The Trans-Pacific Partnership: What "Free Trade" Actually Means

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By: Andrew Gavin Marshall

The following is part 3 of a three-part exclusive series on the Trans-Pacific Partnership for Occupy.com

Part 1: **The Trans-Pacific Partnership: This is What Corporate Governance Looks Like**

Part 2: **Why So Secretive? The Trans-Pacific Partnership as Global Corporate Coup**

To discuss "free trade agreements" or the "free market," we must first identify the theoretical versus the functional definitions of these terms – because theoretical definitions look at what those terms should mean, whereas functional definitions look at what the terms mean actually.

The theoretical definition of a "free market" is one in which every individual actor in the realm of exchange exists in a state of equality of opportunity; where all compete with one another to produce the best products at the cheapest prices for consumers, thus the most innovative and efficient producers succeed while others fail, unregulated – and unhelped – by the state. Within "free markets," what we call "free trade agreements" are meant to reduce barriers such as tariffs, subsidies and regulations so that market "competitors" can freely move products and goods across borders and compete in an ever-expanding global "free market."

The functional, or technical, definition of a "free market" is one in which the state regulates the market – the realm of economic exchange and activity – for the benefit of large transnational corporations and banks.

Barriers to profits, such as environmental, labor, safety and financial regulations, are dismantled. Meanwhile, subsidies and legal rights and protections are granted to major corporations, undermining competition and supporting monopolization. So while the rhetoric of "free markets" tends to be all about reducing state interference in the economy, in actuality state interference increases – but only for the benefit of large corporations and banks.

At the same time, state "interference" decreases in sectors that benefit the actual population, such as welfare, social services, pensions, healthcare, education, labor protections and so on. In the actual "free market," these protections are dismantled, subjecting populations to "market discipline" quite unlike the large corporations and banks that receive direct protection against "market discipline." The most obvious example of this is the post-2008 bank bailouts.

In a theoretical "free market," all the banks that gambled badly would have failed and collapsed. But with the functional "free market" we have today, the banks went to the state and got bailed out with trillions of dollars of taxpayer money.

The same dichotomy exists for the term "free trade agreement," which in theory is the opposite of "protectionism," where states intervene in the market by establishing tariffs, regulations, subsidies and protections for various imports and exports, thus undermining the "free market."

The technical definition, however, is one in which protectionism is rampant, with enormous subsidies and protective barriers, and very often includes thousands of pages of regulations and provisions. But because all of this is done to protect corporate and financial interests, it is called "free trade." It is "protectionism" if the barriers, regulations and protections benefit the nation or population and prevent transnational corporations and banks from having unhindered access to the "market"?

Likewise, is it "free trade" if the barriers, regulations, and protections benefit corporations and banks at the expense of the nation and population? In actuality, so-called "free trade" is a drain on the economy, creates enormous national debts, undermines labor, creates poverty and exploitation, wastes natural resources and devastates the environment. However, it is very profitable for banks and corporations, so is endlessly repeated as something "good" and "necessary."

In theory, "free trade" would enhance competition because it would allow all parties to compete on an even playing field internationally, thus companies would have to find ways to lower their costs of production while increasing their product standards, ultimately decreasing the final price to consumers. In this theoretical form of "free trade," the best and cheapest product, the company that made it, and the consumer and society as a whole would all benefit.

The reality is the exact opposite: the production cycle is broken up (this is commonly called "offshoring"), which increases the use of transportation, resources and the overall cost of production, making the final product more expensive to consumers. Case in point is the North American Free Trade Agreement (NAFTA), where competition between corporations is undermined while access to resources and markets is enhanced, subsidized and protected.

Corporate cooperation with each other and the state is enhanced while the poor, working and middle classes of Canada, the United States and Mexico are put in direct competition with each other. Corporations in Canada and the U.S. close their factories and move them to Mexico where labor is cheaper, increasing unemployment and poverty, destroying unions and labor protections, and forcing down wages while costs and corporate profits increase.

