Part II: The Effects of Global Trade

While many disagree as to whether economic globalization is good or bad, no one disputes that it is disruptive. Increased participation in the global economy causes change. Global trade opens new markets and creates new opportunities but it also heightens competition. Some argue that the benefits of trade outweigh any negative effects. Others contend that global trade creates opportunities only for some, and that others are "losers" in the new economic system.

The major problem is one of adjustment. The faster a business or country can adjust to the changes brought about by increased trade, the better off they will be. Some countries have been helped by global trade because they have the resources to expand production and create high quality goods that are in demand around the globe. Individuals and businesses have access to many more buyers and to goods they did not have access to before. On the other hand, some companies and individuals are hurt because they are not able to compete with strong international producers.

What do supporters of free trade say?

Free trade encourages the participation of more and more countries in the global economy. It is often part of a larger process of economic globalization.

Supporters of free trade argue that trade does more good than harm. Trade gives companies access to new markets, introduces new technologies and practices to businesses around the world, and leads to the creation of new industries. Many economists argue that increased global trade has helped many countries grow much faster than they would have otherwise.

Many free trade economists argue that the elimination of trade barriers makes the world economy more efficient. A country can focus its resources on the industries in which it performs the best. For example, the United States exports a large amount of food to China, while China, now the major player in the world clothing and textile market, provides much of the clothing that people in the United States buy. With few restrictions on the movement of money for investment, investors can put their money in the most profitable industries regardless of where they are located. Furthermore, goods become less expensive for consumers, saving them money and increasing their product choices.

Supporters of free trade argue that everyone has the potential to be better off as more and more countries join the global marketplace. For example, standards promoted by rich countries have helped improve worker conditions in many countries. Supporters argue that in many parts of the world, free trade has helped decrease poverty and inequality.

Vendors at a market in Chinchero, Peru. In many countries, people can buy much of what they need from street traders as well as from stores. Today, in cities around the world, one can buy shoes made in China, clothes made in India, produce grown in Latin America, or electronics from Taiwan from vendors on the street.

"Trade is an engine of economic growth. It uses the power of markets to meet the needs of the poor. In our lifetime, trade has helped lift millions of people, and whole nations, and entire regions, out of poverty and put them on the path to prosperity."

—U.S. President George W. Bush, 2002

Supporters point to the people around the world who now live longer and with a better standard of living thanks in part to international trade. For instance, the per capita income in China has increased fourfold in the last twenty-five years. While some in China have gained more than others, a substantial portion of the population—at least as large as the entire U.S. population—has seen an improvement in their standard of living. Most analysts agree that international trade played an important role in this increase.

Many free trade supporters also contend that increased international trade decreases the likelihood of war because it creates dependency among countries. Like policy-makers argued in the 1940s, free trade supporters maintain that countries are less likely to go to war if they have economic relationships with each other.

Why do some people oppose free trade?

Critics of free trade maintain that losers outnumber winners in the global economy. While most critics do not oppose trade in general, many believe that policy should account for those whose lives are most disrupted by increased trade. Among the losers are hundreds of thousands of U.S. workers who have lost manufacturing jobs in recent years and tens of millions of people in developing countries who have been left unemployed or bankrupt by economic turmoil. According to the critics, the biggest winners are mainly investors who shift their capital from one market to another and big corporations that relocate factories to poorer countries to take advantage of low-wage labor. The losers, free-trade opponents assert, are typically found among the working class and the poor.

Positions on Free Trade Policies

Supporters Say:	Critics Say:
People have more access to cheaper products	Income disparity increases in the short run
Businesses have more access to buyers	Jobs are lost due to economic turmoil
Unrestricted trade promotes growth and wealth in the long run	Regional economic downturns quickly become global
Standards in rich countries improve conditions in poor countries	It is difficult to enforce basic health, safety, and environmental standards
Dependency decreases the likelihood of conflict	Dependency makes countries vulnerable

"Undoubtedly trade creates winners and losers. A good case can be made that the winners win more than the losers lose, so the overall effects of trade are positive. But the distributional impacts can't be ignored."

—U.S. Secretary of Labor Robert Reich, 1999

Critics of free trade also argue that there are problems of standards. As companies seek to be more competitive, they are more likely to try to save money through practices like not increasing wages, lowering worker safety standards, and polluting the environment. Many critics contend that it is difficult to enforce basic health, safety, and environmental standards in different countries. For example, in 2008 there was worldwide alarm when experts discovered that some milk products produced in China had traces of a dangerous chemical.

Countries throughout Asia and Europe rushed to test their products and remove tainted goods from the shelves. Experts note that because ingredients for a single food product are often sourced from multiple companies or countries, it can be difficult to trace their origins.

