan (2010, p. 222): "Petrocaribe finances a portion of the value of imports of crude oil from Venezuela according to a sliding scale: above $30 per barrel, 25 per cent; at above $40, 30 per cent; above $50, 40 per cent; above $100,

50 per cent. The balance is payable over twenty five years at 2 percent, falling to 1 percent at prices above $40/bl., with a grace period for repayment of two years."

2 Interview with Ralph Gonsalves (prime minister of SVG), Kingstown, SVG, July 15, 2008, and interviews with Cecil Ryan (chair of St. Vincent Banana Growers Association), Ratho Mills, SVG, July 9 and 31, 2008. The estimated total of over US$840 million is based on a conversion of an official 2012 estimate of EC$652 million, converted on January 1, 2012 (Gonsalves 2012).

3 Interview with Gonsalves in 2008; also see Gonsalves (2012).

4 The importance of this new turn toward "dynamic comparative advantage" was highlighted by Manfred Bienefeld in his workshop presentation "Comparative Advantage: A Poisonous Fallacy of Decomposition," presented at *Alternative Trade: Critical Approaches and New Directions in Trade and Development*, St. Mary's University, Halifax, Canada, November 2, 2013.

5 Cecilia Green (2007, p. 43) affirms the difficult position of Caribbean states, while also pointing out that "certain aspects of 'small size' were caused directly by colonialism, rather than being themselves the cause of underdevelopment and dependency."

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13

South American Post-neoliberalism and External Imbalances: The Case of Argentina, 2003–2014

Ruth Felder[1]

Introduction

In 2003, following a long period of recession with extraordinarily high levels of unemployment and poverty and widespread social unrest, growth resumed in Argentina and economic and social indicators started to improve. These changes accompanied major political and policy redefinitions under a government that rejected the neoliberal policy blueprint of austerity and liberalisation of the 1990s and took pains to make the country's integration into the global economy compatible with the creation of conditions for resuming capital accumulation and rebuilding consensus in the country.

Central to these changes was a reformulation of the links between the domestic and the international economy. While in the 1990s the country had been integrated into neoliberal globalisation through the liberalisation of finance and trade and massive state borrowing in international financial markets, in the 2000s it underwent a process of 'selective disengagement' (Carranza 2005, p. 82), which included rejecting the IMF's austerity programmes, restructuring the sovereign debt, implementing macroeconomic and financial regulations aimed at preventing external imbalances, and a reorientation towards the *Mercado Común del Sur* (MERCOSUR, Common Market of the South) and other Latin American alliances and away from the continental integration and free trade embodied in the Free Trade Area of the Americas (FTAA) put forward by the US and its allies in the mid-2000s. These changes – which occurred in the broader context of economic and political transformations in several South American countries – have raised debates about the nature of so-called 'post-neoliberal' development strategies and about the new wave of associated 'post-liberal' regionalism, which have been seen as

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ways to overcome Argentina's protracted development bottlenecks and, especially, its periodic external crises.

Without denying the importance of these recent transformations, in this chapter I show that recent policy shifts and new institutional arrangements in the country and the region have not eliminated the factors that account for Argentina's external vulnerability, particularly the trade and financial imbalances that make economic performance and the state dependent on hard currency inflows and which, therefore, subordinate the country to the vagaries of commodity exports and international money flows. Taking into account the persistence of these factors, it is safe to say that Argentina's post-neoliberal development strategy and the country's new forms of regional and global integration have helped to manage the consequences of the crisis of neoliberal reforms and their accompanying forms of global integration, yet without either addressing the historical shortcomings of development in the country or setting the foundations for a sustainable form of international integration.

In the following section of this chapter, I summarise the arguments about post-liberal regionalism and post-neoliberal development. I then present a brief account of the crisis of neoliberal reforms in Argentina and its resolution, paying special attention to the external dimension. I refer to the recovery experienced by the country after 2003 and to the country's involvement in post-liberal regionalism, and I finish with a brief analysis of the tensions of post-neoliberal development in the Argentinian case, raising questions about the prospects of these development and integration strategies.

Regional integration beyond neoliberalism?

There is widespread consensus on the existence of a major political transformation in South America in the early 2000s, which started with the coming to power of left and centre-left governments in the wake of the crisis of neoliberalism.[2] One major dimension of this left turn was the shift from the agenda of free trade and open regionalism that had accompanied neoliberal reforms in the 1990s to what some analysts have called a post-liberal or post-hegemonic regionalism (Riggirozzi 2012). Post-liberal regionalism has been defined as entailing forms of cooperation aimed at boosting growth, reducing asymmetries between countries, and preventing the negative impacts of global economic imbalances in the region. According to these views, there has been a repoliticisation of cooperation, which now goes beyond trade and

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strives for greater autonomy in the international arena and in development policies, especially with respect to the US (Crisorio 2009, Lechini 2012, Sanahuja 2012, Palestini Céspedes 2013). Arguments about this new wave of regionalism in Latin America are closely connected to recent debates about post-neoliberal and new-developmentalist development strategies, which, for many authors, are vehicles for overcoming the shortcomings of both traditional Latin American developmentalism and the ill-fated neoliberal experiments. New-developmentalism assumes that the inward-oriented growth and generalised protectionism of traditional developmentalism are unfeasible in the context of globalisation, while it also acknowledges the dire consequences of the uncontrolled privatisation of monopolies, the liberalisation of trade and the capital account, and the massive international borrowing prescribed by neoliberal orthodoxy (Bresser Pereira 2009, Romano Schutte 2013, p. 123). Authors argue that in the current stage of globalisation, the largest economies in Latin America – which have already gone through processes of primitive accumulation and industrialisation – can catch up and compete with developed countries. Moreover, the coming to power of left and centre-left governments that embrace the agenda of development has created the appropriate political context for administering the exchange rate, building institutions that make domestic companies internationally competitive, and implementing selective industrial policies, fiscal prudence, and incentives to increase efficiency and productivity (Bresser Pereira 2007, pp. 116, 119).

Analysts have paid special attention to the building of institutions and to the initiatives and political will of prominent political figures and governments to address the development agenda of the region and lead processes of regional cooperation. It is generally assumed that the right policies, institutional arrangements, and regional cooperation mechanisms will strengthen South America's position in international arenas, help to improve the economic and social performance of the countries of the region, and enable them to overcome their historical obstacles to development. Less attention, however, has been paid to the structural conditions and the balances of forces in which recent political and economic changes have occurred and the nature of the obstacles to development in the region. Taking the case of Argentina, this chapter aims to highlight these dimensions and contribute to an understanding of the complexity of the domestic social formation and its links to the international economy. With this purpose, then, the analysis that follows locates institutional and political processes within the historical conditions and the economic and political contexts in which they have occurred.

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Neoliberal reforms, macroeconomic stabilisation, free trade, and crisis in Argentina

After Latin America's lost decade in the 1980s, which in Argentina ended with hyperinflation in 1989–1990, the economic and institutional reforms carried out in the early 1990s by President Carlos Menem (1989–1999) succeeded in stabilising the economy, boosting growth, and creating the conditions for massive foreign direct investment (FDI) and portfolio inflows to the country, thus transforming Argentina into the 'poster child' of neoliberalism. Reforms involved the privatisation of more than 100 state-owned companies and other assets, financial liberalisation, the restructuring of the sovereign debt, the reform of the Central Bank's charter, and greater labour market flexibility, among others. Key for macroeconomic stabilisation was the imposition of a fixed exchange rate regime between the Argentinian currency and the US dollar, guaranteeing the full convertibility of the former into the latter (the 'convertibility system'), and a considerable reduction of import tariffs, which helped contain domestic prices through monetary discipline and massive imports (Bekerman 1998, p. 124).

It was in this context that in 1991, Argentina, Brazil, Paraguay, and Uruguay signed the Treaty of Asunción establishing the MERCOSUR, with the main purpose of reducing intraregional trade barriers, harmonising regulations, and creating mechanisms for policy consultation and common external tariffs. MERCOSUR was conceived of as a vehicle to attract foreign investment, achieve economies of scale, and boost comparative advantages, and it was negotiated as a part of a broader agenda for structural neoliberal reform (Arenas García 2012, p. 69). Moreover, as it evolved, it came to be seen as a building block in the continental integration contemplated in the FTAA, first launched by the US in 1994 (Bernal-Meza and Quintana 2001, p. 153). Even though MERCOSUR was a creature of the open regionalism prevailing in the period and a vehicle for freeing trade, its development was not free from tensions, as alternative paths to liberalisation were favoured by different capital fractions. While large domestic manufacturers pushed for the creation of investment and export opportunities through the MERCOSUR, large commodity exporters and transnational finance aligned themselves with the US initiative for continental integration. Consequently, the Argentinian government oscillated between strengthening its relations with Brazil and prioritising bilateral negotiations with the US and accelerating the formalisation of the FTAA (Morgenfeld 2013, p. 130).

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The currency board resulted in a gradual appreciation of the Argentinian peso, which, combined with trade openness, resulted in losses in competitiveness and worsening trade imbalances. By the late 1990s, growth slowed down, unemployment and poverty grew, trade imbalances rose, and the sovereign debt became unmanageable, while Argentina's dependence on external borrowing made it extremely vulnerable to international financial turmoil. This process was aggravated by a slowdown in Brazil and the devaluation of the Brazilian real in 1999, which resulted in a drastic reduction in Argentina's bilateral trade surplus and constituted a main source of tension within the MERCOSUR.[3] Furthermore, as the recession and financial uncertainty worsened, some members of the Argentinian government sought to sustain and intensify neoliberal reforms by strengthening Argentina's alignment with the US through formal dollarisation, in addition to continental integration within the FTAA.[4]

By the early 2000s, the success of neoliberal reforms had turned into an increasingly evident failure, with an unprecedented recession and heightening financial uncertainty. In December 2001, Argentina defaulted on its sovereign debt amidst acute political instability and social conflict. Shortly after, it let its currency depreciate. These decisions – which initially aggravated the already dire economic situation – created the conditions for major economic and political reorientations in the following years, in the context of the crisis of neoliberal reforms and important political and economical shifts in a number of the countries of the region.

Beyond the crisis: Policy shifts and the new development and integration agenda

The decision to let the Argentinian peso depreciate amidst rising international commodity prices and the revaluation of the currencies of several of Argentina's trade partners set the basis for growth based on the revitalisation of exports and the protection of domestic production from external competition. Initially, the devaluation triggered acute inflation and a drastic redistribution of wealth away from capital fractions in non-tradable sectors, wage earners, and other groups with fixed incomes. In addition, recession worsened and the already extraordinarily high levels of unemployment and poverty rose.[5] In this context, in 2002, the government imposed a tax on commodity exports through which the state appropriated part of the foreign exchange windfall, with the purpose of containing the rising prices of staples that followed the devaluation and

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addressing the fiscal deficit that had affected the country during the previous decade.[6] After a period of heightened exchange volatility and spiralling inflation, by late 2002 acute instability gave way to an incipient recovery. Instrumental to the recovery were the competitive exchange rate and the active regulatory intervention of the state, which succeeded in controlling the run against the Argentinian peso and stabilising the exchange market. In 2003, after the presidential election that brought Néstor Kirchner (2003–2007) to power, growth was consolidated and unemployment and poverty fell amidst the emergence of a new consensus on the importance of the state's intervention in the economy and the need to leave neoliberalism and its negative outcomes behind. Kirchner (2003) vindicated the central role of the state and politics over 'market imperatives' and 'investor confidence' as the principles guiding policymaking and argued for more autonomous forms of Latin American integration around the MERCOSUR. Accordingly, the monetary and exchange regulations imposed in 2002 were strengthened, while fiscal policies took an expansionary turn. Between 2004 and 2006, the Argentinian government renegotiated its defaulted debt with an important reduction in its principal and cancelled the IMF's assistance programme. It also distanced itself from its austerity recipes and the liberalisation agenda embodied in the FTAA. This was not, however, a linear move away from the free trade agenda. Rather, the Argentinian government made attempts to push this agenda, demanding that the US and European countries eliminate barriers to the country's exports, and, especially, reduce their agricultural subsidies. It was a combination of Argentina's failure to create better conditions for its exports, the domestic political climate of opposition to neoliberalism and free trade in the early and mid-2000s, and tensions between those domestic bourgeois fractions that sought to open new markets for exports and those focused on the domestic market that prompted Argentina to follow Venezuela's lead against the FTAA, resulting in its deadlock in 2005 (Morgenfeld 2013, pp. 134–135). In its stead, the Argentinian government strengthened links with the new left and centre-left Latin American governments and announced its intention to develop a broader agenda for regional cooperation among Latin American countries and to revitalise the MERCOSUR, which had been weakened by the crises in Brazil and Argentina.[7] The Argentinian government has not only prioritised the revitalisation of the MERCOSUR, but it has also pushed for a redefinition of its goals, including new political and social dimensions that had been absent in the 1990s, as well as making efforts to incorporate other countries. It has also been actively involved in the creation of a number

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of other regional institutions (Gratius and Gomes Saraiva 2013, p. 4). Along these lines, in 2004, Argentina participated in the creation of the Fondo para la Convergencia Estructural del MERCOSUR (FOCEM, Fund for the Structural Convergence of the MERCOSUR), with the purpose of providing financial and technical assistance to address the asymmetries between the bloc's larger and smaller economies. In 2005, the MERCOSUR Parliament was created – a political body representing the citizens of the member countries. Venezuela joined the bloc in 2006, and Bolivia followed in 2012.[8] In addition, negotiations have been taking place between MERCOSUR and other regional blocs to sign free trade agreements.[9] Accompanying this revitalisation of the MERCOSUR, starting in 2000, 12 South American governments agreed on the development of the Iniciativa para la Integración de la Infraestructura Regional Sudamericana (IIRSA, Initiative for South American Regional Infrastructure Integration) to build dams, power plants, and corridors connecting the countries of the region, aimed at improving the conditions for the circulation of commodities. In 2005, the MERCOSUR countries and Chile, Peru, Bolivia, and Venezuela agreed to develop the South American Energy Ring to transport natural gas between them. These initiatives moved towards an internationalisation of the region's economies, not through liberalisation and deregulation, but rather through the active involvement of the state in consolidating the role of the region as a main commodity exporter.