The role of the state is to regulate these markets and agreements for the benefit of the corporations and banks, and to force the populations to compete with each other in a race to the bottom: market monopolization for the elite, and market discipline for the population.

The break-up of the production cycle, especially from the late 1980s onward, has redefined what "trade" actually is. Typically, we think of trade as a system where countries export and import products or goods. With the era of "free trade," the production cycle was no longer confined within national borders, and was broken up between several countries.

The result was that a large percentage of what we call "trade" is actually one corporation moving parts or goods to a subsidiary or another corporation in a different country, to continue the production cycle until it returns to the home country as a finished product for consumption.

This is referred to as "intra-industry trade" (transporting parts or goods between corporations) or "intra-firm trade" (transporting parts or goods between a corporation and its subsidiaries). When the parts move across borders, often several times before the final product is created, customs agents at borders register the cumulative value of those products as a "traded" good, and these numbers are then used to determine the "actual contribution" of that good to the economy.

For example, a product which has parts manufactured in Canada, assembled in Mexico, and sold in the United States, would have to cross borders several times before it becomes a final product. Each time the parts cross a border, the total value of those parts at that time of transport gets registered as an import/export, instead of differentiating between the value added at each part of the production cycle. Thus, the statistics of exports and imports become heavily skewed and inflated since they do not account for "value-added." While the production cycle is broken up over several countries, the determination of "value" is not broken up to fit the actual trading system as it exists.

For a hypothetical comparison to reveal how absurd this process is, imagine a country that attempts to measure the total education of its population by including in its statistics the degrees and credentials of all the tourists who entered the country for short periods of time. The recorded education level of the country's population would be enormously inflated, since the educated tourists entering the nation would not be staying and contributing their education to the benefit of the society. Something similar happens when parts move across borders several times before they become a finished product, yet have their total value registered each time they cross a border.

According to a report from a Canadian think tank, the Conference Board of Canada, if countries were to apply a "value-added" measurement of trade instead of using inflated numbers applied to the cumulative value of a good, the actual contribution of trade to a country would rapidly diminish. In conventional measurements, trade accounts for 35% of Canada's economy, but with the value-added measurement, it drops to 24%. These manipulations are important because they serve as a basis for claiming that countries like Canada are "trade dependent" nations, which justify implementing more "free trade" agreements.

When a country imports more than it exports, it builds up a large amount of debt called a trade deficit. When a country exports more than it imports, it establishes a trade surplus. However, because the process of determining the value of imports and exports is enormously inflated and misleading, countries are saddled with inflated and inaccurate debts. They are then pressured into reducing those debts through austerity measures, which punish those countries' populations into poverty.

Apple is a great example of this process, often hailed as one of the great corporate success stories, being enormously profitable and therefore "good for the economy." As the Asian Development Bank Institute in Tokyo reported in 2010, while Apple is a U.S.-based company, the iPhone is itself considered to be a Chinese export to the U.S. The iPhone is produced in many different pieces and parts through several Asian and European countries, which are then transported to China where they are assembled and shipped to the United States and elsewhere.

The estimated value of the Chinese laborers in assembling the iPhone was 3.6% (or $6.50) of the total value of the finished product, estimated at $178.96 in 2009. Yet, the wholesale cost of the shipped iPhone is credited to China as an export. China was merely the last stop in the production cycle, but China records the total value of the finished product as an export, while the United States records it as an import. Thus, the researchers at the Asian Development Bank Institute concluded that "even high-tech products invented by U.S. companies will not increase U.S. exports."

Pascal Lamy, director-general of the World Trade Organization (WTO), commented, "What we call 'Made in China' is indeed assembled in China, but what makes up the commercial value of the product comes from the numerous countries… The concept of country of origin for manufactured goods has gradually become obsolete."

