Global boomerang: the price of greed

By Radical Randy

Many have considered the crowning achievement of so-called “free-market” neoliberal economics to be the global integration of trade and investment, presented as the best hope for raising the standard of living for the impoverished masses around the world. Nowhere has this been more obvious than in the push for “free-trade” agreements and open investment by international financial institutions. The global economic meltdown, which is wreaking havoc in both developing and developed countries around the world, is a direct consequence of this policy. Canada, ironically, has been both a victim and victimizer in this process. As one of the world’s wealthy countries, we are complicit in the ongoing pillaging of the poorer nations of the “Global South,” but in turn we find ourselves increasingly an economic colony of the U.S., particularly in Alberta.

A useful fiction

The beneficial effect of development and industrialization through “free trade” is a sacrament for neoliberals. This is based on the specious application of David Ricardo’s theory of Comparative Advantage. According to this early 19th Century economist, the general wellbeing of all countries will increase if they concentrate on producing what they can most efficiently produce, with the least opportunity cost, and then trade freely without restrictions for what they need. In reality, as economist Ha-Joon Chang describes in *Bad Samaritans,* this merely keeps a country at the same level of economic development rather than allowing it to further industrialize. Neoliberal economists constantly preach the virtues of free trade to the developing world. However, Britain and the U.S. only adopted free-trade policies *after* they had achieved market dominance through tariffs and subsidies to encourage their infant industries. The same is generally true of postwar successes such as Western Europe and South East Asia. China and India are paraded by neoliberals as free-trade models for developing countries, but China used high tariffs to build its industrial base and imposed foreign ownership limits and local content requirements. India’s high-growth rate began before the free trade era and it still maintains manufacturing tariffs and severe restrictions on direct foreign investment. Both have achieved growth by engaging in gradual, controlled trade liberalization, not the surrender demanded by global investors.

Additionally, as Ricardo pointed out, the principle of Comparative Advantage only works to everyone’s advantage if capital (i.e. investment money) is immobile and cannot move from high-wage to low-wage countries. This is now an absurdity with US $2 trillion a day racing through the world’s computerized trading networks. Fund managers and financiers will claim this as a benefit to the countries receiving their money, but 95 to 98 per cent of this “investment,” especially in currency trading, is actually just speculation, being invested for a few days or even just a few hours. Far from being beneficial, this “hot money” can be pulled out as fast as it flows in, leading to the destabilizations and

collapses that characterized Latin American and South East Asian economies in the 1990s. The countries that best survived these upheavals, such as Chile or Malaysia, either had some form of currency controls or re-imposed them, defying the dogma of neoliberal economists. It is the built-in volatility and instability of the global markets which allows speculators to extract their profits.

The change in rules allowing unrestricted capital mobility in developing countries were a major focus of the wealthy nations' neoliberal policies. This mobility lets investors pursue whatever investments will maximize their profits but the threat of capital flight by this money holds countries hostage and serves to dissuade them from banning sweatshops or enacting environmental regulations. The "development" this brings often bears a striking resemblance to good old-fashioned colonial exploitation. As Asad Ismi relates in the February 2009 issue of the Canadian Centre for Policy Alternatives' *Monitor*, Canadian mining corporations have been active around the world, ravaging the environment and killing indigenous populations that stand in the way of their operations, often in collusion with corrupt governments.

Race to the bottom

This opening of developing nations' economies has often been forced upon them by the World Bank and the International Monetary Fund (IMF). Countries become enmeshed in debt to these American dominated financial institutions and this leverage is then used to impose a one-size-fits-all Structural Adjustment Program upon them. Under this "reform" the financial and banking sectors, as well as other industries, are forced open to foreign investors. In addition to losing control over investment, these countries are coerced into a program of privatization, elimination of food subsidies for the poor, and cuts to education. Furthermore, farmers are often diverted from local food production to growing cash crops for export to service the debt, undermining the country's food security.

The exploitation of developing countries by Western corporations has also been facilitated by the "free trade treaties" such as the World Trade Organization (WTO) and the North American Free Trade Agreement (NAFTA). Promoted relentlessly by the economic elites and corporate media as bringing prosperity, these treaties do little to limit unfair trade practices such as huge U.S. government subsidies to their agribusiness exporters. Instead, they empower foreign corporations, giving these companies the right to sue countries, either directly or through their governments before secretive trade tribunals. These have the power to impose penalties for environmental, labour, cultural or any other "non-tariff barrier to trade" laws that might threaten potential corporate profits. This elevates the rights of these companies over national sovereignty. Canada, if it loses any suits brought by American corporations under Chapter 11 of NAFTA, is expected to immediately comply or face trade sanctions, but the U.S. freely chooses whether or not to conform to rulings against it, as the softwood lumber dispute illustrates.

NAFTA further limits Canada's ability to regulate its own resources. Over 60 per cent of Alberta's oil production and almost 60 per cent of our natural gas are exported to the U.S.

As the Parkland Institute's Gordon Laxer has repeatedly pointed out (much to the evident discomfort of Conservative MPs) under NAFTA's proportionality clause we can not reduce our exports without a proportional reduction in our own use of these resources, even if we begin to suffer shortages. This may lead to ever increasing reliance on oil from Alberta's tar sands as conventional production declines.

NAFTA was sold to Canadians as being necessary for attracting vital American investment to create new jobs and wealth. As author Mel Hurtig has observed, this money has gone overwhelmingly to buying up existing Canadian companies, not creating new ones, further hollowing out our economy. The weakening of Canada's economic base under NAFTA has been accelerated by our return to a role of provider of raw materials to U.S. industries rather than developing our economy with value-added higher wage manufacturing jobs here, as in Alberta's export of tar sands crude to the U.S. for refining. "Free traders" attribute robust Canadian exports to the U.S. during the '90s to NAFTA, but economists ascribe almost all of the increase to the weak Canadian dollar, making exports cheaper.

These treaties have been instrumental in the global corporate race to the bottom as developing countries vie to see which can offer transnational corporations the lowest wages, weakest pollution laws, and biggest tax breaks. The "free trade" treaties beloved by neoliberal economists and the corporate media have far more to do with neocolonial economic control over the developing world than with removing any actual barriers to trade.

Perhaps the most absurd proclamation by the high priests of globalization was the dawn of a new world, united by trade, where nation-states and their borders would no longer matter. There seems to have been some rethinking on this subject post 9/11.

Greed…maybe not so good after all?

Things haven't been going well for the global financial community. Debt bondage, a major force for the imposition of neoliberal policies in the developing world, is being sidelined in Latin America, with Venezuela using some of its oil wealth to bail Argentina and Bolivia out from their IMF captivity. Additionally, South America, previously a major World Bank borrower, has drastically reduced new loan acceptance. The 2008 Geneva round of WTO ministerial trade talks, the centerpiece of globalization, collapsed. The Free Trade Area of the Americas, the attempt to extend NAFTA to virtually all of North and South America, is moribund, thanks to rising resistance in Latin America. Instead, countries are moving toward regional trade treaties such as South America's Mercursor trading zone.

The liberalization and interlinking of the world's financial and investment sectors so fervently pursued by the financial elites has ensured that destabilizations and insolvencies in one country are easily propagated throughout the world in this global casino. The financial integration and linking of worldwide markets needed to better exploit the developing world has guaranteed that the current economic debacle is global in scope.