Another major concern many critics raise is that free trade and economic globalization have made countries too dependent on each other. Being dependent on another country for essential goods such as food, medicine, or oil can make a country vulnerable to anything that might threaten the supply of those goods. Additionally, economic downturns experienced in one part of the globe can quickly become worldwide problems.

In trying to weigh the competing arguments around free trade, it is not surprising that the debate on U.S. trade policy is complex. For instance, questions abound concerning how the United States should balance foreign trade with foreign aid.

U.S. Trade Policy and Developing Countries

U.S. policy-makers often have viewed trade as a tool for promoting democracy, human rights, and environmental protection in the roughly 150 developing countries around the world. Today trade is put forward among wealthy countries as an alternative to foreign aid to boost these countries' fortunes, at least in theory.

Increasing trade in developing countries serves U.S. economic interests as well. For example, in 2007 the United States spent more than $90 billion on imports from African countries. The United States continues to work to build stronger trade ties with countries across Latin America, East Asia, Africa, and the Middle East.

How does foreign aid sometimes conflict with foreign trade?

One continuing form of aid that the United States offers poorer countries is food aid. In circumstances of grave crises such as floods or wars, food aid is critical. But when developing countries are trying to build their economies, food aid can put local farmers out of business, hurting the long-term development of agriculture. Food aid remains a popular policy in the United States because the United States regularly produces more food than it can sell. The excess is bought by the government and given away as aid, bringing money to U.S. farmers.

How do U.S. agriculture subsidies affect farmers in poor countries?

For decades, the United States has supported its farmers in the form of cash to supplement their farm income. Between 1995 and 2002 the Department of Agriculture provided $114 billion to U.S. farmers. Most of those subsidies went to large agricultural firms, whereas very little went to small farmers.

Challenges in the WTO to farm subsidy programs in rich countries have caused the United States to reconsider some of its own subsidy programs. In 2004, the WTO ruled against U.S. cotton subsidies in a case brought to the organization by Brazil. Similar complaints have been raised over U.S. corn subsidies. In early 2005, President Bush announced that the United States would reduce its farm subsidies by 5 percent. Nevertheless, the United States has continued to appeal the WTO ruling on its cotton subsidies, losing its final appeal in June 2008. So far U.S. cotton subsidies have not been reduced significantly and Brazil has pushed for retaliatory trade sanctions (penalties) against the United States until the cotton subsidies are eliminated. Some estimate that without these subsidies, U.S. cotton exports would shrink by 41 percent.

The subsidies for cotton growers in the United States make it possible for cotton growers to sell their products to textile manufacturers at prices below what it costs to make them. This makes the price of cotton on the world market artificially low. The more than ten million cotton farmers in West Africa, in addition to millions of other cotton producers worldwide, have found it difficult to make a living because they also must charge very low prices to be competitive.

The United States exports the bulk of its cotton to textile and clothing companies overseas in countries like China, Pakistan, and Indonesia. These companies then export clothing they produce back to the United States. Because of the low cost of U.S. cotton, these manufacturers are able to pass along lower prices for clothes to consumers.

At the same time the United States subsidizes domestic cotton growers, it also provides hundreds of millions of dollars of aid to assist cotton farmers in developing countries to increase their production. Critics of these kinds of policies claim that wealthy countries should align their policies to eliminate such contradictions. They say that the subsidies in rich countries violate free trade principles and perpetuate poverty around the world. Supporters argue that protecting domestic agriculture and jobs should be a priority for policy-makers.

The Effects of Trade Around the World

Trade has had mixed effects both within and among countries. But trade is only one of many factors that can influence economic developments within a country. There is much disagreement among economists as to what recent changes are a result of international trade. Nevertheless, trade and economic globalization have played a role in the rapid economic changes that have wracked countries around the globe over the last thirty years.

Why do some countries benefit more from trade than others?

As international trade grows, it is clear that some countries have been more successful than others in international markets. There are many factors that can contribute to a country's performance in international trade. The type of goods that a country exports—for example food versus petroleum—is important. Countries also fare better on the international market when they are diversified, that is, exporting a number of different products. A country that receives large sums of foreign investment and that can direct that money into key sectors of its economy can give a big boost to its local businesses.

Some countries have created programs to reduce the negative effects of trade on their people by providing worker training programs or social welfare support. This has helped people within those countries take better advantage of the opportunities created by trade. Governments strapped for cash have a harder time negotiating the effects of global competition on their populations.

Whether rich or poor, all countries bear the costs of adjusting to the global economy. But more often than not, opening up to global

Bryan Wittal/Wikimedia Commons.