Governments from the MERCOSUR and other South American countries also argued for reforming the international financial architecture, putting forward initiatives to build a regional financial architecture and regional institutions to finance development projects. Along these lines, in 2007, Venezuela and Ecuador pushed for the creation of a regional financial architecture that would assist countries grappling with financial imbalances without imposing the type of conditionalities associated with lending from the international financial institutions. Brazil put forward an alternative project, consisting of an institution that would finance regional infrastructure, and disagreements between the region's governments about the bank's goals, voting system, and member contributions postponed its formalisation until 2009. The beginning of its operations was announced in 2013 (Rosales 2013, UNASUR n.d.).

The building of these institutional arrangements for development cooperation and integration was accompanied by the creation of institutions, mechanisms of coordination and consultation, and intergovernmental summits for regional governance. In 2008, Argentina, Bolivia, Brazil, Colombia, Chile, Ecuador, Guyana, Paraguay,

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Peru, Suriname, Uruguay, and Venezuela created the Unión de Naciones Suramericanas (UNASUR, Union of South American Nations), which would be in charge of advancing economic and defence integration, infrastructure cooperation, the protection of democracy, and election monitoring. In 2012, the countries of the Americas, with the exception of the US and Canada, created the Comunidad de Estados Latinoamericanos y Caribeños (CELAC, Community of Latin American and Caribbean Countries), which is intended to be an alternative to the Organisation of American States and to counteract US influence in the region.

This intense process of institution-building took place in the context of robust growth in MERCOSUR member and associate member countries. In the case of Argentina, the GDP grew at an average 8.8 per cent per year between 2003 and 2007. Export markets provided an outlet for a portion of the growing domestic output.[10] Growing exports, combined with a process of import substitution fostered by the devaluation of the peso, helped to revitalise domestic manufacturing, improve the fiscal and external balances, and reverse the extremely negative social indicators of the early 2000s.

Trouble in post-neoliberalism

Growth, falling unemployment and poverty, positive trade and current account balances, and a solid fiscal performance with expansionary spending invited optimistic views about the prospects of the Argentinian economy. Moreover, the convergence of what was believed to be a long-lasting era of high international commodity prices and state-managed forms of integration into the international economy backed the notion that the Argentinian economy had finally overcome one of its historical development bottlenecks, namely, the trade-offs between exports and current account balances on the one hand, and domestic consumption and fiscal spending on the other. But the pattern of growth initiated in 2003 would create the conditions for exacerbated distributive struggles and, ultimately, a new external crisis in the much less favourable international context of the early 2010s.

Starting in 2005–2006, growth was accompanied by more intense wage demands and improvements in workers' income, while the growing purchasing power of workers was not matched by investments and productivity increases in domestic manufacturing. Instead, growing demand resulted in price rises and the acceleration of inflation, which gradually eroded the competitive advantages of domestic manufacturing

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brought about by the devaluation of the peso. Furthermore, in the years that followed, as macroeconomic instability worsened, the government postponed the depreciation of the peso to prevent the inflationary effects of currency devaluation.

After 2007, growth in manufacturing was led by capital-intensive branches with weak links to the rest of the economy and closely associated with the country's subordinate position in international markets (assembly plants and the processing of natural resources). These tensions occurred in the context of rising international commodity prices, including soybeans, corn, and their by-products, which constitute Argentina's main exports, and the convergence of these domestic and international trends was especially felt in terms of food prices.[11] This process of reprimarisation of the domestic economy raises doubts about the potential of the pattern of growth of the 2000s to set the basis for an inclusive development pattern (Schorr 2012, p. 118).

In this context, in March 2008, the government attempted to introduce a sliding-scale export duty on agricultural exports that would fluctuate with changes in the international prices of crops. Its purpose was to delink the domestic prices of foodstuffs from rising international prices and transfer part of the extraordinary rents accrued by agricultural producers due to international price rises to the state. This, in turn, was expected to alleviate inflationary pressures and create incentives for farmers to switch from export crops to staple foods. Instead, the response from the country's main landowner organisations was a long lockout that managed to gather broad social support and forced the government to set the initiative aside. This dispute between the state and landowners helped to catalyse an informal and heterogeneous social and political force strongly opposed to a government it saw as populist, authoritarian, and interfering in private economic initiatives.

While this crisis was unfolding, the effects of the global turmoil began to be felt in the country, resulting in a sudden deceleration of growth in 2009.[12] The international prices of Argentina's main export commodities dropped from their peak in mid-2008, and their demand shrunk.[13] Central Bank reserves fell, and capital outflows intensified.[14] The deficit in the financial and capital account rose, and, for the first time since the 2001 default, Argentina's ability to service its debt became a matter of concern (Cibils 2011, p. 51).

When growth resumed in 2010, inflation regained momentum.[15] At the same time, the country's external imbalances became more problematic.[16] In 2011, fiscal balances became negative. This eroded the workers' wage gains of the previous years, and it also put an end

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to the 'twin surpluses' of the early 2000s, which had been central to the optimistic forecasts about Argentina's 'post-neoliberal' development pattern and form of integration into the international economy. Moreover, the capitalist strategy to appropriate a larger share of the total surplus through price increases – a main cause of inflation at the heart of distributive clashes during the decade – further reduced the international competitiveness of domestic manufacturing. The government distributed subsidies and compensations to several industries and expanded social assistance programmes both to make up for the worsening trade balance and the decline in domestic competitiveness and to manage heated distributive conflicts. In this context, capital flight and speculative attacks on the peso became the main expression of – and a catalyst for – the limitations to growth in the late 2000s and early 2010s. After using the Central Bank's international reserves to prevent the devaluation of the peso in 2011, the government resorted to imposing gradually stricter regulations on the domestic exchange market, required oil and mineral exporters to surrender their foreign currency earnings in the country, and restricted imports.

The recovery did not last, though, and in 2012, the economy experienced a new sudden slowdown while inflation continued to rise. The deceleration, combined with restrictions on imports and the transfer of profits abroad, helped to keep the current account deficit under control, but sovereign debt payments and capital flight resulted in a considerable reduction in Central Bank reserves, while pressures for a major devaluation of the peso intensified, despite the government's decision to speed up the pace of currency depreciation.[17] Moreover, this time the record-high international soybean price did not suffice to tackle the external bottleneck.[18] The external imbalance – a historical limitation of the processes of import substitution industrialisation in Argentina and Latin America – would prove to be an intractable problem in the context of the existing post-neoliberal pattern of growth in the country.

In an attempt to control the speculative run against the peso, the government issued dollar-denominated bonds and raised interest rates. At the same time, it took pains to create attractive conditions for international investment and to address unresolved controversies in order to regain access to international financial markets. Along these lines, in 2012, it expropriated 51 per cent of the shares of the local oil company (YPF), controlled by Spain's Repsol since its privatisation in the 1990s. The decision – presented as a major step in the recovery of the country's sovereign control over its natural resources – was the government's answer to falling oil production and the increasing need to

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import fuels and natural gas, which in turn was a main factor in the country's declining trade performance in the late 2000s.[19] In 2013, the government negotiated agreements with Chevron, ExxonMobile, Dow Chemical, Pemex, Gazprom, Shell, and Pan American Energy, among others, to develop shale oil and gas resources in the country. These negotiations have been legitimised in terms of the need to meet the oil and gas requirements necessary to sustain growth without depending on imports and to secure the enormous investments, which exceed the means of the Argentinian state, needed to extract oil and gas from these non-traditional sources.

The government has made other gestures to attract FDI and portfolio investments and to regain international confidence. After almost a decade of refusing to acknowledge the country's debt to those creditors that had rejected the restructuring of the defaulted sovereign debt bonds (the so-called vulture funds), Argentinian authorities announced their intention to reopen negotiations with them. They also signed an agreement with the World Bank to renew its assistance programmes. In exchange, Argentina would abide by several adverse rulings by the International Centre for the Settlement of Investment Disputes (ICSID) that it had previously challenged. Most recently, Argentina agreed to pay off outstanding debts to the Paris Club in order to regain access to international credit for domestic companies. Predictably, these measures, aimed at regulating hard currency outflows and gaining the confidence of capital, have not sufficed to eliminate the Achilles heel of the recent pattern of growth in the country, namely, its dependency on the inflow of hard currency. These structural shortcomings – in the critical conjuncture of the slowdown affecting Argentina's main trade partners, the worsening domestic fiscal and macroeconomic performance, and the large domestic crop exporters' decision to reduce their sales and their surrender of dollars in the domestic exchange market – resulted in growing exchange uncertainty and a dramatic decline in Argentina's foreign reserves. This in turn forced a major devaluation of the peso in January 2014. Questions arise about the extent to which this devaluation will suffice to recover the external and fiscal performance of the early 2000s, help to stimulate the domestic market, and recreate the state's room to distribute subsidies and compensations in order to reinforce this virtuous cycle in what is now a less favourable international context. Also at stake are the distributive effects of the devaluation, as it entails a transfer of wealth from workers and other groups with fixed incomes to commodity exporters. Arguably, the magnitude of this transfer will depend both on the extent to which the state has the capacity to

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appropriate part of exporters' windfall rents to reallocate them through redistributive policies and on workers' ability to recover the purchasing power of wages eroded by the inflationary effects of the devaluation.

Conclusions

It is beyond doubt that since the early 2000s, Argentina has distanced itself from the neoliberal policy blueprint. Its rapid and vigorous recovery flies in the face of the common truism that countries should pursue austerity and liberalisation policies in order to overcome crises and grow. Yet, while the new-developmentalist turn has been instrumental in the recovery, it has not substantially reduced Argentina's vulnerability to the vagaries of the global economy, nor eliminated the contradictions of capital accumulation in the country. Moreover, the economic programme's reliance on hard currency inflows has strengthened domestic commodity exporters' capacity to put their demands onto the public agenda, and more recently, it has created strong incentives for the state to accept the requirements of international finance. Efforts to foster cooperation with other South American countries in line with post-liberal regionalism have not sufficed to overcome these limitations. Rather, the agenda for regional post-liberal cooperation seems to have faded away to some extent, as the international context has become less favourable, and the country has been under more pressure to attract investments and secure debt servicing.

In order to understand the scope and limitations of Argentina's reintegration into the global economy in the 2000s and the associated economic, political, and institutional transformations, including the new regional alliances and institutional arrangements, the most visible quantitative aspects of the recovery and the politico-institutional transformations must be located in the broader context in which they occurred. In other words, the changes that occurred in the 2000s were not the mere outcome of a very favourable international context for commodity exporters. Nor did they result from the will of the government to amend prior mistakes and build a sustainable development model in cooperation with other Latin American countries. Instead, these changes are the historical result of the crisis of neoliberalism in the country and the class balances brought about by this crisis. In the early 2000s, widespread social mobilisation against neoliberalism was combined with a weakening of the links between the country and global finance caused by the default, the restructuring of the sovereign debt, and the strengthening of large domestic manufacturers and commodity

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exporters benefited by currency devaluation and the introduction of exchange regulations. Later, the very scenario created by the economic recovery strengthened the class reconfiguration that began in 2001–2002 and helped to catalyse further economic and political change. Yet this has also led to mounting distributive disputes and has gradually eroded the capacity of the state to meet disparate demands and expectations. The tensions that emerged in the late 2000s and early 2010s are a clear manifestation of this. They have also challenged many truisms about post-neoliberal development and raised questions about the sustainability of Argentina's pattern of growth and regional and global economic integration in the wake of the crisis of neoliberal reforms.

Notes

1 This chapter is a result of a SSHRC-funded postdoctoral fellowship with the Canada Research Chair in International Development Studies, Saint Mary's University, Canada. I thank Kate Ervine and Gavin Fridell for their comments on a draft of this chapter.
2 The nature of this shift and of the governments that led it has been the object of numerous studies that are beyond the scope of this chapter. Here it suffices to say that the so-called Latin American left turn encompasses very diverse goals, practices, and constituencies. A common denominator in this turn has been an acknowledgement of the shortcomings of the Washington Consensus policy framework.
3 The Argentinian government expected that Brazil would eliminate some subsidies to its exports to Argentina in order to protect the MERCOSUR, but the Brazilian government, concerned about its own domestic imbalances, refused to restrict exports. Brazil also eliminated its preferential treatment for Argentinian imports in response to Argentina's imposition of non-automatic licences for Brazilian imports, putting the MERCOSUR on the brink of collapse.
4 As I show later in the chapter this option would be ruled out in the 2000s in a quite different economic and political context.
5 After the fixed parity between the US dollar and the Argentinian peso was abandoned in January 2002, the exchange rate stood at ARS$1.40 per US dollar. In less than six months, it stood at ARS$3.81 per US dollar. The CPI rose 30.5 per cent in the first half of 2002. The context of high unemployment prevented wage rises in line with inflation.
6 In early 2002, a 20 per cent tax was levied on the export of oil, sunflower seeds, soybeans, and their by-products.
7 Importantly, the institutional arrangements mentioned later are not the only regional initiatives of the 2000s but those in which Argentina has taken part.
8 While these processes of institution-building have been seen as expressions of stronger regional links, some authors raise questions about their importance in the light of Brazil's move away from prioritizing the regional bloc (Carranza 2010, Gratius and Gomes Saraiva 2013).

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9 Among them, negotiations with the European Union (EU) have been developing over almost a decade. These negotiations reached an impasse in 2013, allegedly due to Argentina's resistance to accepting some of the tariff reductions required by the EU. In contrast, Brazil has been leading efforts to sign a free trade agreement with the EU that would create new opportunities for large Brazilian commodity exporters.

