No Free Trade

THE DEVELOPING COUNTRIES, most of whom have accepted free trade, have eighty percent of the world's resources—labour, land, water and minerals—yet have only twenty percent of the world's income. According to the theory of free trade the developing countries should have had about eighty percent of the world's income since all were supposed to gain from this. Why is it that free trade is leading to exactly the opposite? According to World Development Indicators published by the World Bank the share of the United States in world GDP rose from 26.4% in 1990 to 27.8% in 2005; although the share of European Union declined from 25.9% to 22.4%. This is still unacceptably high.

The fact is that is not free trade and efficiency of production but monopoly that is determining the flow of world wealth. World trade may thought of in terms of a 'monopoly sector' which would include Microsoft's software, Coca Cola's soft drinks, Monsanto's genetically modified crops, Boeing and Airbus' airplanes and the like. There is no 'free trade' here. These companies are free to charge exorbitant prices for their products. It is reported, for example, that the cost of producing the Windows software is $10. Micro-soft sells it at $90. These companies are now protected by the Patents act and are drawing the world's wealth into the rich countries. The other sector is the 'competitive sector'. This would include the CAIRNS countries producing wheat and sugar, coffee producers like India, Brazil and Vietnam, car producers like Mexico and Thailand and so on. Free trade operates in this sector. These countries are fighting out a grand battle for supplying ever cheaper products to the rich countries. Indeed, the most efficient among these would win the day. India may beat Brazil in coffee and Brazil may do the same to India in sugar. But the gains form such competition would be nominal because the winner would be supplying his produce at the lowest prices to the rich countries.

On the one hand, monopoly pricing of products like Microsoft software is leading to higher incomes for the rich countries; on the other hand competition between the poor countries is providing them cheap products. This becomes a double advantage for the rich countries—they get high prices for their 'monopoly' products and have to pay low prices for the 'free trade' products of the poor countries.

If Boeing and Airbus can cooperate with each other to sell their airplanes at high prices to the rest of the world, India and Thailand can do the same by jacking up the world price of rice. But that is not taking place for more than one reason though economic behaviour of the rich recognizes that there is a place for cartels.

Despite regional economic groupings by third world countries no cartel to challenge the American and Western hegemony can emerge in the world economy. Even powerful OPEC has to dance to the tune of American big business. Without sustained political campaign against Americanisation of global economy, better economic prospects even for somewhat developed third world economies seem bleak. □□□

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