

GLOBALIZATION

–A Method to Maintain Wealth–

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Introduction

“Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control. Everyone is entitled to a social and international order in which the rights and freedoms set forth in this Declaration can be fully realized.” (UHDR article 25-1 and 28) (United Nation, 2013)

According to the World Bank’s latest data, people are living in conditions that are defined as “absolute poverty”; the people living below \$1.25 a day, is 1.29 billion in 2008, which makes 22 percent of the population of the developing world. It is true that number of people living under the condition defined as “absolute poverty” has declined. However, it is also a fact that 2.47 billion people are on a living expenditure of \$2, which is 43 percent of the population of the developing world. (The World Bank, 2012) Martin Ravallion, director of the research department at the World Bank and also the leader of the team that produced the numbers above, writes:

“The developing world as a whole has made considerable progress in fighting extreme poverty, but the 663 million people who moved above the poverty lines typical of the poorest countries are still poor by the standards of middle- and high-income countries. This bunching up just above the extreme poverty line is indicative of the vulnerability facing a great many poor people in the world. And at the current rate of progress, around 1 billion people would still live in extreme poverty in 2015.”

As I mentioned in the beginning, it is stated in the Universal Declaration of

Human Rights that humans have the right to live in conditions adequate for the health and well being of that person. Despite this, so many live in conditions unsuitable for their own or their families well being. My question is, what is the reason behind this and to what extent is the Western world to blame? In my opinion the reason is that nations such as America have created an inequitable division of wealth in the world using the advantage of globalization, and I cannot think this phenomenon of today as anything else but imperialism.

Imperialism, as defined by *Dictionary of Human Geography*, is "The creation and/or maintenance of an unequal economic, cultural, and territorial relationship, usually between states and often in the form of an empire, based on domination and subordination." (Johnston, Gregory, Pratt, & Watts, 2000) Throughout history empires have been defined as such due to their occupation of foreign nations for the primary purpose of economic growth. Since the dispersion of the British Empire often it is the case that imperialistic traits are disguised with a liberal mask. Imperialism has come back to this age again hiding its name under "globalization". How do these empires maintain themselves in today's world?

In order for an empire to grow, a strong economy is required. Often the strength of this economy is based upon the exploitation of foreign nations. Sadly within recent years this exploitation often has gone unnoticed outside of the effected nation. The reason for this is that the exploitation is actually agreed between governments and organizations. I describe this as opportunistic expansion of an Empire, the reason being that these nations that agree to such conditions are often in a position of such desperation that they have no other option. Nations in economic crisis are given vast loans with extremely high inflation. The fact that these wealthy nations have ensured their own financial stability by exploiting nations with less global political and economic influence is in my opinion morally unjustifiable. As time passes with no effective action being taken to support these nations crippled by the restraints of the new world economic system the North-South divide is being left to grow ever larger.

In this essay I aim to discuss present day imperialistic traits within the world economic system under the age of globalization. I will discuss whether or not these traits constitute imperialism or are simply the product of being a

substantial economic power by studying few inequitable cases caused due to the unfair economic system. This essay will be broken down into five sections; what globalization is, what economic globalization is, what the new world economic system is, what the unfair rule of Washington consensus is and the conclusion. The conclusion will provide an overview of the issues discussed and from this it will be clear how the current world economic system furthers the inequality between developed and less-developed nations.

1. What is Globalization?

At the beginning of this essay, I said that nations such as America have created an inequitable division of wealth in the world via globalization as well as that imperialism has come back to this age again hiding its name under globalization. As we all know, today, it is almost impossible to avoid the issue of globalization. Today “Globalization” is a word frequently used in numerous languages. “Daily life now brings continual references to global communications, global finance, global health problems, global markets, global migrations, and global justice.” (Scholte:2005) So, what is globalization?

According to the *Cambridge Dictionary*, Globalization is: “The increase of trade around the world, especially by large companies producing and trading goods in many different countries” and “when available goods and services, or social and cultural influences, gradually become similar in all parts of the world”

Obviously, globalization is not such an easy phenomenon that we can describe it with few sentences. For example, various commentators have described globalization as “a stage of capitalism” or “late modernity” some others describe it as “a new way of thinking”. As Scholte says in *Globalization: A Critical Introduction* “ ‘globalization’ frequently become a label to cover whatever strikes the fancy.” (Scholte, 2005) Nevertheless, it is possible to distinguish some broad conceptions. It is necessary to know those different concepts of globalization because, for example, people who identify globalization as internationalization and people who approach it as recapitalization, or people who see globalization from liberal perspective and

people who see it from Marxist perspective, develop very different understandings of the problem. Therefore, in this section I'd like to write five different broad conceptions regarding globalization according to Scholte's research.

1) Five definitions of globalization

According to Scholte at least five broad concepts can be distinguished. These definitions are linked in some ways and also overlapping a little, however their emphases are considerably different.

- Internationalization

According to Scholte, “ from this perspective ‘global’ is simply another adjective to describe cross-border relations between countries, and ‘globalization’ designates a growth of international exchange and interdependence.” (Scholte, 2005) Paul Hirst and Grahame Thompon have indentified globalization in terms of “Large and growing flows of trade and capital investment between countries” (Thompson & Hirst, 1996)

- Liberalization

As Scholte says, here “ ‘globalization’ refers to a process of removing state-imposed restrictions on movements between countries in order to create an ‘open’, ‘borderless’ world economy.” (Scholte, 2005) This kind of globalization can be shown by the following evidences. In the past several decades there has been widespread reduction or abolition of regulatory trade barriers, foreign-exchange restrictions capital controls and visas.

- Universalization

In this concept, Scholte explains that “ ‘global’ means ‘worldwide’, and ‘globalization’ is the process of spreading various objects and experiences to people at all corners of the earth”. (Scholte, 2005) Regarding this concept, in the 1940's when Oliver Reiser and Blodwen Davies created the word “globalize”, they took it to mean “universalize” and foresaw “a planetary synthesis of cultures” in a “global humanism”. (Reiser & Davis, 1944)

- Westernization or modernization

Globalization as Westernization and modernization, especially in an “Americanization”. According to Scholte, “it is an idea that globalization is a dynamic whereby the social structures (capitalism, rationalism, industrialism, bureaucratism, individualism, etc) are spread the world over, normally destroying pre-existent cultures and local self-determination in the process.” (Scholte, 2005)

- Respatialization

Scholte describes how “globalization entails a reconfiguration of social geography with increased transplanetary connections between people” (Scholte, 2005) For example, David Held and Anthony McGrew have defined globalization as “a process which embodies a transformation in the spatial organization of social relations and transactions” (Held & McGrew, 2007)

The formations are concepts regarding different perspectives on globalization introduced by Scholte in *Globalization A Critical Introduction* (Scholte, 2005) They are explaining what is globalization, adding that, globalization can be seen differently by way of thought. These following four thoughts are commonly used when it comes to globalization:

- Liberalism

Globalization seen as a result of natural human desires to achieve and maximize economic welfare and political liberty.

