

Free Trade and Development: How We Developed and Why other Countries are Not

-Peter Zylstra-Moore



A brief history of the world's developed countries reveals a pathway to development that is being taken away from developing countries. For those who are concerned with poverty, it is important to understand how international trade laws benefit the wealthy countries and hold back those who are underdeveloped. Ha-Joon Chang describes international free trade policies as they might relate to the raising of his six-year old son.

Right now he [Chang's son] lives in an economic bubble with no sense of the value of money. He has zero appreciation of the efforts his mother and I make on his behalf, subsidising his idle existence and cocooning him from harsh reality. He is over-protected

and needs to be exposed to competition, so that he can become a more productive person... I should make him quit school and get a job... [However,] If I drive [him] into the labour market at the age of six, he may become a savvy shoeshine boy or even a prosperous street hawker, but he will never become a brain surgeon or a nuclear physicist.¹

Almost all developed countries realized this same concept in relation to infant industries. If under-industrialized countries protect their infant industries through taxing goods coming from other countries (tariffs), they can offer their industries a chance to learn and grow-up before being exposed to international markets. This allows countries to move from producing low cost basic commodities to industrialized goods.

The United States

The US followed the normal pathway to development. It followed the logic of the first British Prime Minister Robert Walpole, “[I]t is evident that nothing so much contributes to promote the public well-being as the exportation of manufactured goods and the importation of foreign raw materials.” In 1789, Alexander Hamilton, the first US treasury secretary was the first to articulate that new industries in relatively underdeveloped economies need to be protected until they are ready to compete with rivals. Alexander proposed that industrialization should be encouraged through tariffs on imported manufactured goods and subsidies for manufacturing industries (government financial assistance).² By 1820s foreign manufactured goods had a 40% tariff where it remained till World War II.³



Through the 1900s the US and most other countries did not accept foreign patents. This allowed their companies to quickly and cheaply adopt foreign inventions to speed their development. Using these and other protectionist policies the US babied their infant industries allowing them to catch up with the more developed European countries.⁴

Pathway to Development

Industrialization fuelled the material wealth that we have today. Underdeveloped countries are still underindustrialized, exploited for their raw materials and human labor. Underdeveloped countries have two choices. They can compete against each other over who is going to get paid the least for their basic commodities. This will lead to continued underdevelopment. Or they can nurture and develop their industries, protecting them until they are ready to compete with the rest of the world. This will lead to development.

“Kicking Away the Ladder”

It was a general policy of Colonial Europe to prohibit manufacturing in its colonies. Ulysses S. Grant, both president and Civil War hero, called British pressure for free trade in his country “kicking away the ladder.”

By the late 1940’s infant industry development which was being called economic nationalism was being undermined.

State Department Political Advisor Laurence Duggan wrote that “Economic nationalism is the common denominator of the new aspirations for industrialization. Latin Americans are convinced that the first beneficiaries of the development of a country’s resources should be the people of that country.”

In a hemispheric conference the US called for “An Economic Charter of the Americas” that would get rid of economic nationalism “in all its forms.”⁵ In an August 1949 National Security Council draft it states now speaking of Asia that

The US must find ways of “exerting economic pressures” on countries that do not accept their role as suppliers of “strategic commodities and other basic materials.”⁶

The 1980s

In the 1980s the developed world heightened its attack on developing countries. One of history’s most dovish US presidents President Carter in his Jan 23, 1980 State of the Union Address stated “Let our position be absolutely clear: An attempt by any outside force to gain control of the Persian Gulf region will be regarded as an assault on the vital interests of the United States of America, and such an assault will be repelled by any means necessary, including military force.”⁷ His Latin American foreign policy advisor Robert Pastor said that the US wants other nations “to act independently, except when doing so would affect U.S. interests adversely.”⁸ Reagan would replace this dove and usher in an even uglier period of US foreign policy.

The International Monetary Fund (IMF) and the World Bank have forced countries to adjust to



the rules of free trade. Developing countries were forced to significantly reduce the tariffs and subsidies that protected their infant industries. They were forced to cut back spending on education and healthcare. They were forced to privatize industry. They were forced to lower business taxes and adopt flat tax rates. They were forced to accept often speculative foreign investment.

