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The myth of free trade

Kalim Siddiqui

TO FIND solution to the on-going economic crisis in the Third World, the dominant western institutions namely World Bank and IMF are suggesting 'free trade'. It is said that few barriers to trade means the greater increase in wealth and efficiency and this growth is said to ultimately 'trickle down' to the bottom of the social pyramid. But historical experiences in the Third World under colonial rule show that on the name of 'free trade', the poor people in the Third World suffered and millions died in famine as production was concentrated for international maarkets, while the cultivation of locally consumed food was neglected.

Our experiences show that increased foreign trade dominated by a handful of TNCs brings more environmental problems, replacement of indigenous people, uncertain employment, widening gap between the rich and poor, both within the countries and between different countries. 'Free Trade' is generally described as being opposite to 'protectionism'. However, both 'free trade' and 'protectionism' are ideologies which have benefited the powerful and the rich.

The recent call for so-called 'free trade' represents a tendency towards re-establishment in a more complex of 19th century pattern of 'free trade' and free capital movements which was responsible for generating underdevelopment, famine and mass poverty in the first place. Indeed, the so-called 'free trade' is a part of the process of centralisation of capital at an international level and will once again leave the growth of the poor countries open to the vagaries of international capital. Even then if capital moves from rich to poor countries, it would leave the problem of labour utilisation and poverty untouched. The problem of poverty, which is becoming more serious in the Third World owing to not only population growth but also the labour displacement consequent upon the growth of capitalism in agriculture (also known as green revolution) and labour saving technology.

The uneven development of the world system has been gathering momentum for at least 400 years. In the year 1600 before the colonisation of America, Africa and Asia, the variation in living standards in different parts of the world was not very great, although within each country the gap between the rich and poor was wide. Since slave trade and colonial expansion and the subsequent accumulation of capital in Europe and North America, the poor have got poorer as the rich got richer. Further, since last decade the gap once again is widening dangerously.

Are the West helping the people in the Third World, when they are encouraged to grow cash crops for western consumption, instead of producing food first? The question is how the world economy has come to this condition where millions of peasants are subject to such gross exploitation, so that West would enjoy coffee, cocoa, tea, tobacco, sugar, pineapple and other tropical fruits, cotton, rubber and forest products and also minerals. Is it fair that most of these producers live in absolute poverty and most of people inhabited in the West live so well? What has caused this great rift in the world's population that leaves on the one side, mostly in the North, the rich, the developed countries and on the other, mainly in the South, the poor, underdeveloped countries of food and raw materials producing countries?

As Britain established her industrial superiority, the whole world was opened up by the British traders to provide markets for her manufactures and source of raw materials for her industry. Britain's imperial expansion was determined by this division of labour and was ensured by the British navy superiority over the high seas. Under empire, first the interest of merchant capital dominated, where traders bought cheap goods and sold it expensive. It soon evolved into capital investment, where local people were forced to work to produce for European market, with all processing, transportation and marketing being kept under European control. The most well known example of this relationship was British colonial rule in India, where cotton, jute, indigo, tea etc. were grown for export, often at the expense of food crops for the people. Further, not only Indian people were forced to rely on ups and downs of foreign markets and prices, but Indian handicrafts were destroyed to create market for British goods. India offered the largest markets for British manufacturers and largest source of raw materials, but also a steady supply of tribute in gold and silver and of soldiers for the imperial armies. Britain was successful in establishing world-wide empire first and was followed by French, Dutch, Portugal and Belgian empires and United States established by expanding its frontiers. This is the relationship of exploitation and dependence from which many in the Third World are struggling to escape.