- Realism

Globalization is overrated, which means the game of international politics is still a struggle for power between dominant states. Therefore it expanded environment of controlled competition. National interest is the key word.

- Marxism

Expansion of global relations is a natural and predictable outcome of the capitalist mode of production. Globalization enables the capitalist, bourgeois,

dominating class to increase its resources and power over the laboring, proletarian, and exploited class.

- Constructivism

Globalization started as a mental reorientation resulting in economic and political globalization. Ideas that defined and transformed global interaction can influence people to conceive themselves as global citizens, sharing values and interests. (Baylis, Smith, & Owens, 2011)

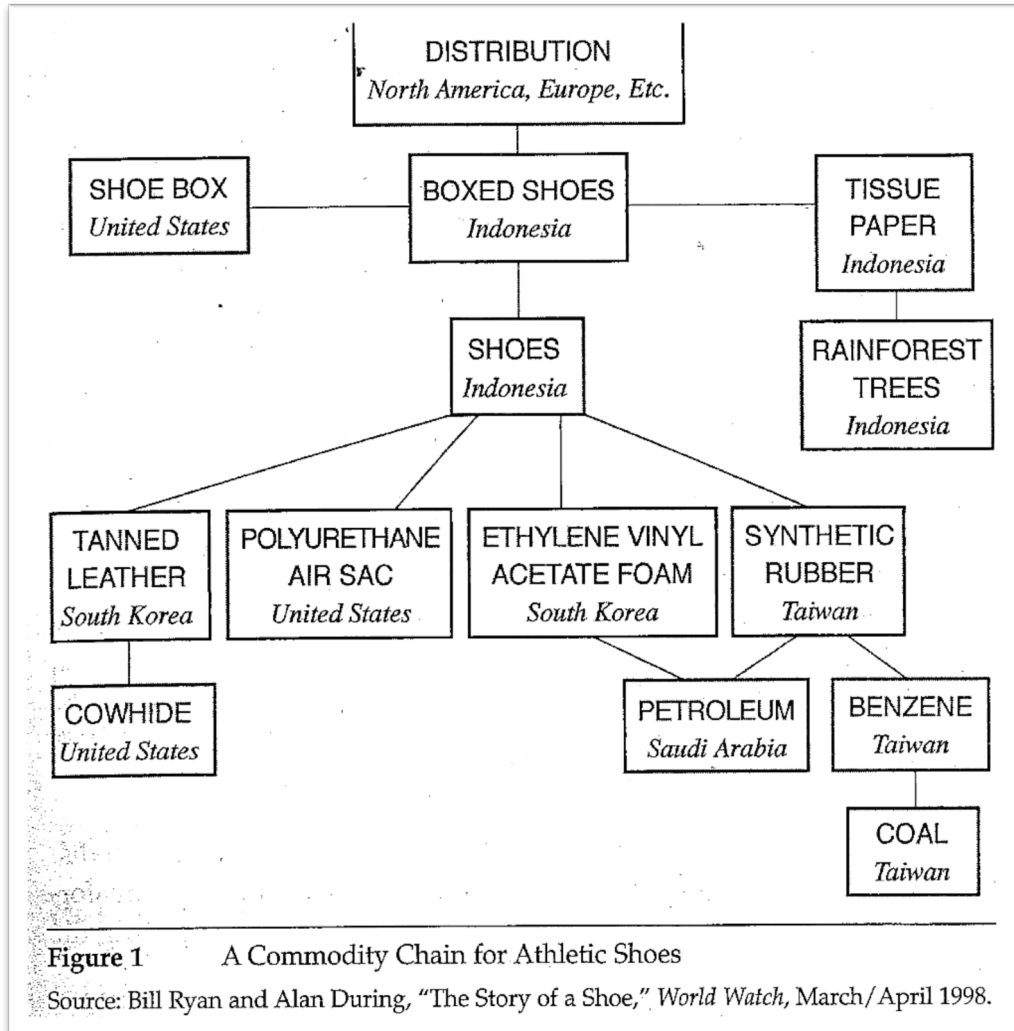
Adding these concepts I mentioned above, globalization can be categorized with many different fields such as economic globalization, political globalization, cultural globalization, environmental globalization and so on. In the next part of the essay, I will study particularly about economic globalization.

2. Economic Globalization

First of all, is there economic globalization? Some people might say yes due to the fact that the number of transnational corporations grew from approximately 7000 in 1960 to more than 70,000 in 2012 or 200 biggest transnational corporations have a turnover of 1/3 of the world's GDP. On the other hand, some people might say there isn't such thing as economic globalization. Those people would say that the world economy is not global, rather trade, investment and financial capital are concentrated in and between three blocs; Europe, North America and Japan. Or they might even say that genuine transnational companies are relatively rare most are national companies trading internationally.

Personally, I believe there is economic globalization. During the past 50 years, the effects of globalization have come to dominate almost every aspect of contemporary life, influencing everything from the food we eat to where we buy our clothes to what we watch on television. In fact, economic factors have been a powerful, arguably the most powerful, force driving the processes of globalization. In the following part, I'd like to examine the characteristics of economic globalization and features of global companies. Key words for characteristics of economic globalization can be, diversification of goods, compression of space and time, interdependence,

global marketplace (off-shore production, global production chains, global sourcing mergers) , consumerism, globalization of finance, communication technology (as facilitator as well as product) and widening gap between North and South.



The figure above shows a commodity chain for athletic shoes. As you can see in figure 1, the global labor force is dispersed among the production links of these commodity chains. Philip McMichel explains as follows regarding this commodity chain for athletic shoes in his book called *Development and Social Change*;

“In the U.S-based athletic shoe industry, the initial labor is related to symbolic side of the shoe design-and marketing. This step remains primarily in the United States. Then there is the labor of producing the synthetic materials; of dyeing, cutting, and stitching; and of assembling, packing, and transporting. These forms

of labor are all relatively unskilled and often performed by women.” (McMichel, 2004)

Global companies subcontract through local firms in the regional production sites. As an example McMichel gives the case of Nike shoes in his book that I previously mentioned.

“Nike’s expensive trainers, worth \$150 dollars in the United States and Europe, were assembled by some 120,000 Indonesian contract workers earning less than \$3 a day, which, although a starvation wage, met the legal minimum that applies to more than half of Indonesia’s 80-million labor force. Depending on political and / or economic conditions, a company such as Nike will shift a substantial part of its production to these lower-wage sites.” (McMichel, 2004)

Global companies such as Nike have become the main carriers of economic globalization. They are globally organizing production and allocating resources according to the principle of profit maximization. And their global expansions are reshaping macroeconomic mechanisms of the operation of the world economies. (Shangquan, 2000) At the beginning of this essay I explained this economic globalization as imperialism, however economic powerful countries are dominating foreign nations for the primary purpose of economic growth as you can read above. In this thesis, I’d like to examine more particular case of these issues. However, before, I would like to mention key institutions and systems of today’s economic system which have contributed to make the “imperialism” world that we have today.