10 Exports performed extremely well during this period, growing from US$29.5 billion to US$80.9 billion between 2002 and 2012 (Centro de Estudios Internacionales n.d.). Total exports to the MERCOSUR and other South American countries grew less than exports to the rest of the world. The former, however, have been the main receivers of Argentinian manufactured goods, while China, the EU, and the rest of the world receive mostly primary goods and their by-products (Berretoni and Polonsky 2011, p. 95). Exports as a share of the GDP also performed extremely well during the 2000s, growing from 9.9 per cent in 2001 to 25.4 per cent in 2002, to fall gradually to 17 per cent in 2012 as the domestic market recovered.

11 After peaking in 2002 with a 25.9 per cent increase, the CPI rose 13.4, 4.4, 9.6, and 10.9 per cent in 2003, 2004, 2005, and 2006, respectively. During the same period, the price of food rose 34.6, 19.2, 5.1, and 12.1 per cent, respectively (Instituto Nacional de Estadística y Censos n.d.).

12 After six years of vigorous growth, in 2009, GDP growth stood at 0.9 per cent.

13 Soybeans, for instance – Argentina's most important export product in both value and volume – stood at US$579 a tonne in July 2008 and dropped to a minimum of US$368.70 a tonne in February 2009 (Ministerio de Agricultura, Ganadería y Pesca n.d). In 2009, exports fell 21 per cent with respect to 2008. Export duties collected in 2009 were 11.1 per cent below the 2008 figures, representing a drop from 3.49 per cent of GDP to 2.85 per cent (Dirección Nacional de Investigaciones y Análisis Fiscal 2008, p. 7).

14 In April 2008, international reserves stood at US$50.3 billion and were reduced to US$44.8 billion by August 2009. This tendency was reversed in the following months, and by mid-2011, the reserves reached a historical maximum of US$52 billion (Banco Central de la República Argentina n.d.).

15 In 2010, CPI growth officially stood at 9.7 per cent, in 2011 at 9.5 per cent, and in 2012 at 11.8 per cent (Instituto Nacional de Estadística y Censos n.d.), but the legitimacy of official statistics has been seriously affected by the government's decision to change the methodology for measuring inflation, which has arguably underestimated price increases since 2007. Alternative figures calculate that the CPI rose 23.1 per cent, 23.4 per cent, and 23.4 per cent in 2010, 2011, and 2012, respectively (Centro de Investigación y Formación de la República Argentina 2013).

16 After standing at US$6.75 billion in 2008, the current account surplus rose to US$10.9 billion in 2009 in the context of the abrupt economic slowdown. It stood at US$1.3 billion in 2010 and became negative in 2011 (US$–2.17 billion). In 2012, in the context of a new deceleration and a number of restrictions on imports, it rose to US$22 billion. The performance of the current account has been especially affected by an increasingly negative service account and the transfer of rents. Net private capital outflows experienced a significant increase in the context of the crisis in 2008 and 2009 (US$–9.2 billion and US$–7.62 billion, respectively). The positive balance of 2010

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(US$3.5 billion) was reversed again in 2011 (US$–4.65 billion). Strict controls imposed in this context temporarily succeeded in containing outflows in 2012 (US$4.6 billion), but the negative tendency resumed in mid-2013 (US$0.2 billion and US$1.9 billion in the second and third quarters, respectively) (Dirección Nacional de Política Macroeconómica n.d.).

17 These pressures have also led to the emergence of an underground exchange market with a considerably higher exchange rate for the US dollar than that of the official exchange market.

18 In mid-2012, when the tonne reached a historical maximum of US$647 (Ministerio de Agricultura, Ganadería y Pesca n.d.).

19 As the economy recovered in the 2000s, the declining domestic production of fuels and natural gas became critical. Between 2003 and 2010, imports grew by 715 per cent, constituting one of the main causes of Argentina's deteriorating trade balance (Pérez Roig 2012, pp. 113–114).

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14
Trading Carbon: Offsets, Human Rights, and Environmental Regulation

Kate Ervine

Introduction

By July 2014, the United Nations Clean Development Mechanism (CDM) had registered over 8,500 projects, issuing 1.4 billion carbon credits known as Certified Emission Reductions (CERs), with each CER equal to one tonne of carbon dioxide equivalent (tCO_2e). Despite a dramatic collapse in the value of CERs, from a high of over €20 per CER in 2008 to a record low of €0.19 in April 2013, the CDM continues to register projects while developing new strategies to revive the ailing scheme. In turn, the credits produced through its emission-reducing and/or emission-eliminating projects are destined for sale largely in the Kyoto Protocol's compliance market, allowing participant states in the Global North to offset their greenhouse gas (GHG) emissions in place of material reductions at the source. As the largest global carbon offsetting scheme in existence, responsible for channelling billions of dollars in carbon finance to the Global South, the CDM has been the subject of significant critique stemming in part from the poor environmental integrity of many of its projects, and also due to its poor track record on protecting the human rights of many affected by it.

In 2011 the CDM Executive Board registered the Honduran Aguan Biogas Recovery Palm Oil project, despite public availability of evidence documenting the assassination of 23 Honduran peasant farmers between March 2010 and February 2011 who maintained legitimate claim to lands upon which the project was operating (APRODEV et al. 2011, Nelson 2011). In September 2012 a team from the United Nations Development Programme completed a fact-finding mission to the site of Panama's Barro Blanco Dam CDM project on the Tabasará River. It was determined that the project would undermine the subsistence and

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way of life of the Ngäbe indigenous group, flooding their lands, homes, and historical, religious, and cultural sites. Nevertheless, the Ngäbe were not consulted about the project, violating CDM rules on stakeholder consultation (CIEL 2013, Johl 2013). In Durban, South Africa, the apartheid-era Bisasar Road dump now operates as a CDM methane capture and electricity conversion project. Emblematic of environmental racism under apartheid, Bisasar opened in 1980 in the non-white 'Clare Estate', importing 'waste from privileged white areas to impoverished and working class black areas deprived of basic human rights' (Sharife and Bond 2012, p. 37). It was labelled a 'cancer hotspot', with neighbouring residents experiencing high rates of respiratory and health problems, and heavy metals and other toxins leaching into the local water supply and soil, but CDM approval extended the life of the dump despite the World Bank's withdrawal from the project in 2005 amid fierce local opposition (Sharife and Bond 2012).

While the preceding examples are important as stand-alone cases for analysis, they, and many more like them, possess important heuristic value when considering the socio-natural dialectics of carbon offsetting as policy tool. This is especially so when juxtaposed with prevalent trends in the global voluntary market in carbon offsetting. While the voluntary market, worth an estimated US$379 million in 2013, has been criticized for its lack of *mandatory* regulatory mechanisms capable of ensuring the environmental integrity of its projects, it is, in part, the stringency of, and narrow adherence to, those same mechanisms in the CDM compliance market that crowds out the possibility for broader social regulation. As one CDM board member stated with reference to the Honduran palm oil project, 'We are not investigators of crimes. We had to take judgments within our rules – however regretful that may be – and there was not much scope for us to refuse the project' (Nelson 2011). Contrast this with the voluntary market where corporate buyers, making up 90 per cent of voluntary offset purchasers, often pay 20 times the current value of CERs for offsets producing additional so-called co- or side-benefits, including clean cookstove and water filtration projects that improve health while reducing emissions (Twidale 2013, p. 4). This reflects a growing push to tie voluntary offsets to additional 'non-carbon project attributes', such as women's empowerment, biodiversity conservation, and reduced vulnerability to climate change via adaptation. A range of standards and certification bodies have, in turn, proliferated to verify emission reductions *and* co-benefits, including the Verified Carbon Standard (VCS), the paired VCS and Climate, Community, and Biodiversity (CCB) Standard, and the Gold

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Standard, with many of their carbon methodologies mirroring those of the CDM (Ecosystem Marketplace and Bloomberg New Energy Finance 2013, p. xii).

Given these divergent trajectories, various scholars have called for more nuanced analyses of carbon offsetting that tend to the role of carbon's materiality, technologies of governance, and techniques of implementation in producing differentiated outcomes that destabilize monolithic theorizations of offsetting as practice (Bumpus and Liverman 2008, Lovell and Liverman 2010, Bumpus 2011). Indeed, as this chapter argues, as these features become increasingly entangled in their respective markets, compliance and voluntary, a contextual landscape has evolved whereby the CDM's brand of strict eco-regulatory standardization lends itself to a disregard for CDM-related human rights. As the CDM continues to undergo a review of its modalities and procedures, there are thus lessons to be learnt from the voluntary market. The approach taken herein begins from the vantage point of analysing the social and developmental context of offsetting as practice, under the assumption that the global demand for carbon offsets will continue to increase given the ease with which it allows purchasers to claim reduced emissions and/or carbon neutrality.

However, if social and developmental gains provide the central referents in this chapter from which to evaluate offsetting, a simultaneous interrogation of theorizations of the voluntary market as *less* neoliberal than the compliance CDM market, given its emphasis on 'sustainable development', is required (Lovell and Liverman 2010, p. 269). A critical examination of sustainable development as concept reveals its subsumption within broader processes of neoliberal governance (Banerjee 2003, Newell 2008). In the case of the voluntary market, this translates, for example, into for-profit clean cookstove project developers demanding 'buy-in' from typically poor stove users with only 2 per cent of projects engaging in stove giveaways, with the other 98 per cent requiring payment in exchange for stoves (Peters-Stanley and Gonzalez 2013). Representing the further entrenchment of development's reconceptualization as a market good available according to one's purchasing power, there is a need to extend our analyses to theorize the disciplinary functions of the voluntary market which threaten to limit the broader social capacities of project participants, in spite of specific and targeted gains.

Finally, if climate change mitigation is recentred as the key referent for analysing the voluntary market, an argument can be made that the voluntary market is more neoliberal than the compliance market. This

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stems from its privileging of voluntarism over direct government regulation as a means to reduce emissions, threatening to delay more effective regulatory measures under the premise that high-emitting actors have demonstrated a sufficient willingness to act in the absence of government intervention. And herein lies a significant problem with offsetting, from an ecological standpoint. 'Eco-business' is, fundamentally, about ensuring the 'sustainability of big business, not sustainability of people and the planet' (Dauvergne and Lister 2013, p. 2). By subsuming mitigation goals, as do the voluntary and compliance markets, to the profit motive as the ultimate driver of investment and sustainability decisions, these markets remain highly vulnerable to the imperatives of capital. This has in many cases resulted in the pursuit of low-cost projects with little to no environmental integrity and an overall collapse in the value of CERs in the case of the CDM market, the spillover effects of which are now filtering into the voluntary market.

The goals of this chapter are thus twofold, rooted in the contradictions elaborated upon above. First, and from a pragmatic vantage point, the chapter argues for the greater incorporation of lessons from the voluntary market into the compliance market to more effectively secure the social well-being of project participants. However, focusing only on lessons learnt threatens to 'render technical' the highly complex political and power-laden problem of climate change and its mitigation (Li 2007, Lovell and Liverman 2010). In this regard, any analysis of offsetting must pay close attention to how its nesting within the broader logic of capital's growth imperative can work to erode the ecological and social content of offsetting projects. At a minimum, this requires what MacKenzie (2009) labels a 'politics of market design' whereby specific policy mechanisms regulate against such outcomes, although it is far from clear that the current balance of social forces are conducive to such a 'politics'.

The remainder of this chapter proceeds as follows. Section one examines those factors that permit, in many cases, divergent social trajectories within the CDM and voluntary carbon offset markets and which have to do with the challenge of producing fungible 'carbon'. Section two considers how too great an emphasis on these differences obscures the extent to which these markets are very much the same, particularly when assessed as neoliberal tools of climate change mitigation concerned more with maintaining and encouraging profitability over ecological and social ends. Finally, the chapter concludes with specific policy recommendations inspired by the arguments made herein.

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Carbon accounting: A tonne is a tonne is a tonne

The CDM was developed as one of three flexible mechanisms under the Kyoto Protocol. It allows states in the Global North with emission reduction commitments to purchase carbon offsets from the Global South in place of making potentially costly emission reductions at the source, assuming that a tonne of CO_2 reduced in one location is equivalent to a tonne reduced in another (Bumpus and Liverman 2008). The challenge of producing fungible carbon, whereby a tonne is a tonne is a tonne, remains a significant preoccupation in the development of carbon markets since without commensurability the market lacks environmental integrity – how do we know that a tCO_2e reduced from fuel replacement in China is commensurate with a tCO_2e emitted from a coal-fired power plant in Germany? Moreover, without commensurability, the market lacks a tradable and liquid commodity, which is its core requirement. The evolution of the CDM illustrates the difficulty of commensuration and how, given the legally binding regulatory and governance requirements of the Kyoto Protocol, very specific socio-natural outcomes have been produced, in contrast to the voluntary market.

As such, the problem of commensuration and its implications for the environmental integrity of carbon markets, and the social relations that underpin them, has been the subject of an emerging body of critically informed scholarly literature (Lohmann 2009, 2010, MacKenzie 2009, 2010, Lovell and Liverman 2010, Bumpus 2011). In an important contribution to this discussion, Lovell and Liverman (2010) note that carbon offsetting is shaped through the interplay of carbon's materiality, technologies of offsetting, and techniques of governance. In relation to the CDM, they suggest that 'building and maintaining a credible system of governance has arguably become the main focus of policy and professional effort', leading to an 'obsession with calculation' that supplants the 'fundamental objective of taking carbon out of the atmosphere' (pp. 262–263). This stems from the CDM's *legally binding* compliance rules, in contrast to the voluntary market whereby offsets fulfil *voluntary* targets. In turn, this obsession has fed the evolution of the market in a number of ways related to the 'framing' or 'hemming in' of carbon as a prerequisite for commensuration (Callon 1999, Lohmann 2009, Bumpus 2011).