The experience of early industrialisation in European countries show that the national economic development has always been made only with state active support. For example, even British manufacturing industry required a 100% tariff on imports of Indian textiles. Until then India had supplied Europe with cloth and muslin. When the machine-made cloths supplanted the products of handlooms in the colonial countries, the ancient village industries of India were destroyed and their population rendered destitute. The cotton towns of Indian cities of Murshidabad, Dacca and Benares, were depopulated. These towns are known as the poorest countries of the earth, the state of Bangladesh, were described by Robert Clive in 1757 as just 'as extensive, popular and rich as the city of London'. These manufacturing centres of Bengal exported millions of pound worth of cotton goods each year. Yet within few years after British occupation their exports had ceased and India began to import cloth from Britain. Britain neither had raw cotton nor traditional experience in cotton manufacturing, but still in a matter of few years the country became a leading cloth exporter of the world. The first famine was reported in Bengal in 1770, as repc ed by British Governor General, 'The bones of the weavers were bleaching the plains of India.. The jungle and malaria are fast encroaching upon the towns inhabited only by wild beasts'.

As a consequence, colonial policies resulted in a very uneven development. Onca European conquerors had spread across the world and land were 'opened up' to foreign trade by British navy. the cheaper factory goods drove out the handicarfts in the large part of the world. The colonial countries were forced in a capitalist system of world trade, where they were assigned the role of producing the primary raw materials for Europeans process and refine and make up into finished goods. Local handicrafts were destroyed by the competition of cheaper British manufactured goods.

This is how the world had been divided into developed and underdeveloped, rich and poor, producers of manufactured goods and primary producers. The Third World people, who were not taken as slaves or work in the mines and on plantations, became dependent

Continued on page 5

·Pakistan has numreous things to attract tourists, (See Page 8)

INSIDE

• Martial Arts—p6

13·1·95 The Nation

The myth of free trade

From page 1

for their markets on colonial powers that were beyond their control. This was essence what came to be called 'free trade'. Now, the question is how far the trading relations that exist today can be expected to change in the future. The fact is that it is the economic development of the North which has plundered the whole globe and most particularly the non-renewable resources of the Third World — oil and gas and minerals and forests.

Although the colonies of Latin America freed themselves from Spanish rule, but they fell under economic power of capital of United States and Britain, which were being invested in these countries in primary production like mining, plantations and ranching, not in manufacturing. The massive current debts of these countries are reminder of their continuing dependency.

The problem for most of the Third World, particularly Africa countries, is that they have nothing else to offer on the world market except products of the land, including minerals, and often only one product from each country. Most of the Third World countries rely for over 60 % of their export earnings on agriculture products. This is true for all Central American and Caribbean countries and for all Sub-Saharan African countries except Nigeria. Many of these countries the proportion of agricultural products in their exports was over 80 % and only one crop was involved — sugar from Jamaica, Cuba, Fiji, Mauritius; coffee from Ecuador; tea from Sri Lanka; cotton from Sudan; cocoa from Ghana; beef from Botswana and Paraguay, Banana from Honduras and Guetamala. As a result there are countries where over a third of the cultivated land, often most productive and irrigated land, is devoted to export crops. And export crops have frequently been grown without thought for the condition of the soil. Chemical fertilizers have been used together with pesticides which have poisoned the land and rivers.

Some of the products exported from the Third World, like coffee, tea and cocoa, have no nutritional value, but others like banana, pineapples, and various tropical fruits, palm oil, coconuts, ground-nuts, soya, sugar and many tropical fish are important sources of both calories and protein. It is mainly bread grains that are imported from the industrialised countries. Many Third World countries have inadequate supplies of food for their own people and yet they are net exporter of food. The result is serious protein shortages in the diets of many Third World people. According to WHO, about 60 % are said to be short of protein and 20 % to be short of calories in 1993.

Although, the export of manufactured products from the Third World has increased from 6% in 1970 to nearly 16 % in 1992, but this is still very low and most of these were supplied mainly from the new industrialising countries — South Korea, Taiwan, Singapore and Hong Kong. It is true that world trade has grown at a rate faster than world production. For this reason neo-liberal economists argue that foreign trade is an 'engine' of economic growth. But what is overlooked by them is that the question of benefit of this growth and its unevenness and to the squandering of non-renewable resources and the destruction of the global eco-system.

