

An analysis of the latin american banana industry



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It is hard to believe that the bright yellow, delicious and nutritious banana has greatly affected Latin America and, in particular, Ecuador. As Latin America produces 83% of the world's bananas, the majority of the bananas that Canadians consume are exported from there. Most of these are from Ecuador. (Hellin and Higman, 2002a: 65) During my time in Ecuador, I ate a wild banana. It tasted nothing like the bananas that North Americans have access to all year round in the grocery store. It is because of my experience in Ecuador and the relationships that I formed with the indigenous people there, that I am very connected to this topic. The process of trading bananas that have been produced in Ecuador and then transported all over the world relates to the concept of comparative and absolute advantage, from the Classical liberalism theory (David Ricardo and Adam Smith) and Globalization. The primary goal in the classical liberalism theory is economic freedom. This could be achieved by removing all obstacles that could potentially get in the way of free trade and the market, such as regulation by the state. (Wagner 2010.) Globalization fits into the Classical liberalism theory as it functions around free trade, and therefore, requires the removal of obstacles such as tariffs. (Herold 2011.) It is because of the implications of Globalization and the concepts of comparative and absolute advantage, there has been an emergence of transnational corporations (TNC's) and multinational corporations (MNC's) in the Global south, for example, in Ecuador. In this paper, I argue that globalization, though may generally be positive development, can have a detrimental affect for the Global south, when it comes to the production of food commodities such as bananas.

Theoretical Approach:

The role of TNC's and MNC's in the processes of the banana industry are related to the concept of Comparative and absolute advantage from the classical liberalism theory. (David Ricardo, Adam Smith) Companies from the Global north (U. S and Canada) set up their production in the Global south, where the production of good quality fruit is less costly. The workers that work for these companies are paid substantially lower wages than workers in more developed economies where there are governmental regulations to provide standards of working conditions and wages. As mentioned in the article, Smallholder Banana Producers Need Policy Adjustments, Ecuador is an example of a country in the Global south that has a comparative advantage over other exporters in the banana industry. The European Union and the United States are the two major importers of bananas from Ecuador, due to Ecuador's fertile land, cheap labour and low chances of being impacted by storms that could potentially destroy the banana crops. (Hellin and Higman 2002a: 29) Because Ecuador has this comparative advantage, the Global north will rely on them for bananas and not much else. As a result, this banana producing country must rely upon its trading partners in the developed world for providing other goods which are produced at substantially higher costs and therefore are very expensive for them and other developing countries. In the end, as mentioned in, Smith, Ricardo and the world marketplace 1776-2007, Back to the future, an imbalance of trade occurs between the Global north and Global south, where trade agreements between industrialized countries and the Global south are skewed against developing economies. In the majority of cases, the terms of trade between

the Global north and Global south heavily favour the industrialized countries, therefore leaving “ slim pickings” for the Global south (Sapsford, 2007).

The Role of Multinational Companies in the Banana Industry

Globalization has provided the opportunities for a diverse market of products, but at a cost. As Globalization increases, more MNC's and TNC's make their mark on developing countries by focusing on producing one commodity from those countries for the benefit of the company. As mentioned in the article, Bananas, the world trade of bananas is controlled by 5 major companies that control 80% of the market. These are: Chiquita brands, Dole Food Company, Del Monte Fresh Produce, Noboa and Fyffes. (Hamer, 2007) Although these five companies do not own the farms that produce the bananas for trade, they have control of the market for selling the bananas for export. As a result, they have the power to set a fixed price on the bananas, while controlling the wages paid to the producers. (Hellin and Higman. b. 5, 11) The MNC's therefore control just under 90% of Ecuador's banana exports. Although there are independent producers of bananas in Ecuador, the majority of them sign contracts with these companies to guarantee a limited income, because having a low income is better than not knowing when you will be paid when competing in the open market. (Hellin and Higman, 2002a: 65) This is another example of banana producers' dependence upon multi national companies. Having to compete in the world wide market place for U. S farmers and markets is daunting for independent farmers, making them vulnerable to MNC's to swoop in and take advantage.

The contracts that bind the MNC to the small farmers in Ecuador are very beneficial to the companies. While not directly controlling the farmer's operations, the MNC's influence how farms are run by turning a blind eye to working conditions and environmental management. As a result, because of their product's low prices, farmers resort to using child labor with long working hours, or to neglecting the environment to meet production obligations. (Hellin and Higman: b. 12) As farmers become more dependent on the MNC's, they are less likely to contradict what the company demands, or to take a political stand against them. (Hellin and Higman: b. 12)

The five multinational corporations mentioned above have substantial power in the banana industry by controlling the market of bananas and entering into lopsided contracts with farmers. They also have a large influence over politics and governments in countries where the farmers live. As the power that these companies have over third world governments is what caused the banana dispute between the European Union and the United States. The American banana exporting companies, with a vested interest in Latin America, encouraged the American Government to involve the WTO in the banana trade because of the preferential access that the European Union was giving to African, Caribbean and Pacific Country banana exporters (OPEC). (Hellin and Higman 2002a: 5)

These events are examples of how Globalization has had negative effects on the Global south, especially in the case of Ecuador. Scholars in, *Could Developing Countries Take The Benefit Of Globalisation?* argue that if certain countries in the Global South did not meet the criteria required of MNC's such as slack labor laws and nonexistent unions, they would pack up and

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head to the other countries, who are willing to enter into one sided relationships in order to have some employment. (Foo and Bass cited in Could Developing Countries Take The Benefit of Globalisation? 2006: 731) Although employment is necessary for the economies of countries in the Global South to grow, there should be a limit as to what extent exploitation of the Global South and the workers is justified.