If trade statistics were adjusted to reflect the actual value contributed to a given product by a country, the U.S. trade deficit with China (which in 2010 stood at $226.88 billion) would likely be cut in half. In 2009, the iPhone left the United States with a $1.9 billion trade deficit with China, but if the value-added approach to determining trade statistics were applied, the United States would have a $48 million trade surplus with China (in relation to the iPhone alone).

With the production cycle broken up and scattered around the globe, this adds enormous costs to transportation of equipment, machinery, goods and products between these nations, which in turn requires enormous quantities of oil and fuel to facilitate this transport system, and thus produces unnecessary amounts of pollution. Because of the high costs of transportation, fuel, and assembly, the value of the end product goes up, making it far more costly than if it were simply produced in one or two countries.

With countries determining their exports and imports based on inflated and inaccurate statistics, populations are saddled with enormous debts and thus the financial cost of breaking up the production cycle lands on the shoulders of the population, who were already subjected to increased competition between labor forces, reduced environmental and social protections, dismantled subsidies and regulations, increased personal debt and poverty.

So if "free trade agreements" are bad for people, bad for labor – at home and abroad – and bad for the environment and the nation as a whole, why are they pursued?

The answer is simple: they create enormous profits for banks and corporations, whose losses are subsidized by the state. In an actual "free market," breaking up the production cycle would be far too costly to be a rational choice for a corporation, but because the state takes on the cost of doing so (largely through its trade deficit), the process continues.

When it comes to agreements like the Trans-Pacific Partnership, it is not difficult to see what the results will be: increased subsidies, protections and regulations for the benefit of large corporations and banks (notably the 600 corporations involved in secretly drafting the agreement over recent years) and decreased protections, subsidies and regulations that benefit the population, environment and society as a whole.

The TPP advances corporate monopolistic protections through intellectual property rights; undermines labor protections, putting the working class of 11 different nations in direct competition with one another; dismantles environmental protections and financial regulations; and expands corporate rights and privileges to allow undemocratic corporate institutions to challenge national laws through an unaccountable international tribunal of corporate lawyers who are given powers to overturn national laws or demand immense compensation from any nations that hinder those corporations' "potential profits," thus further increasing the heavy cost of "free trade."

The Occupy movement and other activists have a strong mandate to oppose the TPP and all related "free trade agreements." Popular opinion is swinging against "free trade" as people seem instinctively to recognize – even without all the details – that such agreements undermine labor, increase debt and benefit only the rich.

But while public opinion may oppose the TPP in principle, the bigger problem is that "the public" does not know the TPP even exists. This is a challenge that the Occupy movement can step up to: promoting an educational campaign that crosses borders, organizing international protests and actions against the TPP, and establishing a "free market" of resistance based upon the "free trade" of information.

As corporate rights expand and democratic rights decrease, so must people demand an end to the TPP. Organized resistance, information and action have stopped "free trade agreements" in the past, and they can – and must – do so in the future. The coming corporate tyranny of the Trans-Pacific Partnership can only be defeated through a democratic movement of Transnational People Power.

Our already frail and dying democratic institutions lack the capacity to take up the challenge, so the challenge now rests with the people alone.

Andrew Gavin Marshall is an independent researcher and writer based in Montreal, Canada, with a focus on studying the ideas, institutions, andindividuals of power and resistance across a wide spectrum of social, political, economic, and historical spheres. He has been published in AlterNet, CounterPunch, Occupy.com, Truth-Out, RoarMag, and a number of other alternative media groups, and regularly does radio, Internet, and television interviews with both alternative and mainstream news outlets. He is Project Manager of The People's Book Project and has a weekly podcast show with BoilingFrogsPost.

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I am a 25-year old independent researcher and writer based out of Montreal, Canada. I have written dozens of articles, essays, and reports online and in print on a wide array of social, economic, and political issues, always from a highly critical perspective. My writing can be found on my blog, www.andrewgavinmarshall.com. I am Project Manager of The People's Book Project (www.thepeoplesbookproject.com), an initiative through which I am attempting to write a comprehensive book on the institutions and ideas of power in our world, and what we can do about it.
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