While the Kyoto Protocol covers six GHGs eligible for emission reductions, each must be calculated according to its global warming potential (GWP), a measure of its heat trapping capacity over a specific time period relative to that of CO_2 (Lohmann 2010). The process of calculating GWPs remains notoriously complicated and subject to

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revision, given the vastly different properties and life spans of GHGs. Such difficulties are compounded by the need for precision in measuring emission reductions from a GHG point source, particularly when they generate carbon offsets through which emissions in another location are cancelled out (MacKenzie 2009, Spash 2010). Bumpus (2011) offers the notion of 'hemming in' to aid in the theorization of the socio-natural implications of commensuration in carbon offset markets. 'Hemming in' refers to the process by which a tCO_2e is enclosed and rendered calculable as an effect of the process or technology through which it was produced (Bumpus 2011, p. 619). Some technologies are, by their nature, much more amenable to hemming in, leading to Bumpus' distinction between '"more" or "less" uncooperative carbon' (p. 621).

Take small-scale water filtration and clean cookstove offset projects, for example. Both types of projects can contribute to emission reductions by substituting the technology in place of biomass and wood collection and burning. Calculating the precise emission reductions associated with each is notoriously difficult, however. Determining rates of deforestation and levels of biomass collection per household relies on *estimations* gleaned from resource users themselves over given periods of time and based on dynamic household needs; however, diverse ecosystemic conditions from one locale or season to the next, which are dependent on constantly shifting weather patterns and events, will result in differential rates of emissions in their collection and burning. Moreover, the sustained use of the technologies in question is dependent of multiple variables: the durability of the technology, its cultural appropriateness, its perceived benefits, and so forth. In many cases, follow-up studies are then required to ensure continued use before issuing carbon offsets (Bumpus 2011, Gutierrez 2011, Simon et al. 2012). The result is high levels of uncertainty regarding the reliability of such technologies in producing one-off carbon credits eligible for use under Kyoto's legally binding framework; in such cases, carbon's uncooperative materiality in relation to the technology makes complete 'hemming' impossible (Bumpus 2011).

In contrast, other offset technologies allow for more complete hemming, in theory. Bumpus highlights the fact that highly controversial HFC-23 projects, and hydroelectricity projects, utilize technologies that allow for source-specific and centralized measurement of emission reductions (Bumpus 2011). Methane capture technologies of the variety noted in the introduction also allow for more complete hemming given that they, too, allow for the measurement of emission reductions at the

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source according to a fairly reliable methodology in comparison to the 'less cooperative' examples outlined above (Newell and Bumpus 2012).

The distinction being made here, and by those cited above, is highly consequential as we consider the implications of carbon's materiality in conjunction with offset technologies as a mode of mitigation, and their resultant socio-natural implications. Lovell and Liverman (2010) contend that techniques of governance organize, or rationalize, offset technologies into permissible channels for achieving specific mitigation goals. The legally binding requirements of the CDM as a mode of mitigation governance, with the requisite for achieving high levels of certainty in the process of commensuration whereby a tonne is a tonne is a tonne, translates into an 'obsession with calculation' and thus technologies and methodologies that allow for the greatest degree of precision in measurement. Concomitantly, there has been a well-documented aversion within the CDM to projects marked by less cooperative carbon given the risks they pose. For example, of the 8,814 projects in the CDM pipeline in early October 2013, hydro projects accounted for the majority at 26 per cent, or 2,286 projects, methane avoidance and landfill accounted for 13 per cent with 1,153 projects, while energy efficiency service and household projects, including water filtration, clean cookstoves, and lighting, accounted for a mere 1.25 per cent or 145 projects (UNEP Risoe Centre 2013).

In practice, thus, the requisites of governance, including legal compliance in the CDM, has engendered the evolution of a market that favours ease in hemming, not to ensure the environmental integrity of the project, but to facilitate more precise measurement. Problematically, environmental integrity is often lost to measurement under the CDM. In the case of HFC-23, a potent GHG with a GWP 11,700 times greater than that of a tCO_2 and whose projects account for some 37 per cent of CERs issued under the CDM, evidence emerged that companies in China, India, and Central America were 'gaming' the CDM market by overproducing the gas in order to cut it in exchange for CERs (*The Economist* 2010, UNEP Risoe Centre 2013). Moreover, in late 2013 there were 6 registered CDM coal power projects, with over 40 additional projects seeking validation, all in India and China (Carbon Market Watch 2013). These projects gain approval by proposing a business-as-usual (BAU) scenario that uses 'subcritical' technology in plant construction, versus CDM-financed plants using highly efficient and less carbon intensive 'supercritical' and 'ultra-supercritical' technology. The reduced emissions below the BAU scenario then earn CERs, despite the fact that India is phasing out subcritical technology, and China has already done

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so, given the interplay of volatile international coal prices and trade exposure. Not only do coal power projects lock-in, for at least 30 years, technologies dependent on one of the world's largest sources of GHG emissions (Lazarus and Chandler 2011, pp. 3–4, Carbon Market Watch 2013, pp. 4–5), but such projects also produce a host of additional point-source problems, including localized environmental degradation and health problems (Carbon Market Watch 2013, pp. 3–4).

While projects may differ, it is through the process of commensuration – that sits at the heart of the CDM compliance market whereby a tonne must *legally* be a tonne – that the broader social and ecological implications of CDM projects are crowded out of the calculation, with a documented bias against projects that might offer greater social gains. The voluntary market in carbon offsets, on the other hand, utilizes governance techniques distinct from those of the CDM (Lovell and Liverman 2010, Bumpus 2011). Approximately 90 per cent of carbon credit purchases in the voluntary market are made by private sector actors attempting to meet voluntary corporate social responsibility (CSR) and industry leadership goals (Ecosystem Marketplace and Bloomberg New Energy Finance 2013, p. 5). While such purchases must be perceived as credible from the vantage point of firm reputation, they are not part of a legally mandated system for displacing a tCO_2e emitted with a tCO_2e reduced (Lovell et al. 2009). This allows greater flexibility in the kinds of projects that corporate entities can pursue, with many opting for those that showcase the 'co-benefits' associated with mitigation activities, including improved local community health and development, biodiversity conservation, and women's empowerment (Lovell et al. 2009, Ecosystem Marketplace and Bloomberg New Energy Finance 2013). While such projects defy smooth hemming, they fulfil specific goals for corporate purchasers. According to a senior executive with one of the market's lead consulting firms, 'The voluntary market is more boutique than the compliance markets – companies want to be able to tell a compelling story that resonates with stakeholders' (Nicholls 2013, p. 15). These 'compelling stories', typically displayed prominently alongside feel-good images on the CSR section of corporate websites, help to enhance the 'credibility and influence' of these firms through eco-social branding (Lovell et al. 2009, Dauvergne and Lister 2013, p. 2). Consumers are more likely to identify positively with firms espousing a commitment to climate change mitigation and biodiversity conservation and community development, than with those investing in coal power plants as a means to claim carbon neutrality.

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It is within this context that demand for 'household device distribution' projects in the voluntary market, which include clean cookstoves and water filtration projects, has been increasing dramatically. In 2012, cookstoves commanded an 80 per cent increase in transacted tCO_2 equivalent compared to 2011; the two project types combined saw their value in the voluntary market nearly double, from US$42 million in 2011 to US$80 million in 2012 (Peters-Stanley and Gonzalez 2013). While the CDM compliance market does not yet allow offset projects from Reduced Emissions from Deforestation and Forest Degradation (REDD), and has approved very few forestry and land use projects overall, with afforestation and reforestation comprising approximately 0.8 per cent of projects in the CDM pipeline, and agriculture 0.02 per cent, these project types make up a significant 32 per cent of the voluntary market (Ecosystem Marketplace and Bloomberg New Energy Finance 2013, UNEP Risoe Centre 2013). Carbon from forestry and land use projects is notoriously difficult to hem given the highly contingent nature of carbon stored in trees and vegetation (Gutierrez 2011); however, such projects lend themselves to the certification of biodiversity and community development co-benefits (Ecosystem Marketplace and Bloomberg New Energy Finance 2013).

As the CDM continues to undergo a review of its modalities and procedures, there are lessons, as such, that might be learnt from the experience of the voluntary market. As one of Kyoto's flexible mechanisms, the CDM was designed to fulfil a dual mandate: supporting cost-effective GHG reductions globally in conjunction with the promotion of sustainable development in host countries (Boyd et al. 2007, Holm Olsen 2007, Michaelowa and Michaelowa 2007). As this chapter has argued, and has been documented elsewhere, the CDM has rated poorly on the latter (Holm Olsen 2007, De Lopez et al. 2009). This stems in part from the fact that sustainable development is difficult to define, open to diverse and politically motivated interpretations, and typically conceptualized as a matter of state sovereignty, with Southern states resisting ex ante definitions of the CDM's sustainable development criteria on such grounds (Holm Olsen 2007). As such, expanding the scope of CDM methodologies to include the categories of social and environmental 'outcomes' may aid in the reduction of negative project outcomes. From a pragmatic vantage point that anticipates the continued growth of offsetting globally, the push for expanded socially and ecologically sensitive methodologies requiring stakeholder consultation and mandatory impact assessments may offer the best option for preventing human rights and environmental abuses. Less an additive tool for promoting

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so-called co- or side-benefits, it would function as a restrictive tool for eliminating the worst abuses. Left here, however, we risk 'rendering technical' what are multifaceted, highly political, and power-laden problems (Li 2007, Lovell and Liverman 2010). By reducing global warming, its mitigation, the lack of access to clean water, or safe and clean cooking options, to mere technical interventions, the broader socio-economic relations through which these problems are produced and addressed are left unquestioned, clearing the way for their continuance and reproduction. It is to this theme that this chapter now turns.

Development for profit

Voluntary offsetting is discursively constructed around a set of signifiers that frame it as a positive intervention, at least within mainstream representations, when measured in relation to its compliance counterpart. Climate change mitigation, community development, biodiversity conservation, improved health, gender equality, and so forth count among the 'project attributes' found in the voluntary market, and which are used as selling points to governance bodies, new market entrants, and the wider public (Ecosystem Marketplace and Bloomberg New Energy Finance 2013). Within this context, questioning the broader implications of the development model that underpins the voluntary market becomes more difficult – for who opposes clean air and water, or women's empowerment? The question is less about whether support exists for preventing the estimated 1.3 million deaths of mostly women per year from burning biomass indoors (The CarbonNeutral Company Limited 2014), however, and much more about the appropriate and just means of achieving these ends.

The voluntary market is just that, a market. Participation in this market, whether as a project developer or a corporate offset consumer, is driven by market imperatives and the need to ensure and/or enhance profitability. Consider the following. In the case of clean cookstoves, as noted above, only 2 per cent of stoves are distributed free of charge, with the remaining 98 per cent demanding 'buy-in' from users by charging from US$2 to over US$140 per stove (Peters-Stanley and Gonzalez 2013). As the price of carbon in the CDM market crashed, hitting a low of €0.19 per tCO_2e in April 2013, upfront carbon finance for many voluntary projects began to disappear. In particular, household distribution projects, often targeting the most marginalized, are dependent on the revenue stream from carbon finance to fund capital costs and maintain liquid revenue streams, but investors and buyers, perceiving the

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increased risk associated with collapsing carbon values, became less willing to provide the necessary upfront finance to be covered by future carbon revenue. In turn, project developers have had to identify 'other sources of revenue . . . to improve cashflow' (Morton 2013, p. 33). As described by the Director of ClimateCare, a lead project developer in the voluntary market:

> One way to do this is to increase the price of the product for the end consumer, but this is not always possible in cases where household disposable incomes are relatively low. Some companies are getting around this barrier by offering microfinance for equipment. One such example is M-Kopa in Kenya, where householders pay a daily amount to receive light from their solar home system. This is paid for through the mobile money system – lights coming on within two minutes of a payment being made. (Morton 2013, p. 33)

In the trailer for *Carbon for Water*, a documentary film that chronicles the distribution of over 877,000 LifeStraw water filters in Kenya's Western Province by Swiss-based for-profit Vestergaard Frandsen Inc., the concluding text states:

> 5,000 people, mostly children, die every day from diseases contracted by drinking dirty water. Ninety per cent of people in Kenya's Western Province lack access to safe water. They use wood from dwindling forests to boil water and make it safe to drink. In April 2011 a company donated nearly 900,000 high-tech water filters to communities of Western Province. *But it wasn't charity. It was smart business*. (Abramson and Lopez 2011 – Emphasis added)

While Vestergaard invested US$30 million in this 10-year project, it generated 1.3 million carbon credits for reduced biomass collection and burning in its first 6 months, with Gold Standard verified offsets selling for over US$11.48 per tCO_2e at this time (McCutcheon et al. 2012). While sold for a discounted price, it is possible that over the lifespan of the project and depending on the value of carbon, offsets worth an estimated US$300 million could be produced, making the project highly profitable.

Drawing on the increasingly popular model of 'philanthrocapitalism' or 'creative capitalism' and its shift away from traditional philanthropy or charity, the development model underpinning such projects relies on the profit potential embedded in 'good deeds' (Kinsley 2008, Bishop and

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Green 2009); where profitability is lacking, the model collapses (Fridell and Konings 2013). With the growth of the global carbon market and the increased availability of carbon finance through carbon's commodification, rural electrification, and clean water, cookstove projects are able to generate economic value to justify investment in a way that their social and health-related values could not. The result is to contribute to a process that is now well underway: the further reconceptualization of development as a market good accessed according to one's ability to pay and based on one's willingness to invest. Under this model, development priorities are determined not through democratically accountable processes and by democratically elected and accountable states, but by bottom line accounting that prioritizes the requisites of the firm (Dauvergne and Lister 2013). Under this model, if end users are too poor to pay for the good or service, they are encouraged to enter into microfinance agreements – a model that has been criticized for preying on the poor, promoting self-financed development with no financial return from which to repay loans, and leading to unsustainable debt burdens while generating substantial profits for lenders (Bateman 2010, Sinclair 2012). Under this model, indeed, the state is absolved of its responsibility to the poor, who are left to depend on the private sector to meet their most basic needs – access to clean and safe water, rural electrification, and clean air. This in turn centralizes an issue implicit in this discussion and related to carbon's market value as the key determinant of investment decisions.