Exploitation of workers in the Banana Industry:

In the Global south, the exploitation of workers is increasingly a problem. Companies from the Global north move their companies to developing countries with lower wages to lower the cost of producing the commodities they sell to us. This is an issue for Ecuador. According to the article, Small Holder Banana Producers Need Policy Adjustments, the Ecuadorian government sets a minimum price that the MNC must pay the independent producer per box of bananas. This minimum price by itself barely covers the price of production. This results in farmers paying their workers at or below subsistent wages. The workers are afraid of losing their jobs, therefore they will not complain. If they were to complain, there would be many capable people waiting for jobs, as there are many unemployed people in these economies. This makes it easy for these companies to find replacement producers. (Hellin and Higman, 2002a: 65) When the Chiquita fruit company, formally known as the United Fruit company, began using local farmers to produce their fruit in Colombia, there were many rules attached as to their business contracts. (Enforcing Business contracts in South America: The United Fruit Company and Colombian Banana planters in the twentieth century. Bucheli, 2004) As noted by Bucheli, in these contracts the United

Fruit company had the option of not buying the fruit produced by the local growers; however, these growers could only sell their fruit to this company. These contracts guaranteed the protection of the United Fruit Company and left the fruit growers to deal with the risks and at the same time, if the fruit being exported was not up to standards, or if there was no demand for it, then the planters would receive no pay and could not sell the rejected fruit anywhere else. They would be forced to deal with the “blemished” fruit that was unsellable. The United Fruit Company created many rules in the contracts and were sneaky when it came to preventing fruit producers from joining forces and forming their own company by issuing the contracts in a staggered manner; that is, the different producers at different times to hedge one farmer’s production against another’s. (2004)

Not only do MNC’s take advantage of the farmers producing bananas, but they also turn their backs on the immoral employment of children in the banana sector. Children are being employed in the banana industry from as young as eight years old, where they are put into jobs that require hard labor, the use of dangerous tools and exposure to pesticides and other hazardous fumes. Unfortunately, the Ecuadorian Government has not implemented strong labor laws to prevent this labor abuse of children, and therefore it will likely continue. (Ecuador: Widespread Labor Abuse on Banana Plantations. 2002)

Workers Unions are a way of implementing regulations on working conditions and protecting worker’s rights. In Ecuador, Unions are found in the more formal sectors of work, which does not include the Banana Industry. These formal sectors are where the minority of Ecuadorian workers are employed, <https://assignbuster.com/an-analysis-of-the-latin-american-banana-industry/>

where an education is required. As a result, the majority of workers in Ecuador are not protected by these regulations and laws. (Ecuador Working Conditions)

All of these examples portray how the American companies interested in the fruit of a developing country are only interested in profits and are prepared to take advantage of the disadvantaged circumstances of the local producers to maximize their returns, even if this leads to the degradation of the environment and the local population.

Effects of the Banana Industry on the environment and health:

With the increase of MNC's entering Latin America and exporting bananas, the environment and health of the workers within these countries has greatly decreased. As stated in the article, Major Concerns of Developing countries: Applications of the Precautionary Principle in Ecuador, Globalization has been one of the key reasons for the introduction of hazardous materials into Latin America. If the market remains open for free trade, it becomes very difficult to control what materials enter these countries and therefore hazardous substances are introduced into these countries to increase production. As well, the article states that it is much more difficult for developing countries to implement ways to prevent the impacts of hazardous chemicals to the environment and the society. MNC's knowingly take advantage of this by moving their companies to countries such as Ecuador, where they have not yet implemented rules against using certain bio-hazardous products. This leads to certain chemicals that have yet to be tested for safety reasons to be "legally sold" and then used improperly. (Harari. H, Freire and Harari. F

2005: 249-254.) According to Ecocertification of Ecuadorian Bananas: Prospects for Progressive North-South Linkages, the production of Bananas is one that requires the heavy use of pesticides and other environmentally degrading fumes. These are necessary to keep up with the increasing rate of production that is required by the small farmers. (Castillo et. al. 2000; Clay 2004; Henriques et al. 1997; Muenos-Carpena et al. 2002 cited in Ecocertification of Ecuadorian Bananas: Prospects for Progressive North-South Linkages. 2007: 262)

The use of pesticides is not only harmful to the environment, but also to the workers. Hamer discusses in his article, Bananas, that even if workers wanted to complain about the impacts of the practice of these companies on their health, the company would more likely end

up firing the workers rather than admit their faults. (2007) Unfortunately because there is a lack of education on how to properly use the pesticides, the risks that come along with these harmful sprays are even more toxic to the workers, as many of them do not receive the proper protective equipment. (Henriques et al. 1997 cited in Ecocertification of Ecuadorian Bananas: Prospects for Progressive North-South Linkages 2007: 262)

As well, because of the large rainfall in Latin America, it is necessary to spray the banana plants repeatedly with pesticides, as the rain washes the pesticides off of the plants into the soil. According to the World Wild Life Fund, “ The banana industry produces more waste than any other agricultural sector in the Global south.” (Hamer 2007: 24-27) In view of the fact that its climate and environmental conditions are more suitable for the

production of bananas, the entire world relies on the Global south for their production. As the Global south produces more bananas, the greater will be its contribution to the decline of its environment.

Globalization can lead to many positive events, such as uniting the world and bringing people closer through a freer flow of information, trade and ideas. In the production of bananas, however, Globalization has had a number of negative effects in those countries which grow them. Multi national and Trans national corporations continue to have huge amounts of power which allow them to virtually ignore any laws or regulations stand in their path of making a profit. In the end, the Global south and in this case, Ecuador suffers, as their workers are exploited and paid low wages while engaging in farming practices that degrades the environment.