3. The New World Economic System

It is indisputable that the Breton Woods agreement in 1944 played a major role in the creation of the new world economic system that we know today. At the Breton Woods meeting in 1944 plans were drawn up for the Breton Woods system, the purpose being to secure fixed exchange rates between nations, and free and convertible currencies. It was decided that the US dollar would become the world’s reserve currency linked to gold, and each foreign currency was to be tied to the US dollar and

in turn the US dollar would become the world's reserve currency and would be linked to the value of gold. It also designed an institutional framework for market-based capital accumulation to assure newly liberated colonies would pursue capitalist economic development beneficial to the victorious allies, mainly America. (Baylis, Smith, & Owens, 2011)

The Breton Woods system led to the creation of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development, now known as the World Bank. The former was designed to monitor exchange rates and lend reserve currencies to nations with trade deficits, the latter to provide underdeveloped nations with needed capital — although each institution's role has changed over time. In another words, those organizations were established to integrate developing nations into the Global North-dominated world economy, using debt entrapment as the way to transfer their wealth to powerful Western bankers. As a result, since WWII, public wealth shifted to powerful private hands, widening the gap between super-rich elitists and working households, a process more intense than ever now, including the amounts. (Baylis, Smith, & Owens, 2011)

In addition, the General Agreement on Tariffs (GATT) / World Trade Organization (WTO) and Structural Adjustment Programs (SAPs) are to be mentioned. The GATT was a multilateral agreement regulating international trade. According to its preamble, its purpose was the "substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis." (The World Trade Organization , 2013) GATT was signed in 1947 and lasted until 1994, when it was replaced by the WTO in 1995. According to the official web site of the WTO, the WTO can be defined as:

“The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business.” (What is the WTO?, 2013)

Structural Adjustment Programmes (SAPs) are economic policies for developing countries implemented by the World Bank and the IMF since the early 1980s by the provision of loans conditional on the adoption of such policies. These policy changes are conditions for getting new loans from the IMF or World Bank, or for obtaining lower interest rates on existing loans. Conditionalities are implemented to ensure that the money lent will be spent in accordance with the overall goals of the loan. The SAPs are created with the goal of reducing the borrowing country's fiscal imbalances. The bank from which a borrowing country receives its loan depends upon the type of necessity. The SAPs are supposed to allow the economies of the developing countries to become more market oriented. This then forces them to concentrate more on trade and production so it can boost their economy. In short, SAPs make requiring countries institute certain policies or to achieve certain conditions in order to receive IMF assistance, consistent with economic liberalism. (World health Organization, 2013)

The Bretton Woods system itself collapsed in 1971, when President Richard Nixon severed the link between the dollar and gold. (Baylis, Smith, & Owens, 2011) However, Bretton Woods established a post-war international monetary system, which is the basis of the world economic system we have today, including the IMF and World Bank's original purposes. The purpose of the World Bank was to establish stable exchange rates linked to the dollar and bridge temporary payment imbalances in order to provide credit to war-torn developing countries. Both bodies proved to be hugely exploitive in their hidden agenda. Today the IMF and World Bank are known as “Washington Consensus”.

In the next section of this essay, I aim to shed light upon the injustices of the new economic system with the primary focus being upon the IMF and World Bank by dividing these into two sections; 1, the unfair rule of the Washington Consensus. 2, the unfair effect on developing countries of the Washington Consensus.

4. The Unfair Rule of the Washington Consensus.

- Unfair voting system.

Even though the imperialism of the West is officially over after the colonial period, it seems like western superiority is not over yet. In this section of my

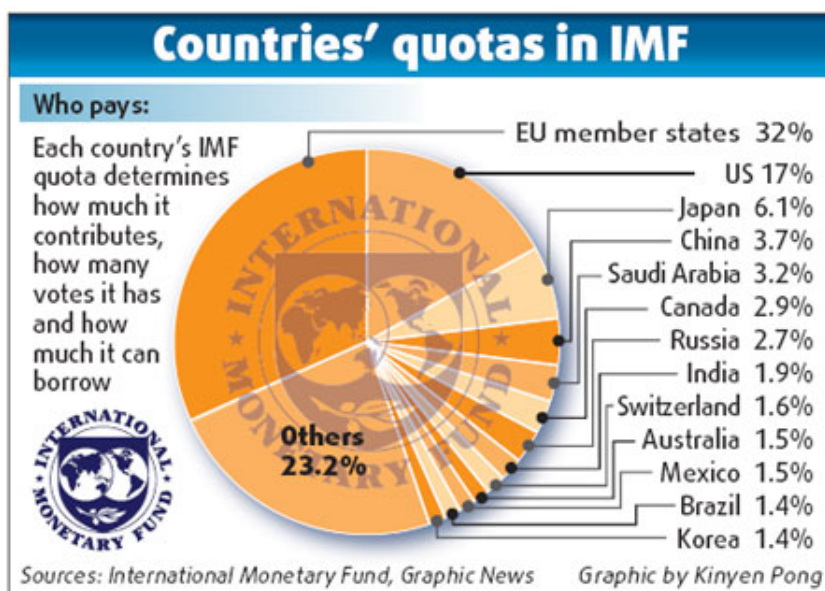
thesis, I'd like to have a look at the unfair rules of the Washington Consensus. First example is voting system of the IMF. In the context of the many debates about globalization, there is probably no more controversial institution than the IMF. Today, the IMF has a membership of 188 countries. (International Monetary Found, 2012) In this big and influential organization, how do they make decisions? The main source of IMF resources is supposed to be IMF quota contributions, the money countries pay into the Fund for their membership of the institution. Therefore, IMF uses a system called "quota system" to decide voting power. Unlike one a member-one voting system, a quota-voting system is a weighted voting system which is explicitly tied to the size of member countries' financial contributions. The quota is used in three ways: to determine voting rights, to determine contributions, and to set a guideline for the level of resources a country can borrow.

This is how it works: Upon joining the Fund, a member must pay its subscription in full, with a minimum of 25% in either SDRs or international reserve currencies such as US dollar, euro, yen, and the rest is paid in the country's own national currency. As national currencies of countries with weak payments positions are not "useable" resources, reserve currency contributions are the primary source of financing for IMF lending. Thus, by virtue of their large quota allocations and their reserve currency contributions, industrialized countries contribute by far the greatest share of the IMF's resources. (International Monetary Found , 2013)

As I mentioned above, quotas also determine a country's voting power in the IMF's decision-making bodies. Each member has 250 basic votes plus one additional vote for each SDR 100,000 of quota. The 250 basic votes generate a slight bias in favor of small countries. However, this does nothing to alter the overwhelming dominance of industrial countries in voting power.