Volatile times: The crisis in carbon markets and future prospects

While much of the discussion thus far has emphasized carbon's materiality, technologies of mitigation, and modes of governance, a discussion of these factors alone fails to capture the dynamics of offsetting as a practice embedded within the logics of global capital and the power relations aligned to global capitalism. As I have argued elsewhere (Ervine 2013b), carbon trading typifies a classic 'problem-solving' approach to global warming mitigation whereby existing relations of production and power are taken as given, and the threat posed by ecological crisis is re-interpreted and addressed according to the imperatives underpinning these relations (Cox 1981). This results in nested mitigation strategies that minimize or eliminate those threats posed to accumulation by climate change policy, that is, businesses and countries can purchase offsets instead of making costly emission reductions at the source, while

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simultaneously accessing new accumulation opportunities. In the case of the CDM, project developers and businesses involved in producing and selling CERs have an incentive to minimize project costs in order to increase overall revenue flows, while at the same time, the mechanism has been perceived as a source of much needed development finance (Ervine 2013a). As a crisis of carbon allowance and credit oversupply began to emerge in the European Union's Emission Trading Scheme (EU ETS) in 2011, the CDM, the main offset supplier to that market, was simultaneously flooding the market with CERs. By the end of 2011, the CDM's Executive Board had issued approximately 813 million CERs since the mechanism's inception, one-third, or 317 million of which came in 2011 alone, up from 132 million in 2010 (Twidale 2011). This hastened the collapse in the value of CERs from a high of over €20 in 2008 to €0.19 in April 2013. The result has been a significant contraction in CDM investment as the cost of seeing a project through to CER issuance is typically higher for most projects, than the return on the sale of CERs in the market. Observers are pointing now to the increased incidence of 'zombie projects' whereby projects exist on paper but have ceased to exist in practice. As a result, the CDM's market infrastructure, which includes investment banks, traders and brokers, project developers, and certification bodies, have begun to collapse as the opportunity to profit from the scheme largely disappears (Szabo and Twidale 2013, p. 1, Twidale and Szabo 2013, p. 1). Rather than a stable policy tool for achieving climate change mitigation alongside sustainable development, the CDM instead operates as an instrument of economic 'rationality' whereby opportunities exist only insofar as carbon's market value is sufficiently high to justify investment.

Observers have tended to treat the voluntary market as somewhat immune to the crisis affecting the CDM, evidenced by the much higher price paid for its 'boutique' offsets. Nevertheless, profitability remains at the core of voluntary market investment and purchasing decisions, with corporate buyers employing an expanded definition of profitability that includes meeting CSR goals to improve competitiveness. Indeed, corporate entities are paying for their image, as discussed above. Nevertheless, the collapse in CDM values is spilling over into the voluntary market. The 2013 value of the voluntary market was US$379 million, down from US$523 million in 2012, with 76 million tCO_2e transacted in 2013, versus 102.8 million tCO_2e in 2012. The average price for a tCO_2e was US$4.9, down from US$5.9 in 2012 and US$6.3 in 2011. This contraction in the market has been linked to oversupply in the EU ETS, competition between offset suppliers, and the reduction of

CSR budgets in the EU as a result of the economic crisis, amongst other factors (Forest Trends' Ecosystem Marketplace 2014, p. viii). Indeed, observers are suggesting that a supply overhang may now be emerging in the voluntary market, opening the door to the same problems that are plaguing the CDM (Ecosystem Marketplace and Bloomberg New Energy Finance 2013, Nicholls 2013, p. 15).

While unlikely that corporate voluntary offset purchasers would turn to highly problematic projects such as HFC-23 projects, their willingness to pay higher prices may be diminishing according to the data cited above. Along the supply chain, this impacts project developers who, already experiencing a finance crunch given the heightened risk of investment, must look to cut costs, passing on price increases to end users, and promoting strategies such as microfinance. The extent to which this represents a market-wide problem is not yet clear; however, market crisis and reduced profitability have the potential to crowd out social and ecological benefits. Moreover, CSR is fickle. It requires a 'return on investment' that, if not realized, will lead firms to invest their money elsewhere (Conniff 2013, Dauvergne and Lister 2013).

We must thus interrogate the extent to which carbon offsetting, within the broader context of carbon markets, offers an effective tool for achieving meaningful climate change mitigation, especially given the temporal constraints of climate change. While this chapter discussed the poor environmental integrity of many CDM projects, an example from the voluntary market is instructive. The LifeStraw water filtration project cited above provides a vivid example of the challenge of hemming in relation to counting offsets as actual emission reductions. The project utilized a 'suppressed demand' methodology that accounts for unrealized demand. In this case, while studies estimated that between 20 and 30 per cent of residents in Kenya's Western Province boiled their water, the methodology allows Vestergaard Frandsen Inc. to earn carbon credits for those that do not boil their water under the assumption that their demand to do so is 'suppressed' given the high cost or time commitment involved in acquiring firewood to boil water. In other words, if they could boil water, it is assumed they would, with the methodology allowing for crediting of actions not actually occurring (McCutcheon et al. 2012). With 877,500 water filters distributed, covering 90 per cent of the population, the suppressed demand methodology resulted in a scenario whereby 65 per cent of recipients did not boil their water prior to the inception of the project. In turn, a follow-up audit conducted by the Gold Standard Foundation, the project's voluntary market certifier, and international auditors, concluded that 91 per cent of households

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were using the filter, but 'usage' was defined as filtering 'once every two weeks' (McCutcheon et al. 2012, pp. 4–6). While this example comes from the voluntary market, the suppressed demand methodology was approved by the CDM Executive Board in 2011 in an effort to attract investment to projects that otherwise lack significant scale and profit potential, especially in the poorest countries where industrial emission reduction options are limited (Airlie 2011).

The suppressed demand methodology reveals the trouble with using the profit motive as the organizing principle through which mitigation and developmental aims are to be met. In the absence of the potential for a worthwhile return on investment, the finance necessary to carry out projects to provision of filtered water as a substitute for deforestation remains unavailable. To make projects worthwhile for investors, however, project developers are allowed to construct a hypothetical scenario of 'avoided future emissions' that credits activities that have not yet, and might not ever, happen (Airlie 2011). Vestergaard Frandsen Inc., as a for-profit company, would not have invested US$30 million of its own equity in the LifeStraw project unless the opportunity existed to largely overinflate the emission reductions that could be offered for sale in the voluntary market. Yet these potential future emissions are counted as real present-day emission reductions, both in the CDM compliance market and in the voluntary market. As a result, the environmental integrity of each is further eroded, while goods such as clean water are effectively privatized, with corporate for-profit provisioning only secure so long as the return on investment is sufficiently high.

Taken together, the various examples outlined in this chapter should give serious pause to the contention that carbon markets and offsetting are the best we can do to combat some of the world's most difficult and politically contentious problems. Given their politicized nature, however, are these same markets, in their current form, the best we can hope for?

Conclusions

By theorizing carbon offsetting as a socio-natural intervention that depends not only on carbon's materiality, technologies of intervention, and modes of governance, but also, and significantly, on the profit motive as the underlying organizing principle upon which offsetting depends, this chapter has much to offer current policy discussions. From a pragmatic vantage point that acknowledges the global drive to advance carbon markets and offsetting, there are a number of policy considerations that must be addressed. First, as discussed above, if the

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CDM survives its current crisis in a form that addresses its shortcomings, it must take on expanded methodologies that account for the social and ecological outcomes of its projects. While impact assessments and participatory models of development are open to manipulation and an emphasis on process over empowerment (Cooke and Kothari 2001), the creation of a legal responsibility to prevent negative CDM outcomes would disqualify many of the projects that were registered under its current terms of reference. As also noted above, however, this would be less an additive tool for advancing social and ecological aims, than a restrictive tool for limiting the worst abuses.

Second, and in relation to the issue of profitability which has led many actors in the CDM market to pursue the cheapest and most socially and ecologically questionable projects, while leaving mitigation and developmental efforts hostage to carbon's highly volatile price, there is a need for what MacKenzie calls a 'politics of market design' that, again from a pragmatic vantage point, allows markets to operate more effectively as abatement tools (MacKenzie 2009, p. 440). In relation to the issues outlined in this chapter, effective market design requires the inclusion of a price regulation mechanism, which, importantly, includes price floors. Neither the CDM nor the EU ETS include price floors below which the price of carbon can drop, leading to a 95 per cent loss in value of CERs over the last few years. Newer markets, such as those in California and Quebec, include price floors of US$10 per metric ton of CO_2, rising 5 per cent per year plus inflation (Center for Climate and Energy Solutions 2013). Indeed, using the state to regulate carbon prices can insulate markets from extreme volatility, restricting the evolution of crisis-related market collapse, which drives investors to seek out the cheapest projects while undermining the mitigation potential of these markets. Nevertheless, this would not address prices in the voluntary market given that they are just that, voluntary. Moreover, it is important to recognize that price floors and other such regulatory tools are politically constructed. Many would agree that US$10 per metric ton of CO_2 is insufficient to spur economy-wide investment in low-carbon technologies, although it has targeted benefits. According to the Intergovernmental Panel on Climate Change's Fourth Assessment Report (IPCC 2007), a carbon price in the fairly wide range of US$20– US$50 per tCO_2e (€15.51–€38.77) would be required to spur investment in many green technologies (ibid.), while investment in options such as carbon capture and storage (CCS), although highly problematic and not endorsed here, requires a carbon price between €60–€90 per tCO_2e. Indeed, in an effort to limit the economic and

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political fallout from carbon pricing, political actors avoid sufficiently stringent pricing regulations given the current coalition of political economic forces.

As such, there is little reason to expect that carbon markets and offsetting will not continue to function in their current form, with many of the problems outlined above persisting. Rather than developing regulatory mechanisms through which actors are required to reduce emissions at the source, global policy makers are working feverishly to develop New Market Mechanisms and a Framework for Various Approaches for a post-Kyoto agreement, through which the challenges of creating fungible carbon will be replicated on a much grander scale than that of the CDM. Within this context, price floors and impact assessments do little to address the near impossibility of hemming carbon in order to ensure the environmental integrity of offset projects. Only real and tangible emission reductions by emitters themselves can achieve that. In much the same vein, price floors and impact assessments of the kind discussed herein do little to question development's reconceptualization as a market good subject to bottom-line calculations and one's ability to pay. To whom should end-users complain when the technologies fail, or the projects reach completion and funding disappears? Indeed, when taken as a whole, the conclusions drawn in this chapter point to the need for active and democratic states and governance bodies that are committed to the dual goals of effective climate change mitigation and meaningful development. Without them, we are rapidly running out of time.

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15
The Resilience of Forced Labour in Global Production and Trade

Nicola Phillips

Introduction

The severe forms of economic exploitation which are encompassed by the term 'forced labour' are a resilient feature of the contemporary global economy. The revised global estimates issued by the International Labour Organization (ILO) in 2012 indicate a likely total of 20.9 million people working in conditions of forced labour across the world, which the ILO itself stresses is a conservative estimate. Of those 20.9 million people, the ILO's figures reveal that fully 90 per cent are exploited in the private economy by individuals or enterprises, and that 68 per cent of these are victims of forced labour exploitation (ILO 2012). In short, the problems of forced labour and trafficking for labour exploitation are overwhelmingly phenomena of economic exploitation in the private economy. They also span the breadth of the global economy, occurring not simply in non-market contexts associated with, say, subsistence agriculture, or small-scale production for local markets, but across a wide range of industries and sectors tightly integrated into global production networks (GPNs).[1] A growing body of detailed research documents the incidence of forced labour across a wide range of manufacturing, agricultural, extractive and other industries in the 'mainstream' of global economic activity (e.g. Andrees and Belser 2009a, Bales et al. 2009, US Department of Labor 2012, Verité 2012, Allain et al. 2013, Barrientos et al. 2013). In its latest reports, the US Department of Labour confidently identifies 134 goods from 74 countries listed as being produced using forced or child labour, and its list of suspected goods is much longer (US Department of Labor 2012).

This situation poses a challenge for significant strands of academic theory, as well as policy and practice. In the first instance, the foundations of both liberal and Marxist theories rest on an assumption that

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capitalism is defined intrinsically by the 'freedom' of labour, in Marx's terms, and by extension the assumption that unfree labour is inimical to capitalism. 'Free' and 'unfree' labour thus exist in theoretical separation from one another, as binary categories on which the understanding of capitalism rests. The argument in this school of thought, in condensed form, is that the process of capitalist development will lead inexorably and necessarily to the eradication of 'unfree' labour, and that the forms of 'unfree' labour which clearly still exist in the global economy are to be seen as not *yet* having been resolved, but bound to be so in time (e.g. Rao 2011). Cognate arguments see the globalization of production as likely to diminish the possibilities for forced labour to exist in the global economy. The concentration of power in large transnational corporations, the rise of brands and the imperative of protecting brand image, and the power that huge corporations have to put pressure on supplier and contractor firms in the direction of greater social compliance are all supposedly features of the global economy which push towards limiting the use of forced labour in global production. Hence the widespread assumption that forced labour is less likely to occur where large corporations and global brands are at the helm of supply chains, and instead more likely to occur in small-scale production which is not integrated into GPNs.[2]

Much of this work is careful and sophisticated, but is perpetually challenged by the empirical picture. The first part of this chapter is oriented to showing how these assumptions are misplaced, both in terms of where and how forced labour occurs and/or persists, and the reasons why. I argue that forced labour is not simply a 'residual' phenomenon, bound to be eradicated as the globalization of production and trade advances, but rather a 'relational' phenomenon that arises directly from the manner in which the global economy is organized and how it functions. Specifically, I advance a perspective which draws on an understanding of GPNs and the mechanics within them of global value chains (GVCs), as the primary structures around which production, trade and, by extension, development have come to be organized in the contemporary period. In its 2013 World Investment Report, the United Nations Conference on Trade and Development (UNCTAD) put forward the arresting estimate that some 80 per cent of total global trade is now accounted for by GVCs coordinated by transnational corporations (UNCTAD 2013). Even if this is a slight overestimate, it is an arresting figure. If we accept the persuasive observation, furthermore, that for developing countries 'the goal of industrial upgrading within GVCs has become nearly synonymous with economic development itself'

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(Milberg and Winkler 2013, p. 238), then a focus on GVCs locates the issue of forced labour and other forms of exploitation firmly in wider debates about the globalization of production, trade and development.

