

Free Trade Is Code for Forced Trade

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“Not since the conquistadores plundered Latin America has the world experienced a flow (of wealth from poor countries to rich) in the direction we see today” (Morris Miller(1))

Advanced nations have tried to force poor countries to participate in what is called free trade. This is a propaganda term to mislead people into being uncritical of what actually happens. This post explains what free trade really means.

The Opposite of Free Trade is Properly Regulated Trade

Most countries have to trade with other countries so that they can buy things that they cannot produce. Lots of countries do not have their own oil or gas deposits to provide energy, and many do not have the facilities to produce advanced goods. In order to have foreign currency to make these purchases, they need to sell something themselves. Free trade means that there should be as few obstacles as possible to trade between countries. However, many of the rules that exist to regulate trade exist for good reasons: to protect the health of workers and customers; to stop the use of poisonous chemicals in products; or to enable the development of new industries. If trade is not properly regulated, it can have disastrous consequences. If trade is properly regulated, it can provide jobs and technologies that will help poor countries to rapidly become wealthier, and solve their poverty issues.

There are no level playing fields

As with ‘free markets’, the term ‘free trade’ (sometimes called liberalisation) sounds like a wonderful theory in a textbook. Every business from every country competes with as few rules as possible, and with no assistance from government, so no business has any unfair advantages. This is supposed to create what is called a level playing field.

In the real world, we start from a position of extreme inequality. Big corporations have huge marketing budgets, they can easily borrow large amounts of money and they employ armies of lawyers, accountants and tax specialists to give them every possible advantage. They have connections with other businesses, they can hide money offshore, they pay bigger bribes, and for short periods they can offer prices so low that they can put local competitors out of business. They also receive help from their own government. Small companies in poor countries do not have these advantages. What we get in the real world has been compared to a match between a team of professional footballers (the biggest corporations) and

children who are still learning to walk (the small businesses of the developing world). The big companies almost always win, and the small companies go out of business.

Forced Trade – End Subsidies and Tariffs in Poor Countries

Businesses and industries often make little profit when they are new or developing and are therefore vulnerable to going bankrupt. For this reason it is important for governments to be able to assist them in the early stages. The idea of protecting developing industries has been compared to protecting and educating a child as it grows up.(2) We do not expect children to compete for jobs, because they require many years of learning, experimenting and making mistakes before they are ready to look after themselves. The same is true of businesses in developing countries. They have to be allowed to protect themselves against competition. This is known as infant industry protection and can be achieved using tariffs. Tariffs are where goods from foreign producers are taxed more than goods from local producers. This not only protects local industries, it also raises money for governments.

Over the years, almost all advanced nations have protected their industries against the downsides of competition. From 1790-1914, tariffs were the biggest source of income for the US government, before income taxes became more important.(3) Recently developed countries, like Taiwan and South Korea, were very careful to make sure that only some of their markets were opened up to foreign competitors, and then only gradually. If Japan had adopted free trade after World War 2, it would have been “unable to break away from the Asian pattern of stagnation and poverty.”(4) The car company Toyota provides one of the shining examples of what can be achieved if a country protects its developing industries. A few decades ago, Toyota cars were badly made and inefficient in comparison to those from Europe and the US. Toyota would have gone out of business if it had been forced to compete against Western rivals. By protecting it, Japan now has the most advanced car company in the world.(5)

The downside of tariffs is that they make goods more expensive for the buyer. The point here is not to suggest that tariffs are ideal, merely to state that poor countries must be allowed to protect industries if they want to. The US, Britain and many other rich nations still have tariffs on some good,(6) but as with so many other double standards throughout the world, they try to force poor countries to remove theirs.

De-industrialisation

We saw in an earlier post that advanced nations subsidise their businesses. When big, subsidised corporations from rich countries compete against unprotected, smaller businesses in poor countries, the end result is that the smaller businesses go bust. When Jamaica was forced to open up its trade to big overseas corporations, subsidised, powdered milk from the US was cheaper than fresh milk from local cows. Many milk sellers in Jamaica went out of business, almost overnight.(7) When Haiti was forced to open up its markets, rice growers and poultry farmers went out of business. After local producers have been eliminated, those countries become dependent on food exports from advanced nations. This is known as ‘food dependency’ and is a deliberate goal of US policy.(8)

In the Ivory Coast, the chemical, textile, automobile and shoe industries collapsed. In Kenya, the sugar, tobacco, beverages and textiles industries have struggled to survive. When Nigeria opened up to foreign competition, 35 textile mills closed and 200,000 workers lost

their jobs.(9) This is not limited to a handful of examples. This process has led to the de-industrialisation of many countries – the opposite of what they need to do to become advanced nations.

Propaganda distorts our understanding of subsidies and protection

The rules on subsidies, tariffs and trade are one of the more obvious areas of double standards and outright deceit by business leaders, politicians and trade negotiators from rich countries. This is what some writers(10) call ‘really existing capitalism’. It has nothing to do with competition or market forces. The rules are wrong twice over. Rich countries provide unnecessary subsidies to big corporations, but at the same time, poor countries are forced to remove necessary protection for their industries. The media does occasionally discuss this, but the debate is misleading. It tends to focus only on rich-country subsidies to farmers, without explaining all of the other subsidies that businesses in rich countries receive, and without discussing the need for protection in poor countries.