The same conditions were attached to aid from the developed world. In fact studies have found strong correlations between increases in US aid and increases in human rights violations: Lars Schoultz found that aid

“has tended to flow disproportionately to Latin American governments which torture their citizens, ... to the hemisphere’s relatively egregious violators of fundamental human rights”... Edward Herman found the same correlation worldwide... (He found that) Aid is closely correlated with improvement in the investment climate, a result commonly achieved by murdering priests and union leaders, massacring peasants trying to organize, blowing up the independent press, and so on.⁹

The US instilled and/or supported dictatorships through the CIA, military and/or various aid organizations in Chile, Nicaragua, Brazil, Venezuela, Haiti, Argentina, etc. Today, the same policies were instilled even before an interim government was installed in Iraq. New oil contracts are restricted to companies whose countries were involved in the invasion. International financial speculation and deregulation wreaked havoc on the developing world. From 1945 till 1971 there were only 17 banking and/or currency crises. From 1973-1997 there were 95 crises, an increase of almost six-fold.¹⁰

Free trade forced underdeveloped companies to compete with International trade. It meant that the small-scale developing world farmers or ½ of workers in the developing world now had to compete against large industrialized farms. Prices for many commodities were cut in half, leaving many of the worlds’ poorest unable to support their families. It meant the all ready limited funding for education and health services were cut drastically. It also meant that much of the developing world’s infant industries because they were not ready to compete were either bought up by developed country industry or put out of business. The developing world was left with little to offer except cheaper and cheaper wages causing a race to the bottom in wages, as well as environmental regulations, etc.

Excluding China, growth in developing countries fell from 3.2% from 1960-1980 to 0.7% from 1980-2000. Development in Latin America slowed to 1/3 its 1960 to 1980 rate of 3.1%. Africa experienced a negative growth rate after growing at between 1 and 2% between 1960 and 1980. Most ex-communist countries also had negative growth rates.¹¹

South Asia however rejected free trade and grew at 5.9% annually. China grew at 8% a year between 1980-2000¹² Even including South Asia poverty grew worldwide to 40% of the world, up from 36% of the world in 1981. Now 13.5% of the world lives in extreme poverty up 3% since 1981.¹⁴ Wage inequality in countries and worldwide grew substantially.

I thought We Believed in Free Trade



"I get so much subsidy I don't know what to do with it!"

While forcing poor countries to free up their trade we heavily subsidize our clothing and agriculture industries (though subsidies simply exaggerate the disgusting reality of half the worker in the developing world who are farmers having to compete with large-scale agribusiness). While forcing other states to spend less, we quietly subsidize much of our research and development.¹⁴ We continue to grow using a mix of protectionism and open trade that we don't allow to our trading partners.

The Secret to Success

In contrast to the rest of the developing world, the South Asian economies grew remarkably fast. Importantly, they also played a large role in advancing technology, choosing which technologies their countries should develop. They had proportionally higher tariffs and subsidies on key industries. Their countries imposed strict conditions on foreign capital. Government run industries often provided products like steel and plastic for other industries. While they depended on their exports for capital to speed their development, they were slow to open up their markets to imports and did so strategically.¹⁵

The secret (to developing) lay in a mix of protection (of key industries) and open trade, of government regulation and free(ish) market, of active courting of foreign investment and draconian regulation of it, and of private enterprise and state control—with the areas of protection constantly changing as new infant industries were developed and old ones became internationally competitive. This is how almost all of today's rich countries became rich, and it is at the root of almost all recent success stories in the developing world.¹⁶

So What Can We Do About It?

- 1. Educate Yourself and Get the truth out there.** Don't allow free traders to redefine history. Don't be fooled into believing that free trade is how the US developed or that it is in the best interest of developing countries.
- 2. Democracy can not be a reality until we have economic democracy.** All nations should have real democratic freedom to pursue economic policies including tariffs and subsidies. Developing Countries should be allowed weaker patent laws so they can quickly adopt developed world technologies.