Top 7 Members	Quota		Votes	
	Millions of SDR	Percent of total	Number	Percent of total
United States	42,122.4	17.69	421,691	16.75
Japan	15,628.5	6.56	157,622	6.23
Germany	14,565.5	6.12	146,392	5.81
United Kingdom	10,738.5	4.51	108,122	4.29

France	10,738.5	4.51	108,122	4.29
China	9,525.9	4.00	95,996	3.81
Italy	7,882.3	3.31	79,560	3.16



According to the official website of the IMF, the U.S with its quota of SDR42, 122.4 million has 421,961 votes, whereas Palau with its quota of 3,1 million has 768 votes. As the total of all member's votes is 2,519.736, the U.S

controls 16.75% of votes at the IMF while Palau has just 0.03% of the votes. (International Monetary Found , 2013) By virtue of their large quotas, rich countries get most voting power while developing countries are left with little influence over the IMF's policies and programs. We develop a model that recognizes the bifurcation of members into industrial-country creditors and developing-country borrowers and treats the IMF as an international government that engages in redistribution. (Xu, 2009)

5. The Unfair Effect on the Developing Countries

Economic globalization should contribute to the development of all countries. As I previously mentioned, the rules of the world economy that are introduced by privileged countries are extremely inequitable. In this section of my essay, I'd like to introduce two examples of how those economic rules are influencing inadequately to certain nations. As a first example of these rules and regulations in effect I have chosen to discuss the coffee industry.

- Why Coffee Industry?

Today, coffee is known as the world's second most valuable traded commodity, behind only petroleum. There are approximately 25 million farmers and coffee workers in over 50 countries involved in producing coffee around the world. In fact, according to the international coffee organization, coffee is the world most widely traded tropical agricultural commodity, accounting for exports worth an estimated US\$ 15.4 billion in 2009/10, when some 93.4 million bags were shipped. (International Coffee Organization, 2010)

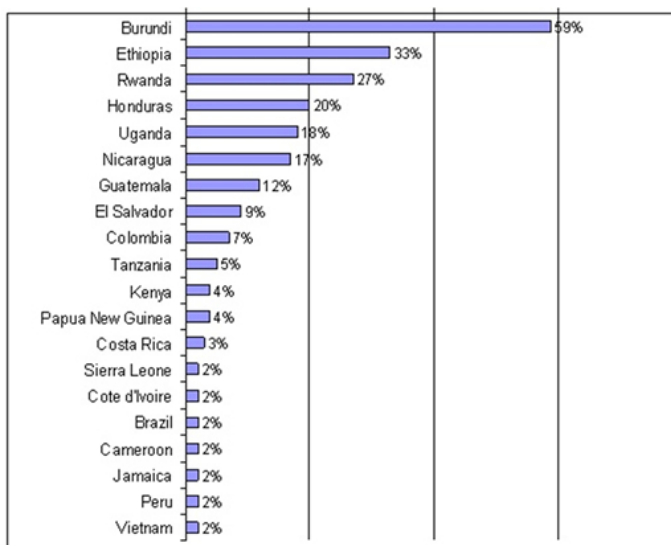
World coffee exports, by value and volume 1997/98 2009/10

Coffee year	US\$ billion	Million bags	US Cents/lb FOB
1999/00	8.7	89.4	74
2000/01	5.8	90.4	49
2001/02	4.9	86.7	43
2002/03	5.5	88.2	47
2003/04	6.4	88.8	55
2004/05	8.9	89.0	76
2005/06	10.1	87.9	87
2006/07	12.5	98,4	96
2007/08	15.0	96.1	118
2008/09	13.5	97.4	105
2009/10	15.4	93.4	125

As the international coffee organization says:

“For many countries, coffee exports are not only a vital contributor to foreign exchange earnings but also account for a significant proportion of tax income and gross domestic product. For seven countries the average share of coffee exports in total export earnings exceeded 10 percent in the period 2000-2010, although the importance of coffee for many countries is diminishing over time as their economies diversify. This can be demonstrated by the fact that during the period 1996 to 2000, there were 15 countries which fell into this category, i.e. the average share of coffee exports in their total export earnings exceeded 10 percent.” (International Coffee Organization, 2010)

Average share of coffee exports in total export earnings (International Coffee organization, 2013)



Coffee organization, 2013)

Global consumption in coffee year 2009/10 totaled around 133.9 million bags, of which 72 million bags were consumed in Importing Member countries, 21.2 million in non-member countries and 40.7 million in producing countries. (International Coffee Organization, 2013)

- Issue of Coffee industry

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Imports of all forms of coffee by selected importing countries.(Nov of 2011 and 2012)

(International Coffee Organization, 2013)

(60-kilo bags)	Total	EU	USA	Germany	Italy	France	Japan
Nov 2011	9,055,408	5,977,572	2,229,668	1,639,048	774,228	774,228	460,049

Nov 2012	9,436,871	6,493,219	2,027,015	1,919,903	771,225	615,610	548,709
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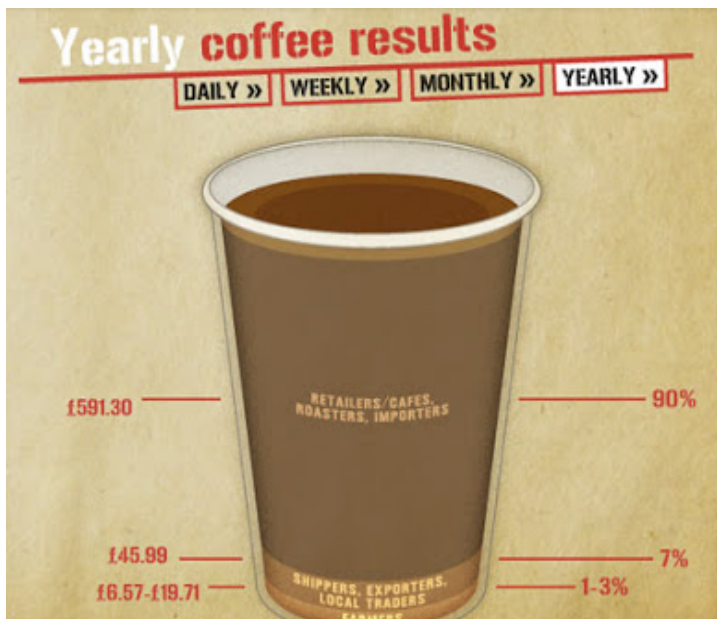
Exports of all forms of coffee by selected exporting countries (Jan of 2012 and 2013) (International Coffee Organization, 2013)