Such an argument also issues a challenge to dominant policy approaches to the global problems of forced labour, trafficking and child labour. The growing policy debates on these issues tend to reject a focus on the economy, or to skate too lightly over the surface of the questions that need to be asked about whether and how globalization and models of economic development, as much in richer as in poorer regions, give rise to these problems of labour exploitation. The ILO probably goes the furthest in its recognition of these dimensions of the problem, but remains tentative (Lerche 2007, Rogaly 2008), as summed up in the following statement:

> There is still far from full consensus as to the structural causes of forced labour. In developing countries there are ongoing debates as to whether the failure of credit or financial markets, or agrarian systems and unequal power relationships, explain the persistence of forced and bonded labour in rural societies. And in all countries, a particularly difficult question is whether current patterns of globalization are actually creating, or contributing to, new forms of forced labour. (ILO 2005, p. 18)

The ILO rightly identifies forced labour as representing the 'underside of globalization' (ILO 2005, p. 63, also ILO 2001, 2009), and, in a short passage in its landmark report of 2005, allusion is made to 'increased global competition, migration and labour market deregulation', and a generalized situation of 'desperation' among employers in the emerging private sector 'to capitalize on world market opportunities by exacting as much labour as possible from a cheap and often unprotected workforce' (ILO 2005, p. 63). Yet the resulting exploitation is described as the result of 'market failure' (ILO 2005, p. 63, Andrees and Belser 2009b), and the question of whether globalization causes the problem of forced labour is left unanswered. Elsewhere in the policy world, such as in national responses to the problems of human trafficking, emphasis is routinely placed on criminality and human mobility in identifying the root causes of these phenomena.

Nevertheless, economic issues have lately begun to attract more attention, particularly in the context of global supply chains. We are seeing the incipient crystallization of a new form of governance exemplified by the Transparency in Supply Chains Act passed by the state of California

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in 2011 (Verité 2011, Phillips 2013b, Pickles and Zhu 2013). These new directions in governance and policy strategies to address forced labour in global production are the subjects of the second section of this chapter. I seek to use the explanation advanced in the first section of the chapter to show how the effectiveness of many of the predominant governance strategies is limited by a reluctance to connect the resilience of forced labour to the functioning of the economy itself, and to the business models that underpin the globalization of production and patterns of trade. The tendency is to depict the problems as the result of delinquent practices by rogue firms or employers, as aberrations from the usual functioning of markets, and as amenable to rectification through a moderate reinforcement of private regulation to root out residual instances of 'violations'. If it is accepted, as I suggest, that forced labour is produced at the intersections of the commercial, social and political dynamics of global production and trade, then efforts to respond to it through a focus on criminal law enforcement or border control, or through a prioritization of corporate self-regulation, will not address the root causes of the problems.

Forced labour in GPNs

The concept of the GVC refers to a pattern of production which is geographically dispersed and functionally fragmented, typically coordinated by lead transnational corporations. It rests predominantly on the trade of *intermediate* goods and services. Indeed, given that some 80 per cent of global trade is now estimated to take place within GVCs, trade is clearly no longer about the international exchange of final goods. Instead, it is dominated by what has usefully been called 'trade in tasks' (Grossman and Rossi-Hansberg 2008). This pattern of production is driven by corporate strategies to create and harness significant global asymmetries of market (and political) power in the interests of generating and capturing profit (Gereffi et al. 2005, Kaplinsky 2005, Milberg and Winkler 2013). The concept of a 'value' chain is useful precisely because it captures these dynamics, not simply describing how things are produced, but rather about where and how value is created, and where, how, and by whom or what it is captured.

Creating these market asymmetries rests on securing a structure in which firms at the top occupy oligopolistic positions, but competitive markets prevail among lower-tier suppliers, as a foundational element of firms' cost-cutting strategies to help maintain cost mark-ups (Milberg and Winkler 2013, pp. 123–124). Structures of this nature establish

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the mechanisms through which lead firms can transmit commercial pressures on conditions of price and supply along the length of value chains, maximize the process of value capture by varying these conditions at any point in time, and offload risk onto less powerful chain actors, including workers (Nathan and Kalpana 2007, Barrientos 2013). Through these pressures, 'entry barriers' are erected to safeguard the positions of the dominant firms, such that many suppliers and producers in the lower tiers are denied or squeezed out of advantageous participation in value chains (Kaplinsky 2005, Ponte 2008, Milberg and Winkler 2013). Hence intense competition is generated between the various 'factions of capital' along the value chain, in order to enhance accumulation and increase profit for the dominant factions, and for the weaker factions to survive and remain competitive.

Producers, suppliers and employers frequently seek to manage the aggressive cost-cutting pressures transmitted by lead firms through the mechanisms of labour costs. In many contexts, suppliers' strategies are shaped by a perceived imperative to reduce the share represented by labour in input costs and enhance their ability to manipulate those costs to accommodate highly variable commercial conditions. A direct consequence of this imperative is the expansion of precarious, insecure and exploitative work, as the hallmark of some GVCs, performed by a highly vulnerable and disenfranchised workforce, of which informal, migrant and contract workers have come to be the primary constituents (Portes et al. 1989, Cohen 2006, Barrientos 2008, Phillips 2011). In an appreciable number of cases, the continuum of precarious and exploitative work extends to include forms of forced labour, which needs to be understood in this light not as an aberrant or isolated 'violation', but as a coherent and purposeful 'management practice' (Crane 2013).

The competitive struggle by firms within GVCs does not rest solely on manipulating factor costs, but also on an array of institutional conditions (Milberg and Winkler 2013, p. 103). These range from market conditions, such as those relating to labour and technology, to the social conditions which in turn shape labour market conditions, and the political, policy and regulatory environment that prevails in a given setting. The social and political 'embeddedness' of production is emphasized in the GPN literature, although often not afforded sufficient attention. In relation to the social dynamics which underpin the shape of GVCs and facilitate the generation of value and profit, I have elsewhere mobilized the concept of 'adverse incorporation' (see Wood 2003, Hickey and du Toit 2007, Ponte 2008, Phillips 2011, 2013a). This concept, which has been developed in research on chronic poverty, responds

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to a need to understand the persistence of poverty in scenarios where orthodox perspectives would have predicted its decline. These orthodox perspectives see inclusion (through employment) in global markets as the key to poverty reduction; in a 'residual' argument, the poor are those who have not yet been incorporated into global economic activity and remain isolated from the poverty-reducing potential of globalization (see Milanovic 2003, Kaplinsky 2005). The 'relational' concept of adverse incorporation, by contrast, stresses the importance not of the *fact* of inclusion but of the *terms* of inclusion in explanations of poverty. Adverse terms of incorporation are characterized by pronounced precarity, a lack of basic protections and high levels of exploitation and abuse, precluding accumulation or the achievement of longer-term socio-economic security. The resulting labour market conditions are in turn harnessed by firms within GVCs, creating a circular dynamic of adverse incorporation: poverty generates a range of vulnerabilities among workers which facilitate their exploitation, including in the form of forced labour; their exploitation in turn serves as the key mechanism of impoverishment (Phillips 2013a, p. 172).

Political dynamics are equally central to the constitution of GVCs and the generation and distribution of profit. It is often noted that the globalization of production is driven in part by the search of some firms in some sectors for permissive regulatory and political environments, particularly in relation to labour and environmental standards. This is particularly the case in sectors which are price-sensitive and labour-intensive and/or demand relatively low skill inputs, where competitive advantage accrues mainly from flexibility in relation to labour supply and labour costs. Such sectors are precisely those in which forced labour is concentrated. Evidence of these political dynamics abounds. Some firms reacted to the enactment of the Labour Contract Law in China in 2008, for example, which increased wages and protections for workers, by moving their operations to sites in countries like Vietnam or Cambodia where the regulatory environment remained more permissive and labour costs lower (Wang et al. 2009). Research on bilateral investment treaties, conducted during the process of drawing up the UN Guiding Principles, showed an increase over time in provisions protecting the interests of foreign investors – wherein investors are granted exemption or compensation from governments enacting, say, a new labour law – and in the recourse (or the threat of recourse) by investor firms to binding international arbitration to force governments' compliance, particularly where host governments' bargaining power has been weak (Ruggie 2013, p. 86). It has been shown convincingly that

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firms in price-sensitive and labour-intensive sectors such as the global clothing industry, as well as firms which rely on retail strategies, prefer less stringent regulation and will go to some lengths to secure those conditions (Fransen and Burgoon 2011). Likewise, the huge numbers of 'invisible' firms and entrepreneurs in the informal economy (even if they are subcontractors to registered firms) generally lack incentives imposed by external stakeholders to go 'against the tide' and seek to boost their profile of 'social legitimacy'; to the contrary, the incentives they face point in precisely the opposite direction, particularly as their share of the consumer market rests on cut-throat price competition (Knorringa 2014). We see consistently that governments are unwilling or unable to enact even basic regulatory legislation which would apply to large transnational corporations or powerful national firms, as much in richer economies as in poorer ones.

The conditions facilitating forced labour in GPNs arise at the intersections of the commercial, social and political dynamics of GVCs, which vary across types of GVC, geographical location, institutional setting, and social and political context. This type of perspective helps us to understand the pattern of forced labour and other kinds of severe labour exploitation – where, why and how they occur and persist. This is important in accounting for the fact that not all supply chains are marked by the incidence of forced labour, not all firms and employers use forced labour, not all poor workers are subjected to forced labour, and so on. By carefully tracing the conditions in which the problems are most likely to occur, we can begin to understand the mechanisms by which they are produced, and devise appropriate governance and policy strategies for addressing their root causes.

A number of factors can be identified on this basis as correlating strongly with the possibilities for forced labour and severe labour exploitation and are salient across different contexts. Cognizant of constraints on space, two can be mentioned here in order to buttress the argument. The first relates to the structure of the GVC in question, specifically to the extent and pattern of outsourcing and subcontracting, which have become the primary means by which lead firms in GVCs lower costs and increase the share of income taking the form of profit (Milberg and Winkler 2013). For supplier firms too, outsourcing represents the key means of cutting costs and achieving flexibility in response to variable market conditions and the commercial pressures imposed by lead firms. Across a wide variety of sectors, firms are likely to outsource either discrete parts of the production process or additional work in times of peak demand, and thereby shed the costly necessity of

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retaining a permanent and stable workforce. They are also enabled to disclaim responsibility to and for those workers with whom they have no direct employment relationship and, critically, to escape the pressures of social compliance and the reach of regulation and monitoring (Posthuma 2010).

Layna Mosley's research has shown convincingly that what matters in shaping outcomes for working conditions is the manner in which multinational firms organize their production activities; she has identified outsourcing as the critical factor in that respect (Mosley 2011). Likewise, my own research has demonstrated a clear correlation between the extent of outsourcing and the location and incidence of forced labour, suggesting that structures and practices of outsourcing are key to generating the possibilities for these severe forms of exploitation, particularly as they push large parts of the production process beyond the scope of regulation and further into the shadows of the global economy (Phillips 2013a). Equally, it is routine for firms which encounter problems of forced labour in their supply chains to refer explicitly to the problems of ensuring compliance given the high levels of outsourcing and subcontracting which characterize their production networks beyond the first tier of direct suppliers. Across the board, these parts of supply chains are either unregulated or regulated with great difficulty, situated in remote or inaccessible locations, and often excluded from national legislation and labour inspection systems.

A second mechanism of note is also related to outsourcing, this time in the arena of labour supply. The increasing reliance on the outsourcing of recruitment to private labour contractors represents 'a logical extension of the commercial dynamic through which global outsourcing is implemented by global buyers' (Barrientos 2013, p. 1065), and a prevalent pattern across different types of production networks. Labour contractors range from being legitimate and registered, to informal, unregulated and essentially invisible, through to illicit and criminal with strong overlaps into trafficking networks. The consequences in terms of exploitation, and specifically the most extreme forms of exploitation we are discussing here, are various. Workers recruited by contractors are usually tied to a particular employer and, depending on the sector, are recruited for a specific job. For migrant workers particularly, their possibilities of opting out of the circulation loop, by changing employers or settling in the destination, are thereby severely constrained (Breman 2010, p. 4). Workers are sometimes employed directly by the labour contractor rather than the firm for which they work, such that, again, firms are able to evade not only obligations to the workers, but also the requirements of social

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compliance imposed by transnational lead firms or first-tier suppliers. Perhaps most significantly, recruitment of this kind usually involves the payment of advance wages which are then owed as debts by the worker. For all of these reasons, the prevalence of labour contractors is a strong contributing factor to the conditions in which forced labour practices are enabled to flourish in global production (Andrees 2004, Cunneen 2004, Barrientos 2013).

Tackling forced labour in global production and trade

It was noted earlier that, at least until the late 2000s, governance initiatives and policy strategies to address forced labour have only very infrequently sought to locate an understanding of its root causes in economic dynamics. Space unfortunately limits the possibilities for a discussion of other kinds of strategies, but three points are worth mentioning. First, particularly in richer countries such as the US, as well as a number of international organizations, forced labour has been subsumed under the heading of human trafficking and cast as a problem connected with mobility. Trafficking debates in turn have been dominated by a concern with trafficking for the purposes of sexual exploitation, and it is only fairly recently that trafficking for labour exploitation has made a real showing. Second, the reluctance to engage openly with problems of forced labour and trafficking for labour exploitation have political roots, inasmuch as dealing with those problems, much more than trafficking for sexual exploitation, feeds directly into politically uncomfortable questions about economic models, labour markets and indeed (im) migration. Third, training attention on economic factors in explaining the incidence and persistence of forced labour brings governments immediately into potential conflict with businesses, and especially big businesses, and we have seen that the power of transnational business has been highly effective in diverting associated questions about how economies are organized and regulated. For the key international organization, the ILO, its tripartite structure – governments, labour and business – has made addressing the question of whether, or how, forced labour is connected to globalization and capitalism a particularly tricky enterprise (Lerche 2007).