World prices of manufactured goods have risen fairly consistently over the last 100 years. Although the primary product prices have also risen slowly, but they have moved up and down more sharply during the same period. For example, in the 1930s the primary products prices dropped down to 73 % of the manufactures; and today they are only 65 % in terms of manufactured products. This means today the Third World have had to supply twice the volume of primary products for the same volume of manufactured goods.

The unequal trading relations between manufacturers and primary producers have been incorporated into the operations of the large TNCs, whose size and importance have steadily increased in last decades. The dominant position of these companies throughout the Third World, with their control over both buying and selling of the goods entering international trade, provides the explanation for the weakness of the millions of small Third World poducers in the world market. The strength of the TNCs and the reason for their growth, lies in control over sources of capital. For the poor countries it is a vicious circle of indebtedness. Since capital is supplied from the North, the profit flows back to the North and it is they not the third World that capital accumulates. The money that is being lend to the Third World comes from the accumulated profits of the giant companies. These giant companies not only have capital but also have latest technology. This gives them a competitive edge over all others and determines the growth path of production.

A study by UNCTAD has shown that for major commodities entering world trade in 1980, the proportion of total which was marketed by the 15 largest TNCs ranged between 70 % and 90 %, and that in most cases only 6 giant TNCs accounted for nearly the whole of the market. In some markets there are just two are three giants firms dominating the market. It is in that case obviously quite easy for them to act in collusion. They can therefore manipulate the market, 'squeezing' it by withholding supplies to raise the prices or flooding the market to lower the prices.

What this means for the Third World countries is shown by the fact that, for example, a third of Guatemala's coffee crop is exported by Aron to the US and Dalgety controls Ghana's exports of cocoa to UK. The giant manufacturing companies are also involved. General Foods, for example, which along with Nestle controls three-quarters of the coffee markets. A report from the Congressional Research Service of the US in 1983 stated that there were two ways of manipulating prices: one was to spread false information, the second was to corner the market. 'All that this requires,' observed a former vice-chairman of the Chicago Mercantile Exchange, 'is a great deal of money and brokers who are willing to look the other way.' He was testifying at the hearings into widespread speculation and manipulation which had led to a jump in soya bean prices from dollar 3.31 to dollar 12.90 in the course of one month in 1973, which he said 'was the result of manipulative practices.'

It is the cultivators, especially small growers, who suffer most from these swings, gaining little from the upswings and often heavily on the downswings. It is worth noting here that the grower's share in the coffee prices in the US, for example, varied from 35 % in 1972 to 16 % in 1980. Today, the growers share is rarely more than a tenth, and coffee workers on the estates receive no more than four cents in the dollar of the retail price for coffee. In addition, a recent study by the London based charity Christian Aid shows that less than 2 % of the price consumers pay for bananas goes back to the plantation workers and only 5 % goes to the farmers of the Third World. Nearly 90% goes to intermediaries in the food chain — importers, wholesalers, freight companies and retailers.

In the Third World countries, the role of domestic landed families also must not be ignored. An outstanding example was the Somoza family in Nicaragua which, before their overthrow in 1979, owned a quarter of all land, a third of industrial and commercial capital and nearly all the mines and off-shore fishing rights. Elsewhere in Central America most coffee plantations are controlled by the nation's wealthiest families, which often constitute the ruling political dynasty. Links between the big domestic landed families in the Third World and TNCs of the North were forged in the colonial periods.

Capitalism could not operate without markets and the profit motive, the aim to accumulate capital, that provides the driving force of all capitalist markets. If people start with different amount of capital those born rich will have an advantage which becomes cumulative. The current GATT agreement on so-called free trade, will undermine sovereignty of the Third World countries and put them on the mercy of import dependency and chronic food shortages, increased foreign exchanges crisis and thus will broaden the gap between the rich and poor countries.

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