(60-kilobags)	Total	Brazil	Vietnam	Colombia	Indonesia	Honduras	Uganda
Jan 2012	8,091,109	2,139,601	1,900,000	541,582	637,281	504,745	226,462
Jan 2013	9,667,096	2,530,064	2,700,000	743,123	648,619	639,669	345,114

As you can see from the figures above, coffee plantations are generally located within developing countries, these plantations primary customers are large corporations from developed nations. Therefore, the standard price of the coffee beans for trading commonly tends to be unfair to the coffee beans producers. This is why coffee can be defined as a symbol of a product that hastened the gap between north and south. This did not start in recent years. We can trace it back to the middle 17th century when European countries were colonizing the world. Coffee was traditionally developed as a colonial cash crop, planted by peasants or wage laborers in tropical climates on large plantations of landowners for sale in colonial countries. When coffee bean farming was introduced to developing countries, they were forced to start coffee bean industry by developed countries. This shows how it was remarkably advanced to developed countries from the beginning of this coffee industry situation. Nowadays, coffee producers, like most agricultural workers around the world, are kept in a cycle of poverty and debt by the current global economy designed to exploit cheap labor and keep consumer prices low.

Under the modern economic environment, which is known as the policies of WTO (world trade organization) IMF and World Bank as the most respected base, how are coffee prices are controlled and what kind of effect is there? (International Coffee Organization, 2013)

- Unfair trade



In 2006, a documentary film called “Black Gold” was released. The story follows the efforts of an Ethiopian Coffee Union manager as he travels the world to obtain a better price for his workers' coffee beans. (Black Gold , 2011) As you can see from the image, only 1~3 % is the price that coffee farmers would get for one cup of coffee we buy in a café. (Black Gold , 2011)

Why is such an unfair trade accepted? According to the Japanese literature called “おいしいコーヒーの経済論” , (辻村英之, 2009) there are two of factors underlying this problem;

1. New York futures commercial transaction as standard price; Structural problem
2. Structural adjustment program

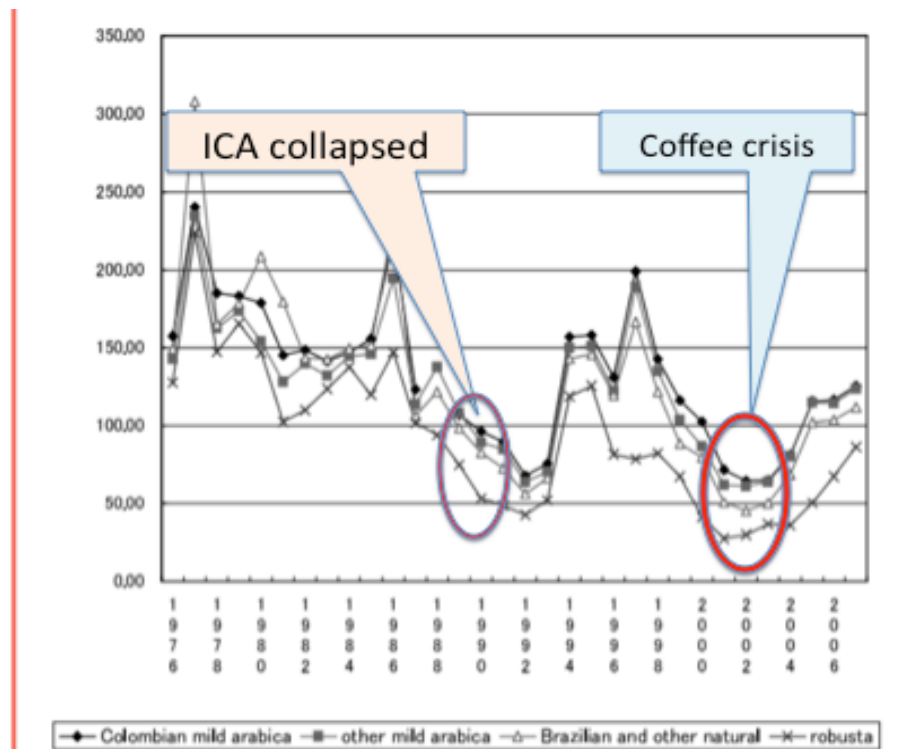
1 . New York futures commercial transaction as standard price; Structural problem

- 1) “Today, large-scale coffee importers and roasters purchase coffee futures and options in order to protect their stocks' worth through the Coffee, Sugar and Cocoa Exchange in New York City which sets coffee prices according to the New York "C" contract market.” (International Coffee Organization, 2013) Yes, it is decided at a place where coffee beans farmers can never be. The price of coffee fluctuates wildly in this speculative economy, generally hovering around fifty cents per pound. Most coffee is traded by speculators in New York, who trade approximately 8-10 times the amount of actual coffee produced each year. In an unregulated market, such large corporations were able to control the price of coffee-as they purchased more products, prices skyrocketed. The price of coffee fluctuates dramatically. For example, Brazilian weather (Brazil shares

about 30 percent of import coffee beans) (辻村英之, 2009) reflects how investors buy and sell. For those reasons, coffee bean farmer's supply and demand has no influence on the prices of coffee beans any longer. Moreover, specialty coffee is often imported at a negotiated price over the NY market, which is considered a 'quality premium'. Most of those premiums never reach the coffee farmer, but rather stay in the hands of the exporter. This creates a disincentive for farmers to increase their quality, as they do not receive the direct benefits of increased investment in producing better coffee.

To change this situation, the International Coffee Organization (ICO) was initiated in collaboration with the United Nations in 1962. The purpose of this organization was to enhance cooperation between nations that consume, distribute and produce coffee. It was a result of the five-year International Coffee Agreement signed in 1962 at the UN in New York and renegotiated in 1968, 1976, 1983, 1994 and 2007 at the ICO in London. Unfortunately, negotiations for the 1989 version of the International Coffee Agreement collapsed, causing coffee prices to drop to less than 80 US cents per pound. It took until 1994 to negotiate a new International Coffee Agreement, but it was decided that coffee prices would no longer be regulated. That same year frost in Brazil threatened crops and the price of a pound of coffee escalated to a high US\$2.80 per pound. As a result, in October 2001 a thirty-year low was to devastate farmers. In what is now known as the 'Coffee Crisis' coffee prices fell to an extreme low of US\$45 cents per pound.

Price of trading for coffee beans (1976~2006)



(Seo Yasuhiko, 2009)

Regarding this issue, the Fair Trade organization explains as follow:

“Almost overnight international prices crashed. Hundred of thousands of farmers from the rainforest of Peru to the steep slopes of Kilimanjaro were forced out of business. It was yet another reminder of just how vulnerable coffee farmers are to the volatile international market and its wildly fluctuating prices. This crisis resulted mostly from an overproduction of coffee. ... In 2002 eight percent more coffee was being produced than consumed, and much of it was low quality. The result of the Coffee Crisis was economic devastation for many coffee-producing countries. Over 100 million growers, processors, traders and retailers dependent on coffee were affected. Citizens of coffee export dependent countries in Central and South America, Africa and Asia had to endure drastic cuts in health and education spending by governments, and many endured near starvation conditions.