A farmer in Manitoba, Canada drives a combine harvester, a machine that simultaneously harvests, cuts, and separates the grain. Modern technology has revolutionized the agricultural industries in many rich nations. Computers, GPS maps, and electronic sensors are routinely used on many large-scale farms.

trade poses great challenges for developing economies. A lack of capital and infrastructure makes it hard for infant industries to take off. This is made all the more difficult by the fact that emerging industries have to compete with pre-existing firms in the West that produce on a large scale. Many argue that free trade disadvantages developing countries by forcing them to remove protections and compete internationally, even though these same protections helped rich countries develop their economies in the nineteenth and early twentieth centuries.

"Contrary to the conventional wisdom, the historical fact is that the rich countries did not develop on the basis of the policies and the institutions that they now recommend to, and often force upon the developing countries. We can only conclude the rich countries are trying to kick away the ladder that allowed them to climb where they are."

—Ha-Joon Chang, development economist, 2002

Others argue that poor countries, even more than rich countries, need to be involved in global trade because their economies are too small to provide all the goods their people need.

Not all developing countries have struggled to succeed at international trade. Even within the same region of the world, some countries have done well while others have had more difficulty. Furthermore, in most countries there are groups who have seen direct benefits from trade, while others have benefited much less or have faced increased hardship.

How have income levels changed in the last thirty years?

In the short run, most economists agree that inequality between the highest incomes in the most developed countries and the lowest incomes in the least developed countries continues to grow. Per capita income in the United States and other wealthy societies is seventeen times greater than per capita income in the world's poorest countries. Inequality within many countries also has increased. In the United States, for example, the gap between the rich and the poor has grown since the 1980s.

The World Bank estimates that 1.4 billion people—about a fifth of the world's population—get by on a little more than $1 a day. Levels of poverty are growing in some regions, including much of Sub-Saharan Africa. At the same time, poverty has declined in parts of Latin America, South Asia, and East Asia. Some of these changes can be attributed to free trade policies and globalization. Some observers raise questions about international trade policy as one way to address concerns about international poverty. Others argue that trade policy cannot solve the world's social problems.

The following case studies explore some of the mixed effects that international trade and globalization have had on three countries: India, Senegal, and the United States. Every country has experienced the changes brought about by increased trade differently. These three examples are not representative of the experiences of other countries in other parts of the world. But they will provide you with an understanding of the complex effects that trade can have and the difficult decisions that face policy-makers.

■ India

Many free trade economists point to India as a success story. They argue that global trade has spurred economic growth, created jobs, and brought new technologies to Indian industries, all of which have contributed to lifting millions out of poverty. Others argue that other forces have contributed to the changes in India's society and point to the millions who continue to live in extreme poverty.

India's reduction of trade barriers and participation in the global economy began in earnest in the early 1990s. Since then, its economy has grown markedly. Although statistics vary widely, most economists agree that poverty has decreased. The last few decades also have seen the rapid growth of India's middle class. But the benefits of trade have gone largely to the richest 20 percent of India's population. There are also regional disparities; some parts of the country have developed rapidly while other regions have lagged behind. Some contend that, despite the lopsided benefits, the country today has many resources to put towards poverty alleviation and social services. The country now invests abroad in places like England and the United States. Today India has one of the fastest growing economies in the world.

How has India's automotive industry been affected by international trade?

India's auto industry is a good example of how a particular sector can benefit from increased participation in the international economy. Until the mid 1980s, the auto industry was relatively small and had very little foreign involvement, largely because of government restrictions. For the vast majority of India's population, having a car was completely out of reach and so the market for these companies to sell to was very small.

Over the last two decades, the government has gradually liberalized the sector, reducing restrictions to trade and foreign involvement. At the same time, India's growing middle class has spurred a growth in car ownership. From five drivers per one thousand people in 2000, India expects to have eleven drivers per one thousand people by 2010. (India has population of more than 1.1 billion people.) Because the growth in demand for cars is much higher in India (and other developing countries) than it is in North America and Western Europe, automotive companies from rich countries are anxious to establish factories in other parts of the world. The Indian government has looked to these companies to provide jobs, exports, and new technology.

By 2007, the auto industry in India was employing some ten million people. The Indian government predicts that by 2016, the sector will contribute approximately 10 percent of the country's income. According to some experts, every job created in the auto industry creates seven more in the economy at large, for example in jobs like road construction, transportation, car repair, and used car sales. Foreign companies have created linkages with existing Indian auto companies and auto parts manufacturers, contracting some of the work to them and creating more jobs.