Since the late 2000s, however, we have been seeing the tentative crystallization of a new approach to the governance of global supply chains, specifically in relation to the problems of forced labour and trafficking (Phillips 2013b). It is exemplified by the innovative Transparency in Supply Chains (TISC) Act passed by the US state of California, which

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encourages large firms doing business in California to take the issue of trafficking seriously, and obliges them to report on the steps that they are taking in this direction. There has been discussion of transposing this legislation to the federal level, and attempts to enact similar initiatives in the UK. The focus on supply chains and the role of transnational business was also central to US President Barack Obama's major statement on trafficking in September 2012, in which he announced a series of measures which aimed to 'eradicate' these worst forms of labour exploitation in the global economy, both by encouraging action on the part of firms and by putting in place rules relating to government procurement processes. It appears that this issue area has acquired some considerable traction in US politics, accompanied by a growing, wider clamour for the power of business to be harnessed much more actively in efforts to address slavery in the global economy (David et al. 2012). The tone of TISC legislation chimes well with the increasing dissatisfaction with the pronounced deficit of law governing transnational business – a dissatisfaction reflected most tangibly in the process which gave rise to the United Nations Guiding Principles on Business and Human Rights, endorsed in 2011.

Ostensibly, the reach of the California TISC Act is significant.[3] The California Franchise Tax Board estimated at the time the Act was passed that it would directly affect some 3,200 companies and indirectly the many more thousands of suppliers and vendors incorporated into their supply chains (Verité 2011, p. 3). Those companies are required by law to engage in verification of their supply chains to evaluate and address the risk of human trafficking, perform audits to enforce compliance with firm standards, require certification from direct suppliers that materials they use comply with national legislation on slavery and human trafficking, maintain internal accountability standards and procedures for employees or contractors that contravene firm standards, and train relevant employees and management on human trafficking and slavery. Yet, on closer scrutiny, the Act in fact and in practice requires very little of its target actors. It provides no more than a requirement for companies to disclose the nature of their efforts to deal with trafficking and forced labour in their supply chain, relative to the company's *own* standards for ensuring adequate labour conditions. It imposes no direct penalty for non-compliance, relying instead on large firms' concerns about protecting their brand. Firms which encounter problems of trafficking and forced labour in their supply chain are required only to provide assistance to the identified 'victims' as and when they are identified.

The legislation requires little attention – much less alteration – to prevailing business models, the ways in which supply chains are

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organized and monitored, or a shift in corporate cultures to move towards more robust corporate social responsibility (CSR) or accountability strategies. Most notably, there is no stipulation by the state or other agents of public governance of a set of standards for labour or other social conditions in supply chains. Instead, firms are expected to act solely within the parameters of their own standards, which typically are established through internally designed codes of conduct which are not externally or independently monitored, and whose shortcomings as a platform for CSR strategies have amply been exposed in both academic literatures and by CSR-related organizations (e.g. O'Rourke 2006, Barrientos 2008, Lund-Thomsen 2008, Stohl et al. 2009, Verité 2011). The legislation requires firms to state in their reporting whether their verification and auditing procedures were carried out by independent third parties or not, and what sorts of auditing arrangements are in place, but the standards that audits are designed to check remain those stipulated by the individual firm in question.

More broadly, TISC-style initiatives thus put in place a model which is fully consistent with the prevailing drift of contemporary global governance, namely, one which affords primacy to private governance and corporate self-regulation (Appelbaum 2012). They articulate a mode of governance which relies on a contract not between firms and government, nor between firms and workers, but between firms and consumers. The idea is a well-worn one: that the fear of the displeasure of consumers will lead to a generalized disposition among large firms towards improving labour standards, and specifically in this case towards dealing effectively with forced labour in their supply chains. Indeed, this type of governance initiative reflects and reinforces an ongoing process through which the rise of buyer-driven value chains and the primacy of brand name loyalty in contemporary retailing has shifted the power to negotiate terms with companies from governments and workers decisively to consumers (Esbenshade 2012).

These scenarios indicate that, while private governance and corporate self-regulation are indispensable to effective governance strategies around labour standards generally, or forced labour specifically, a reliance on firms as agents of self-regulation is on its own insufficient as a foundation for driving improvements in GVCs. Indeed, it rarely has provided such a foundation in the past. CSR strategies provide very few checks and balances in relation to 'irresponsible' firms in the global economy; their impact is felt largely in encouraging already responsible firms to go 'beyond compliance' (Newell 2005, p. 542). So it is that, despite the passing of a substantial period of time since company codes

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of conduct and the 'compliance industry' came to dominate the governance of global supply chains, non-compliance remains the norm rather than the exception, and change 'on the ground' has been minimal (Lund-Thomsen 2008, Esbenshade 2012). Many of the problems associated with private governance and CSR attain particular relevance in the case of forced labour, which is systematically hidden from sight and moreover occurs in those parts of supply chains that are rarely covered by auditing, monitoring and inspection systems. Auditing systems tend to be limited in their purview to first-tier suppliers and the workers that are employed directly by those suppliers, when the problems of forced labour tend to be concentrated in tiers of activity way down the supply chain, in areas that for a long time most firms have resisted including in the definitions of their supply chain. Depending on the sector in question, this may be in the production of raw materials (such as charcoal for steel-based production or cotton for the garments industry), parts of agricultural production which are again remote from the final retail destination (such as cattle ranching), or in the non-factory, household segments of manufacturing industries. Equally, like other violations of workers' rights, forced labour is much more likely to occur in arenas characterized by high levels of outsourcing, price sensitivity and labour intensity, which, as we saw above, are also those in which incentives for compliance, self-regulation and energetic programmes of improvement in labour standards are least likely to prevail.

The manifold limits to private governance in global production and trade suggest a need for a much greater role for public governance. Indeed, the most successful initiatives that have yet emerged for dealing with forced labour in supply chains have been driven by states' mobilization of public authority, commanding participation and 'buy-in' from firms and private interests, but also being willing to impose and enforce sanctions for non-compliance with robust national legislation. Such a situation has prevailed most clearly in Brazil, where since the early 2000s a robust legislative framework has been in operation which uses public authority to both regulate and enforce compliance. Under the National Pact for the Eradication of Slavery, firms found to be using what under Brazilian law is termed 'slave labour' are cited on a so-called dirty list, which functions not only to name and shame but also to cut off federal funds to those companies for a period of two years. In 2012 new legislation was enacted in the state of São Paulo which went further to put such firms out of business and prevent them from operating in the same economic sector for ten years. The federal labour inspection system developed to enforce the legal provisions of the National Pact is

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among the most extensive and robust in the world, even though under-resourced and its work complicated by extreme geographical inaccessibility in large parts of the country. From 1995 to mid-2010, 37,205 workers in Brazil were 'freed' by these labour inspection teams from 'conditions analogous to slavery' (Phillips and Sakamoto 2012).

Yet the record of public governance initiatives in this arena is very patchy. In China, for instance, the most notable innovation was the aforementioned Labour Contract Law, which has made little unambiguous difference in terms of working conditions, violations of labour rights and protection for workers in general, and virtually no difference for the lowest-paid. Employers have instead sought to oppose its provisions in a variety of ways, both formally by lobbying public authorities and informally by circumventing requirements in the work place, especially in relation to contracts, overtime or payment of wages (Chan 2009, p. 46; Wang et al. 2009, China Labour Bulletin 2010, pp. 17–18). The wider problem was that the evaluation process was limited to large enterprises, and did not cover small and medium-sized or unregistered firms, nor unregistered migrant workers. Significantly, and in part for all of these reasons, it has failed to prevent continued instances of forced labour in brick kilns, which was touted by legislators as one of its key aims and benefits (China Labour Bulletin 2010, p. 19).

Efforts in the direction of public governance are thus unquestionably difficult, politically and logistically. Most of all, these initiatives are national, when the structures and processes that stand in need of governing are global in their scope. It is precisely this disjuncture which poses the key problem for governance in (and of) a global economy organized around GVCs. In the present context, the disjuncture is evident in the underdevelopment of mechanisms of global public governance capable of regulating conditions in relation to the activities of transnational business, and in the shortcomings of global private governance that we have discussed here (see also Chan and Pattberg 2008, Mayer and Gereffi 2010, Vogel 2010, Locke 2013, Mayer 2014). The point for present purposes is that the evidence suggests strongly the need for an appropriate *combination* of public and private governance strategies – at national, regional and global levels – in dealing with forced labour in global supply chains. In TISC initiatives, as they have been articulated thus far, there is little evidence of such a combination, and instead a reliance on a limited (national) state intervention to reinforce the global primacy of firm-led governance.

The overarching difficulty with a TISC-style approach to governance, however, is its neglect of the underlying causes of the problems of forced labour, which, I have suggested here, need to be understood as rooted in the organization and functioning of the global economy, and specifically in the commercial, social and political dynamics of GVCs. Prevailing approaches tend to see the necessary mode of governance in relation to forced labour as the one that has long prevailed and is manifestly problematic: one that assumes the norm to be compliance and observance of proper standards in the supply chain, and focuses instead on rooting out delinquent firms and instances of non-compliance (Esbenshade 2012, p. 553). If my analysis here is accepted as persuasive, it follows that this mode of governance will, on its own, do little to address the roots of the problems of severe labour exploitation which are embedded much more deeply in contemporary structures and processes of global production and trade.

Notes

1 A GPN is defined as 'the nexus of interconnected functions and operations through which goods and services are produced, distributed and consumed' (Henderson et al. 2002, p. 445).
2 This is a position I have encountered frequently in conversations with policy makers and practitioners working on forced labour and trafficking issues.
3 This part of the discussion draws on Phillips (2013b).

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Trade Policy and Politics: From Comparative Advantage to Trade Gamble

Gavin Fridell and *Kate Ervine*

To analyse trade and development through the disciplinary lens of neoclassical economics and its understanding of free trade and 'comparative advantage' requires making the initial assumption that trade policy, trade patterns, and trade outcomes are not significantly impacted or determined by unequal power relations between rich and poorer states; by domestic and global disparities and struggles around class, race, and gender; by historical legacies of colonialism, slavery, and imperialism; by political, ideological, and cultural institutions that pervade everyday life; by warfare, genocide, military invasions, and social violence; by corporate advertising, political funding, and media dominance; by complex implicit and explicit rules, norms, laws, and customs exercised through states and international regimes; by the ecological limits of industrialization and endless accumulation; by the real and perceived geostrategic interests of states in a competitive international 'arena'; and by complicated, multidimensional, often obscure and unpredictable human behaviour, combined with the volatility and highly contingent nature of local and global markets. Once these factors are dispensed with, one can use the models of comparative advantage to develop and deliver trade policy. If the policy then fails, or if political and economic elites fail to fully adhere to the proffered prescriptions, as is so often the case, the above factors can be brought in at the end; the various failures attributed to 'politics' or 'ideology', which wrecked what otherwise could have been a smooth functioning project (e.g. see Stiglitz 2002, Sachs 2005, Bhagwati 2008).

And yet, if politics and ideology, along with a range of other social and historical factors, ultimately play such an important role in determining the outcomes of trade and trade policy, why not bring them in at the start? The answer to this question is a complex one that cannot be

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fully addressed here. At its most basic level, however, it is important to always keep in mind that mainstream, neoclassical economics is no mere academic discipline and concepts like 'comparative advantage' are not merely intellectual ideas – they are hegemonic tools, more or less fully embraced by the most powerful nation-states and the wealthiest global elites. Within the institutions of powerful nation-states, international financial organizations like the World Bank and the IMF, and transnational corporations and corporate bodies, advisory and policy positions are invariably dominated by economists, who are often under intense pressure to conform and produce 'knowledge' deemed desirable by political and economic elites (Goldman 2006, Chang 2008, Milonakis and Fine 2009, Lowrey 2011, Fridell 2013).

Outside the ranks of institutional bodies, concepts like 'free trade' and 'comparative advantage' have in many places attained widespread popular recognition, with 'common sense' understandings, much simpler than the complex mathematical formulas of neoclassical economics, pervading public discourse, spurred on by corporate media dominance. Addressing this, Jodi Dean (2009, pp. 50–56) has developed the idea of a free trade ideological fantasy rooted in the deeply held belief among North Americans that 'we are those who trade freely, who value freeness'. Against a world that lacks genuine 'free trade among equal players', the free trade fantasy 'covers over persistent market failure, structural inequalities, the prominence of monopolies, the privilege of no-bid contracts, the violence of privatization, and the redistribution of wealth to the "have mores"'. The deeply held fantasies associated with free trade make them very difficult to challenge. It also assigns concepts like comparative advantage with a higher status than other concepts in the social sciences, as 'pragmatic' ideas that allow one, to paraphrase Slavoj Žižek in his ideological critique of liberal humanitarianism, to 'act, now'.[1] Sociological and historical approaches to trade often offer – out of necessity, we would argue – complex, multilayered assessments that lead to equally complex, uncertain, or indeterminate proposals for the future. Free trade approaches, on the other hand, often offer direct, straightforward policy advice for the immediate moment, buffered by the fact that many of their core assumptions are widely held or have a degree of political support from the start.