Due to the four years it takes for a coffee plant to yield fruit, it is extremely

difficult for farmers to respond quickly to the fluctuating market.”
(FairTrade International , 2011)

2. Structural adjustment program ~example of Tanzania~

2) According to the ministry of foreign affairs of Japan, agriculture is by far the most important sector in Tanzania in terms of employment (over 80 percent) , contribution to GDP (over 60 percent) and foreign-exchange earnings (75 percent) . (Ministry of Foreign Affairs of Japan, 2013) Coffee production in Tanzania is a significant aspect of its economy as it is Tanzania's largest export. The IMF structural adjustment program (see page 9 and 10) in Tanzania began in 1986, with additional agreements signed in 1987, 1991 and 1996 due to the economic crisis. The key elements of the adjustment program in Tanzania have been devaluation, cuts in subsidies, privatization, increasing foreign direct investment and trade liberalization. While agricultural production and exports have increased since the adjustment program began, so have rural poverty, income inequality, food insecurity, malnutrition and environmental degradation. As a result, Tanzania has become ever more dependent on foreign aid.

Following Tanzania's independence in 1961, the government implemented state-led agricultural policies to increase agricultural exports and modernize production. Of course, coffee was one of those crops corresponding to these policies. The government channeled subsidized credit and inputs through agricultural cooperatives and expanded the size and scope of marketing boards. In addition, the government greatly increased the size and scope of credit and input programs and called for the voluntary movement of the rural population into villages, where, it was argued, production and the provision of social services could be undertaken more efficiently. However, since the liberalization of the coffee market as one of form a part of SAP, traditional export crops like coffee, tobacco, cashew nuts and cotton, with fixed producer prices being abolished in 1993. The government has also removed itself from the distribution and subsidization of agricultural inputs, the price of which is now also determined in the market. As a result, the contribution from agriculture in the year 1990 was 59% and in 2005 it dropped to 45.6% (Planning Commission 2005) Coffee yields

have also been falling due largely to the declining use of inputs. The cost of fungicides, which constitutes the single largest input expense in coffee production, has gone up because of devaluation and the lifting of subsidies. The price increase resulted in a drastic decline in the use of fungicides, which has led to increased incidence of disease. Not surprisingly, there has been a "catastrophic fall in yields" according to the World Bank, from an average of around 400 kilos of clean coffee per hectare in 1981-82 to some 230 kilos per hectare in 1991/92. (Ministry of Foreign Affairs of Japan, 2013)

In addition, as a result of SAP advocating for less state intervention in the economy, government-owned enterprises in Tanzania were sold to private companies. By the end of December 1996, about 155 government-owned enterprises were in the process of being sold by the Parasatal Sector Reform.

At this time, the government sold some of its share of 68 private companies. And 23 companies were loaned to and run by private companies in collaboration with the government. (Planning Commission 1996) Therefore, private traders such as multinational corporations started to handle most grain transactions and prices paid to farmers are determined by market conditions.

The coffee industry wasn't an exception. After the agreement with IMF for free trade as known as SPA, many multinational corporations started to invest in the Tanzanian coffee industry. By the way, today the world coffee market is dominated by four multinational corporations: Kraft General Foods (owner of "Maxwell House" and other brands) , Nestle, Proctor & Gamble (owner of "Folgers" and other brands) and Sara Lee (owner of "Chock Full O'Nuts" and "Hills Brothers") . Those large corporations were able to control the price of coffee-as they purchased more products, prices skyrocketed. Free trade, or trade without taxes or other restrictions, is meant to benefit both importers and exporters. However, who benefits from trade depends on the prices, and wealthier countries or corporations often impose prices at the expense of poorer ones. With no restrictions on international investments, corporations force countries to compete against one another in a "race to the bottom," lowering wages in order to maintain business. The corporate products that have the lowest price and highest

profitability on the world market proved to be the most successful, often devastating the economies and communities in smaller, poorer countries. Corporate ownerships and monopolies are protected over labor, the environment and sustainability. In fact, According to the web site of Andromeda Ethiopia Coffee (NPO), after 1993 Kilimanjaro Native Cooperative Union (KNCU) lost 80% of its share of coffee. (NPO Andromeda Ethiopia, 2013)

As I previously explained, SAP requires country to institute certain policies to achieve certain conditions in order to receive IMF assistance, consistent with economic liberalism which includes the followings: trade liberalization, privatization of state enterprises, debt repayment, cut down on state expenditures (mostly rural credit, health, education and other social benefits to cut down on deflect). It is true that the GDP of Tanzania had been growing as you can see the figure below.



(Trading Economics, 2013)

The figure above shows the GDP growth for years 2004-2012. The table shows that there is an increase in the annual rate of growth in GDP from 10.28% in 2004 to 28.25% in 2013. However the living standard of population hasn't developed but rather worsened as you can tell by what I've previously written. Privatization of government-owned enterprises in Tanzania included plantations, banking, insurance companies, food processing plants, mining and petroleum installations, power companies, industries for intermediate goods and manufacturing, hotels and tourism, and other service sectors such as shipping and