3. **Democracy can not be a reality until we allow countries to follow the economic and social paths of their choice.** Reject imperialism in all its forms. If we believe in democracy we will not (like a pentagon report) lump “international fora, judicial processes, and terrorism” together as a “strategy of the weak”. We will recognize that we cannot claim democracy while ignoring international “fora and judicial processes”.¹
4. **Protect our Poor.** We can start to do this by enforcing higher minimum wages, government job creation during times of decreasing employment, increased education spending, etc. We can fund this through ending tax breaks for the rich and big business.
5. **Support Micro-lending.** This allows the poor access to enough capital to compete. Please visit Kiva (www.kiva.org) & The Grameen Foundation (www.grameenfoundation.org).
6. **Help International Workers with What You Consume.** Help small-scale farmers who have been hit especially hard by free trade catch up by supporting organizations like Heifer, World Hunger Relief, Fair Trade, etc. Help small scale handy-workers through supporting Fair Trade organizations. Help workers through supporting worker owned cooperatives with your purchasing and investment.
7. **Educate about the Need to Reform Our Media and Our Elections.** Our democracies answer to the large businesses that fund it. They shape the laws that allow them cheap labor and access to resources. The colonial conquest, the capture of land and enslavement of the world’s people has is alive and well. We are still fighting those wars and enslaving those same persons.

In order for this to change the world we need to take back the media. A number of news channels should be funded democratically. We could reduce our military expenditure of 700 billion. A portion of that could go to funding news stations that run programs whose contents are voted on democratically.

Our democracies are also compromised by the fact that our elected leaders are predominantly funded by large corporations. For a dollar per person we could have 300 million dollars to fund our federal elections. For a few dollars per person each person we could fund our other elections including Congress and the Senate publicly. This would also free up their time currently spent fundraising so they could better do their jobs. The federally collected money could be split evenly among individuals who would chose whose campaigns they would support with their portion of public funds.

8. **Think About Direct Action.** Our trade is built to allow large corporations cheap access to land and slave/ near slave wages. We are affecting the underdevelopment of most of the world. We are fighting wars to further exploit these nations. Not only that these policies are concentrating

wealth with the rich in our own countries. Realize that it is a big deal that our poor are getting poorer, that Africa is getting poorer, that the world's poor are falling further behind. War is a big deal. Climate change is a big deal. People took to the streets after the Great Depression. Half the country was on strike. They got forty hour work weeks (we know work over 50 in the US). They got minimum wages (which have fallen since the late sixties). They got jobs when they were unemployed. Many countries got universal health care. We need to take to the streets but this time we must not stop short of media democracy and real political democracy which will allow the political will for continued change. With these changes, people, not corporations will have the power and we will build a better world.

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3 Ibid, 48-51

4 Chang, 133

5 Chomsky, Noam, *Year 501*, South End Press, 1993, page 34.

6 Ibid, 35

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8 Chomsky, 43

9 Ibid, 120

10 Eichengreen, Barry and Michael D. Bordo, *Crises Now and Then*, National Bureau of Economic Research, 2002, available at <http://faculty.oxy.edu/mcintyre/Econ495-F04/Eichengreen+Bordo-Crises-NBER-w8716.pdf>

11 Makwana, Rajesh, *Neoliberalism and Economic Globalization*, Share the Worlds Resources, <http://www.stwr.org/globalization/neoliberalism-and-economic-globalization.html> (see also Chang, *Bad Samaritans*, 26-27)

12 Ibid

13 Stiglitz, Joseph, *Making Globalization Work*, W. W. Norton & Co Inc, 2006, 10,11

14 Baker, Dean, *The Conservative Nanny State*, Center for Economic Policy Research, 2006, available at <http://www.conservativenannystate.org/cnswebbook.pdf>

15 Stiglitz, 32, 33

16 Chang, *Protecting the Global Poor*, Prospect Magazine, Issue 136, July 2007, available at <http://www.prospect-magazine.co.uk/pdfarticle.php?id=9653>

17 Shannon, New York Times, September 28, 1974, cited by Jean Bricmont, *Humanitarian Imperialism*, Monthly Review Press, 2006.