The ability to 'act, now', however, does not make proposals rooted in free trade and comparative advantage any more effective or genuinely pragmatic. Dissenting economists and social scientists have raised many significant criticisms of comparative advantage, which have been discussed in the introduction to this book. Frustrated with the continued

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embrace of classical comparative advantage despite its shortcomings, several critical thinkers from within economics have sought to move beyond it, advancing the idea of 'dynamic comparative advantage', based on a more explicit role for the state in crafting 'industrial policy'.[2] Nobel Prize winner and dissenting economist, Joseph Stiglitz, has been one of the lead thinkers in this regard. In 2013, Stiglitz, Justin Yifu Lin, and Célestin Monga organized a series of working papers for the World Bank aimed at 'rejuvenating' the idea of industrial policy. Against 'conventional wisdom in economics', they argue that markets ultimately require a degree of government intervention to deal with inevitable 'market failures' and to support long-term industrial development. Confronting the neoliberal consensus of 'liberalization, privatization, and deregulation', Stiglitz, Lin, and Monga argue instead for a new consensus based on the recognition that the most successful economies, North and South, have historically built *dynamic* comparative advantage around sound industrial policy. This has included efforts by government to encourage manufacturing, research, and development, and technological advancement, as well as to promote wider 'social objectives', including education, employment, entrepreneurialism, training, and a better 'distribution of public goods' (Stiglitz et al. 2013, pp. 2–6, 12, 14).

They offer a welcome alternative to the dominant trade paradigm and the ahistorical assumptions that comparative advantage emerges out of market forces on their own. The idea of shifting the framework of trade policy from classical comparative advantage to dynamic comparative advantage provides fruitful terrain upon which to envision and debate new trade approaches. At the same time, however, their notion of dynamic comparative advantage remains rooted in neoclassical economics, offering a limited understanding of the centrality of historical, social, and political forces to trade and trade policy. Stiglitz et al. (2013, p. 18) correctly criticize 'blind faith in the magic virtues of market forces', calling instead for new research 'to identify the specific policy levers and institutional framework that can generate optimal industrial policy results in different contexts'. Yet, does 'optimal industrial policy' emerge strictly out of policy and institutional frameworks on its own? Similarly, Stiglitz et al. (2013, p. 15) credit the effectiveness of China's 'strong and deliberate government action', but tell us relatively little about how or why this form of government action emerged. They seek to uncover the best models for dynamic comparative advantage, while shuttling aside discussion around what is or has been required socially, politically, or ideologically to bring these models, even less 'optimal' ones, about. The effect is to adopt a fairly straightforward, linear approach to

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trade policy, while downplaying the highly contingent and unpredictable nature of global capitalism and, to quote from Ilan Kapoor (2013, p. 4), 'the necessarily messy, terrain of politics' that operates within it. Unlike trade *policy*, trade *politics*, as the chapters in this book have revealed, frequently looks more like desperate or high-stakes 'gambles' than anything akin to a rational process aimed at 'optimizing' trade for society's benefit.

Gambling on trade

In 1999, nearly a decade before the start of the global financial crisis and the current recession, international relations scholar Peter Gowan observed that the shaky foundations of the world's financial architecture was to a significant extent shaped by the United States and its 'economic statecraft' – the strategic use of market management by capitalist states to gain advantage or power over others. Confronting a declining position in international trade in the 1970s, the US unilaterally abandoned the dollar–gold convertibility and abolished its capital controls, sparking a flood of investment money into Wall Street and buffering up US financial power, but only at the expense of creating a highly unstable financial system. The result was a 'global gamble' driven by 'Washington's Faustian bid for world dominance' (Gowan 1999).

One of Gowan's many insights was to observe and analyse the highly unpredictable and risky nature inherent to conducting economic statecraft (or economic 'policy') in the context of a highly competitive and uneven global capitalist economy, where market dynamics are constantly shifting, new and old competitors are rising and falling, and the outcomes of major decisions by state and corporate agents are, at best, unclear and, at worst, a total 'gamble'. As a result of his particular analysis, Gowan was able to more or less predict the ensuing financial collapse of 2008, something few mainstream economists can claim to have done, the majority insisting instead on the continual smooth functioning of markets right up until the bubble burst.[3]

The idea of economic statecraft relying on highly political 'gambles' can be applied not only to finance, but also to a number of economic policy issues, with trade chief among them. An eye towards the politics of trade gambles reveals two general areas where economic trade theory, including more critical approaches aimed at dynamic comparative advantage, fall short. First, if we assume a given state is willing to carry out a project rooted in dynamic comparative advantage (an assumption that will be addressed below), this does not necessarily mean that the project

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will work and deliver on the promised expectations. In seeking 'optimal' industrial policy, most trade economists tend to assume, implicitly or explicitly, that the right choice necessarily exists and that capitalism can always deliver the goods if such choices are made. Moreover, most economists would caution that the notion of 'optimal' should not be taken to necessarily mean a major improvement for everyone in society, but at least some improvement for some people, without making others worse ('Pareto optimality'). Is this really the basis, however, upon which trade policy is advanced, defended, promoted, disseminated, and consented to by society in the realm of real-world politics – a promise, at minimum, to make at least one person slightly better off?

Trade policy, in the wider political and ideological realm, is ultimately rooted in broader claims around trade and development, around benefitting society at large. And yet, while the history of capitalism reveals many 'winners', it also reveals many 'losers' who have sought and failed to construct effective comparative advantage, for manifold complex and contradictory reasons that cannot be reduced to botched attempts at trade policy. Global markets, as Topik observes in Chapter 2, are social and historical products 'marked by radical disjunctures and essential transformations' that often cannot be predicted. In some cases, divergent attempts at trade policy can result in different social outcomes, but still not overcome similar overarching economic vulnerabilities, as Veltmeyer in Chapter 7 argues has been the case with the three economic models of extractivism in Latin America. Unwavering faith in global markets, under the right set of policies, has resulted in a turn to 'carbon trading' to save us from the negative impacts of climate change. And yet, as Ervine observes in Chapter 14, the extreme volatility and institutional constraints of carbon markets in actual practice raise serious concerns about their ability to have the robust environmental impact required. In the end, using the global market for social and environmental goals is less a straightforward, transparent, and technical process than it is an obscure and unpredictable gamble.

Second, in addition to assuming that markets can invariably deliver the goods under the right set of policies, economic trade theorists also tend to assume that the process of getting states to adopt these policies is fairly clear-cut – even if difficult. The process generally involves convincing, pressuring, or pleading with government leaders and policy makers, who are assumed to be in charge of more or less benign, neutral states concerned with the 'national interest', to recognize the logic of good policy versus bad. Whether or not a state adopts the 'optimal' approach to constructing dynamic comparative advantage, however,

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is, in itself, a gamble at the best of times. This is because states in the current socio-historical context are not benign institutions, but rather specifically capitalist states.

David Harvey's (2003) conception of the geostrategic interests of modern capitalist states as being driven by both 'capital' and 'territorial' logics, sometimes competing and sometimes compatible, provides a more effective framework for understanding state policy as it relates to trade and economic matters generally. The 'territorial logic', akin to Gowan's notion of economic statecraft, entails state action in pursuit of 'collective advantage . . . constrained by the political and military situation of the state and . . . in some sense or other responsible to a citizenry or, more often, to an elite group' (Harvey 2003, p. 27). This logic involves what is of typical concern to institutionalist approaches, wherein the state works to promote the interests of domestic capital and the 'national economy' in the international arena, to ensure revenue to the state (through tariffs and other forms of taxation) while promoting employment, social stability, and institutional legitimacy. It also involves, we would argue, more subtle ideological and discursive forms of 'biopolitics' (or 'soft' power) aimed at regulating 'how groups, communities and peoples are acted upon in order to support and promote collective life' (Duffield 2007, p. 5).

The 'capital logic', in contrast, is 'much more diffuse and less amenable to explicit political decision-making', and involves state action to reproduce the social relations of a capitalist economy and promote the endless accumulation of capital (Harvey 2003, pp. 28–33). This involves protecting private property, managing class conflict (through coercion or social reform), and, as Ellen Meiksins Wood (2005) has argued, ensuring the artificial separation between the economic and political realm within national economies on a global scale to allow for the continual expansion of capital. The two logics can be harmonious or competing or both at the same time – for example, the territorial needs of the state for revenue through taxation frequently brings it into conflict with the profit-driven demands of capital, and yet the state must defend the logic of capital to ensure that, ultimately, there are profits to tax. These are the tensions inherent in the capitalist state.

The above framing allows space for the concerns of economists like Stiglitz, Lin, and Monga, encapsulated under the 'territorial' logic, while providing a more rigorous and sober treatment of the various contradictions, conflicts, and interests that underpin state action. Whereas Stiglitz et al. (2013, p. 12) express concern that state trade policy can be 'captured' by specific elite interests, the state is, in fact, designed to

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advance the interests of both capitalists and the capitalist economy, in an often messy and conflict-ridden way, swung by territorial and capital logics, which set the stage for trade politics to take place. It is within this context that China, as argued by Bowles in Chapter 5, has advanced a variety of regional trade agreements, tipped asymmetrically in favour of smaller partners, aimed more at geostrategic concerns than any one-dimensional quest for optimal trade policy. Similarly, in the Caribbean, as Green observes in Chapter 6, China has offered increasingly large amounts of aid and has strategically promoted trade in tourism to the region, driven to a large extent out of its desire to further isolate Taiwan.

In a similar manner, Grinspun and Mills reveal in Chapter 8 how Canadian policy towards free trade and investment agreements in Latin America have been rooted in the growing power and demands of the Canadian mining industry, not a balanced appraisal of optimal trade policy. The trade agreements that the Canadian state has advanced contain extensive protections for foreign investors that have little to do with genuine 'free trade'. And yet, we would argue, the ideological politics of 'trade' remain central to the process of obscuring and legitimatizing the broader geopolitical and economic objectives of the Canadian state and its class components. In other instances, when it has suited the most powerful states and corporations, 'free trade' has been successfully advanced. In Chapter 11, Moberg documents the devastating impacts the decline of quota-protections has had on small-scale banana farmers and the inability of fair-trade bananas to ultimately address the 'increasing consolidation of political and economic power that will define the future of global markets'. Given that it was states in the interstate system that ushered in these conditions, favouring the interests of giant banana companies and larger farmers over vulnerable small farmers in the Caribbean, what basis is there for assuming that states are willing or able to carry out the role of neutral economic policy optimizer as envisioned by Stiglitz, Lin, and Monga?

All of this is not to say that Stiglitz, Lin, and Monga, and other economists in similar traditions, are incorrect in advancing the idea of dynamic comparative advantages based on what policies have worked best in the past. Instead, we would argue, it is only one initial step, not a conclusive one. Equally important to the task of proposing new trade policies is to assess the wider socio-historical conditions that are required to bring new trade policies about, or which hinder the adoption of new and better policies now and into the future. Despite oft-repeated claims to 'objectivity' and pragmatism, economists have all too often ignored historical, political, social, and ideological forces that

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drive trade politics – resulting in proposals that are really not that pragmatic at all, unless they can also reveal what is required to bring them about and what the barriers to social change are.

Conclusion

The chapters in this book are designed to reveal the importance of understanding international trade, trade agreements, trade policy, and the many 'trade-related' activities and institutions, from the vantage point of social scientists from a variety of disciplines. In contrast to economic trade theory, which seeks to offer straightforward or technical advice based on a linear approach aimed at convincing political leaders of the 'rational' benefits of certain trade policies, the sociological approaches offered herein explore the messy, contingent, and power-laden process through which trade politics develops within the context of a distinctly capitalist global order. Whereas the re-emergence of dynamic comparative advantage represents a welcome new trend in economics, and offers a clear-cut alternative to classical comparative advantage, it is inherently limited by its inability to fully explore the socio-historical dynamics of trade, which, while unfortunately less clear-cut, play a central role in driving global trade.

The way forward, we argue, is to recognize that trade and trade policy are socially rooted in complex and competing forces that are best captured not through the idea of 'trade optimization' but rather through 'trade gambles'. The idea of trade gambles captures two significant aspects of trade overlooked or significantly downplayed by most economists. First, even in cases where states are willing to adopt what might appear to be the 'right' economic policies, this does not necessarily mean that the project will work or bring the anticipated benefits. The global capitalist market is highly volatile, competitive, and unpredictable, with 'market signals' always distorted by any number of political forces beyond anyone's ability to fully anticipate.

Second, even if dynamic comparative advantage offers the best model upon which to advance alternative trade policy, convincing states to adopt this model is itself a huge and unpredictable 'gamble'. The state is not merely prone to being 'captured' by capitalists; rather, it is a capitalist state, one that is cut through by tensions between its territorial and capital logics. As a result, trade and trade agreements become tools of economic statecraft for more powerful states to impose their will on weaker ones; 'free trade' becomes a language used to justify the destruction of small farmers, the perpetuation of forced labour, and unchecked climate

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change; and attempts to mobilize new export revenues and investment flows to promote social spending and 'inclusive' growth (through 'new extractivism', 'new developmentalism', and new forms of South–South cooperation like MERCOSUR and the Bolivarian Alliance for the Peoples of Our America [ALBA]) become narrowed by pressure from capitalist classes or the general demands of capitalist market logic. These instances cannot be accounted for through the limited treatment of politics and ideology offered by trade economics; far from 'distortions' of economic trade policy, they are in fact central to trade politics and its social and historical dimensions. Future trade frameworks, if they aim to be truly pragmatic, must take these complex and at times contradictory forces and dynamics into account. This book has sought to provide sociological and political tools upon which to begin to do so.

Notes

1 Žižek's (2008, pp. 6–7) critique is aimed at liberal humanitarism, whose 'fake sense of urgency' works to prevent critical reflection: 'There is not time to reflect: we have to *act now*.' The use here is also inspired by Ilan Kapoor (2013, p. 83), who, drawing on Žižek, critiques celebrity humanitarianism and the 'desire to be *seen* to be acting now', regardless of the actual impacts.
2 The importance of this turn towards industrial policy and 'dynamic comparative advantage' was highlighted by Manfred Bienefeld in his workshop, 'Comparative Advantage: A Poisonous Fallacy of Decomposition', presented at *Alternative Trade: Critical Approaches and New Directions in Trade and Development*, Saint Mary's University, Halifax, Canada, 2 November 2013. See also Bateman (2014).
3 For a critical assessment of mainstream economics leading up to the financial crisis, see Quiggin (2010).

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