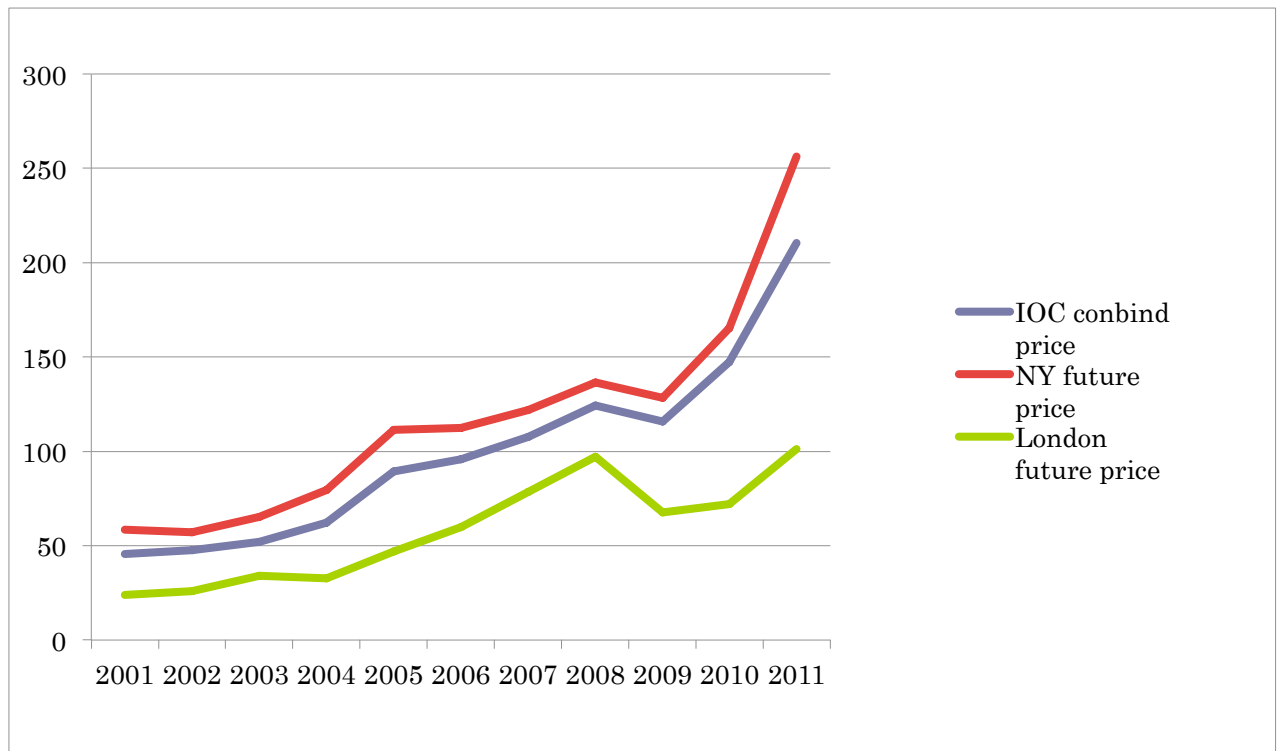
transportation companies. (Planning Commission 199, 2002) This is compounded by the fact that the state no longer subsidizes social services. Since private investors are for profit maximization, it is unlikely that they will provide support to the citizens especially for refugees. In fact, the government, the IMF and the WB have discussed the issue of SAP, with government officials complaining that the policy has a negative impact on the majority of the population. For example, in a policy dialogue held at the offices of the National Assembly, Ms. Hulda Stanley Kibacha, a member of Parliament who represents women in the ruling party said;

“What is the four per cent annual growth of the Gross Domestic Products while the majority poor who are mainly peasants can not afford skyrocketing agricultural input prices due to hostile World Bank policies? To me the private sector must mean rural peasants and poor urban business men and women, but the World Bank seems to favor foreigners in its project assistance programs” (Simbeye, 1997:1)

3) Current Situation of Coffee industry

(US cent/UK£)

Coffee beans price of NY future and London future from 2001~2012.Jan)



Source; ICO statistics 2012. Feb (International Coffee Organization, 2013)

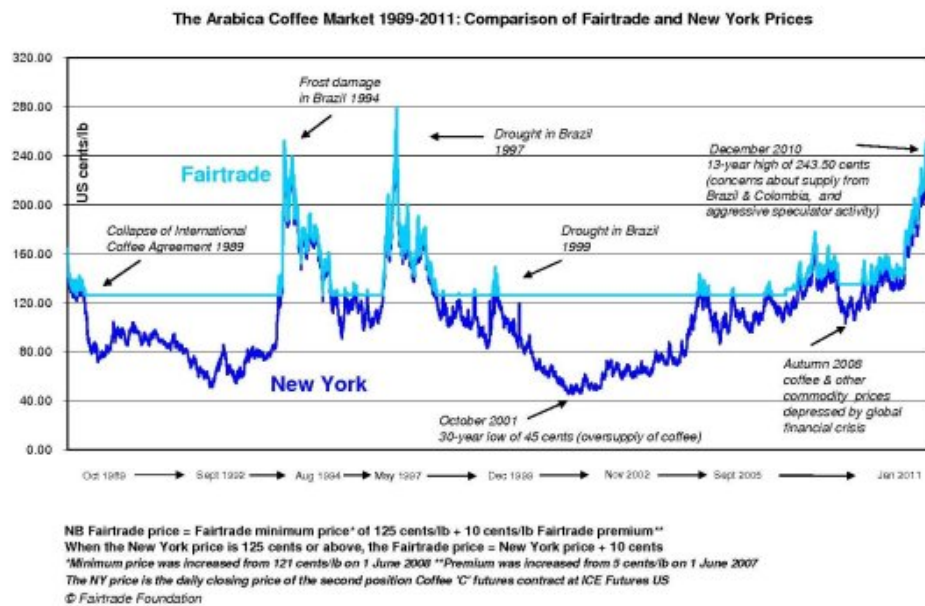
The graph above shows the trading coffee beans price from 2001 to 2012 January. As it is shown, the price of coffee beans has been rising, mainly, I think, because of rising demand in emerging markets amid strong worldwide demand. The total worldwide coffee demand for 2011-2012 is forecasted to be around 135 million bags (sixty-kilogram bags) while total coffee production for 2011-2012 is currently forecasted at around 131 million bags of coffee. (HARRINGTON, 2011) The worldwide demand for coffee has been increasing about two percent annually but coffee demand is growing much faster than that in developing nations such as China, Brazil, India and Russia, where emerging economies are creating strong new demand. Especially the coffee price rise of 2011 was remarkable. ICO annual review of 2010-11 says;

“During coffee year 2010/11 coffee prices rose sharply, with the annual average of the ICO composite indicator price at 205.65US cents/lb compared to 134.41US

cents/lb in coffee year 2009/10, representing an increase of 53% . The average for coffee year 2010/11 is the highest recorded since coffee year 1976/77 when it was 229.84US cents/lb.” (International Coffee Organization, 2011)