It is important to stress that even without the rich-country subsidies, most big corporations from rich countries would still be likely to dominate in the developing world, so poor countries must be able to protect their developing industries if they choose. Traders in poor countries will never be successful if they have to compete against big corporations before they are ready.

Rich people love free trade

When a poor country opens up its borders to products from advanced nations, there is an influx of higher end consumer goods such as tv’s and fridges made in rich countries. They are widely purchased by rich and upper middle class people in the poor country. Their standard of living goes up – how could anyone object? But there is a bigger picture. What happens to the white goods industry in the poor country? Either it doesn’t already exist, in which case it will never exist at all, or it is in the early stages of development, in which case it is unable to compete with better products from overseas, and will tend to be destroyed. The long-term problem is that poor countries will find it difficult to ever develop advanced industries.

Rich people in poor countries are unaware, or do not care, that their own domestic industries are being destroyed. They also do not care that they are surrounded by poverty. For most of them, they have always been surrounded by poverty. They like having large numbers of extremely poor people to work for them as domestic servants at extremely low pay. Rich people prefer not to discuss the idea that many policies which work for them are disastrous for others.

When the mainstream media are discussing trade, they mostly focus on the improvements for the rich, and sometimes the middle class, and generally overlook the downsides for the poor, and the long-term downsides for the country.

Free Trade is Propaganda to Conceal Corporate Exploitation

Free trade and the free movement of money have the following real purposes(11):

- They allow investors to move money freely.
- They allow investors and companies to set up complex international structures to manipulate prices and profits.

- They enable companies from advanced nations to extract raw materials in other countries on unfair terms.
- They enable companies from advanced nations to sell in other countries, eliminating local production.
- They enable companies from advanced nations to access cheap labour in poor countries.

When discussing a trade agreement between the US and Columbia, one commentator summarized it as follows:

“what actually happens is that jobs leave the richer nation and go to the country where workers are paid a pittance, while goods from the richer country flood the poorer, pushing out indigenous production”(12)

Negotiators often use the term ‘trade agreements’, when what they really mean is ‘agreements that give investors more power than governments.’ The combination of trade policies and the integration of poor countries into a global system of trade is sometimes called globalisation. One critical commentator said:

“globalization is what we in the third world have for several centuries called colonization.”(13)

Properly Regulated Trade Works Really Well

It is certainly true that some countries have used unnecessary regulations to enrich people with government connections. The former British Ambassador, Craig Murray, has written about his experiences in Uzbekistan, where the dictator enriched himself and his friends by controlling many industries.(14) Other countries have unnecessary bureaucracy, which creates opportunities for bribery and corruption. However, these are not arguments for free trade. They are arguments for properly regulated trade.

A small group of countries have made spectacular progress in the last 75 years, since 1945. South Korea, Taiwan, Hong Kong, Singapore, Japan and Israel were actively assisted by the US because they were useful to the US for political purposes.(15) They are often held up as examples of rapid development using free trade, but this is propaganda. Representatives from those governments, together with numerous academic studies, have shown that these countries did not follow free-market policies. They did what other advanced nations did to become successful. They protected developing industries against competition from overseas, and they provided government assistance to key industries and exporters. The same is now true of China.

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Notes

- 1) Morris Miller, Former executive director of the World Bank, cited in Abdul Satter, 'Is the IMF the cure?', at <https://www.thenews.com.pk/print/467953-is-the-imf-the-cure>, also discussed in Mark Curtis, *Ambiguities of Power*, p.230
- 2) Ha-Joon Chang, *Bad Samaritans*
- 3) http://en.wikipedia.org/wiki/Tariff_in_American_history
- 4) Vice President of Japan's Ministry of International Trade and Industry, cited in Mark Curtis, *The Great Deception*, p.100
- 5) Ha-Joon Chang, *Bad Samaritans*, pp.19-21
- 6) BBC, 'Trade wars, Trump tariffs and protectionism explained', 10 May 2019, at <https://www.bbc.co.uk/news/world-43512098>
- 7) 'WTO Agreement On Agriculture: The Implementation Experience, Jamaica', at www.fao.org/DOCREP/005/Y4632E/y4632e0m.htm
- 8) Michael Hudson, 'Food blackmail, the Washington Consensus and Freedom', 24 June 2019, at <https://michael-hudson.com/2019/06/food-blackmail-the-washington-consensus-and-freedom/>
- 9) Ha-Joon Chang, *Bad Samaritans*, p.68
- 10) Noam Chomsky, 'Can civilization survive really existing capitalism', 2013 University College Dublin Philosophy Society, 3 April 2013, at https://www.youtube.com/watch?v=_uuYjUxf6Uk
- 11) Matt Kennard, *The Racket: A Rogue reporter vs the Master of the Universe*, p.61-78
- 12) Matt Kennard, *The Racket: A rogue reporter vs the masters of the universe*, p.72
- 13) Martin Khor, cited in Matt Kennard, *The Racket*, p.57
- 14) Craig Murray, *Murder in Samarkand*, 2007
- 15) Robert Wade, 'Escaping the Periphery: The East Asian 'mystery solved'', WIDER Working Paper 2018/101, Sep 2018, at <https://www.wider.unu.edu/publication/escaping-periphery>

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