- Fair Trade

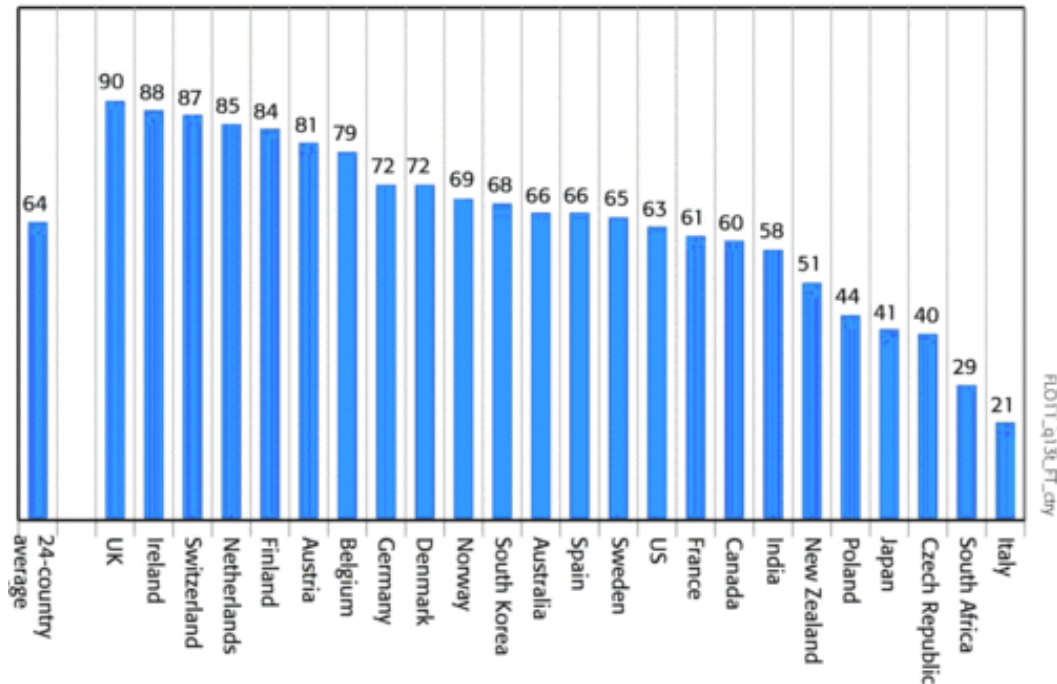
Fair Trade coffee has become increasingly popular over the last ten years, and is now offered at a significant number of coffee retailers worldwide. Fair Trade standards for coffee act as a safety net against the unpredictable market. They provide security to coffee producers so that they will get a price that covers their average costs of sustainable production (Fairtrade Foundation, 2011)



Source; (Fair Trade Foundation 2011)

Level of Trust in Fairtrade

Trust, by Country, 2011



Trust includes 3+4 on a scale of 1 to 4, where 4 is "A lot of trust" and 1 is "Not trust at all."

Source; (Fairtrade Foundation, 2011)

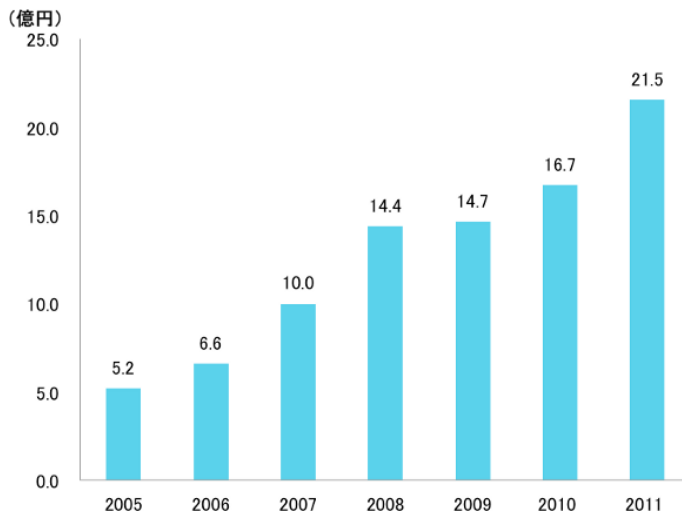
The figure above is about the level of trust in Fair Trade. About this statistic, the Fairtrade foundation says:

“Consumer trust in Fair trade is at an all time high in the UK (90%) and word of mouth is a key way of finding out about Fair trade with 56% saying they would recommend Fair trade products to family and friends, second only to the information consumers see on packaging and labels. Seventy-seven percent of those familiar with the FAIRTRADE Mark in the UK strongly associate it with helping farmers and workers in poor countries tackle poverty.” (Fairtrade Foundation, 2011)

In fact, Fair Trade has not infiltrated Japanese society compared with the UK or most developed countries. However, it is true that gradually it is happening (see figure below).

The proceed of sales of fairtrade product in Japan 2005~2011

(Million yen)



Fair trade was introduced in Japan in 1993. After 2002, many daily products such as coffee or fruits or sugars are beginning to appear commonly at local supermarket. From 2002 to 2008, proceed of sales of fair trade has been going up 30%~50% per year. (Fairtrade

Japan, 2012)

Conclusion

In the last decade of the 20th century, capitalism led by western countries managed to create favorable conditions for the takeover and recolonization of economies across the developing world. In the process, international capitalists which are mostly located in North America and Western Europe, managed to re-establish highly profitable returns on their investments and operations, and to create developing country as growing of poverty and misery. I called this phenomenon imperialism under the name of globalization as I previously mentioned.

However, it doesn't mean that globalization is necessarily unpleasant. Needless to say, people have taken radically different positions concerning the policy courses that should be adopted towards globalization. As Scholte mentions in his book, four broad lines of policy response to contemporary globalization can be distinguished; Neoliberalism, Rejectionism, Reformism and Transformism. (Scholte, 2005) To explain those ideals briefly:

“Neoliberalists have championed globalization on a market-led path in which public authorities only facilitate and in no way interfere with the dynamics of demand and supply, in contrast, rejectionists have advocates

‘de-globalization’ and return to a pre-global status quo ante. A third approach, reformism, has argued that globalization should be deliberately steered with public policies, including substantially increased global governance. Finally, transformist strategies have variously drawn on anarchist, socialist, postmodernist and other radical visions to advocate a revolutionary globalization that transcends currently prevailing social structures like capitalism or rationalism.” (Scholte, 2005)

I’d like to emphasize that globalization itself isn’t bad, rather it often pushes in the wrong direction. The primary factor for this can be international organizations such as IMF, World Bank, UN etc. As I previously mentioned, today’s international institutions work upon a system which exploits economically weak countries. Therefore, I believe that gradual institutional change can produce beneficial results if it is driven by an ambitious long-term vision and by a determination to continually widen the limits of the possible. This way of thinking is probably similar to reformism. As the name suggests, reformism is a method of thinking that believes capitalism can be a force for social good if it is reformed. As Scholte says “ That is reorganized in non-liberalist ways that encourage economic efficiency and stability, promote equitable distribution, limit ecological damage, avoid cultural violence, and enhance democracy.” (Scholte, 2005) This I believe includes reforming on a broad front with a renewed, more legitimate, and more effective United Nations as the overarching framework for global governance based on global consent. Also, reformists suggest “democratization of globalization have included the creation of global parliamentary bodies, enhanced oversight of global governance by national legislatures, revised voting formulas for global institutions, and the promotion of an energetic global civil society.” (Scholte, 2005)

There isn’t one simple answer to solve the issues that come with globalization. However, it is an ineluctable fact that numerous people living in the developing countries are suffering due to the new economic system. Coffee industry was just only one topic that I have picked, but there are other similar industries that are exploited by developed nations. The clothes sewing industries, tourist industries are good examples. Luckily the coffee industries had fair trade as one solution, but not every industry has a solution like this. I believe that by changing the system of

international organization, progress could be made for making a process that benefits economically strong and weak nations equally. However, this is a process that would require a great deal of reforms and further research so it is one that I believe will not be possible in the near future. But if equality is truly desired, it is a viable vision.

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