The global financial crisis in 2008 has put the brakes on growth in this sector. Foreign companies are tentative about investing in new factories and the number of people buying cars has drastically reduced. Nevertheless, many analysts believe that

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Workers at a jeans factory in the state of Guanajuato, Mexico apply "wear" and other styling to the pants. This factory used to produce the bulk of its jeans for export but due to competition from companies in countries like Bangladesh and India, the factory has not been able to get as many foreign contracts. When this picture was taken, the factory was operating at about 40 percent capacity, and factory owners were concentrating more on selling to the local market in Mexico.

the industry will rebound as the economy improves. The Indian government hopes that this sector will become a major exporter for the country in future.

Fishers in Ghana repair their nets. While most of the fish that are caught are consumed by the local population, in recent years, increasing amounts of certain fish like tuna are being refrigerated or canned and exported to foreign markets. Like the fishers in Senegal, Ghanaian fishers have struggled as overfishing, both by local and foreign fishers, has greatly depleted local fish populations.

■ Senegal

Senegal joined the WTO in 1995 and is also a member of a regional trading community called the West African Economic and Monetary Union (WAEMU). Senegal's economy depends mainly on agriculture, which employs a majority of the population. This makes the economy vulnerable to things like drought and bad crops. Tourism and money sent home from Senegalese living abroad, in addition to food and petroleum exports, are important sources of income. The country, like many other developing countries, is still struggling to change its rural economy to take advantage of opportunities created by free trade.

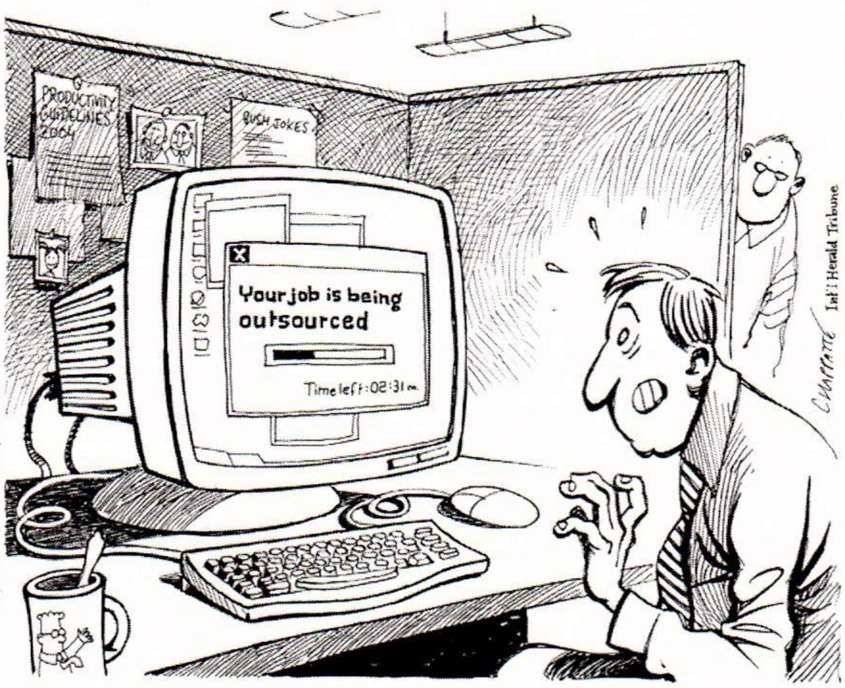
Nevertheless, Senegal is a hub of economic activity for the region. The current government has worked to makeover Senegal's capital city, Dakar, with new roads and hotels to attract more foreign investment and tourism. But the country is plagued with high levels of unemployment and poverty, and the Senegalese people have struggled to cope with the rising food and fuel prices that have wracked the globe in recent years.

How has international trade affected a popular dish in Senegal?

Senegal's food sector provides a good example of the effects of increased international trade on local economies. Globalization's mixed effects are well illustrated in the recent changes to a popular Senegalese dish made from rice, tomato, fish, and onion. In the past, local farmers and fishers produced the ingredients that people bought in stores and markets to make this meal. In recent years, as Senegal has liberalized its trade and opened itself to the world market, this Senegalese dish has become more and more international.

These days, most onions in Senegal are produced in Holland, and much of the rice is imported from Vietnam, Thailand, and the United States. Italian tomato paste tends to be cheaper than that which is produced in Senegal. Local fishers also struggle to compete. For them, the problem is that foreign companies are catching all of the fish. The Senegalese government has sold fishing rights of the waters on Senegal's coast to foreign governments. Local fishermen now must fish for two or three days at once to collect the amount of fish they used to be able to catch in a few hours.

Today, most Senegalese buy imported produce because it is cheaper. Government subsidies to Senegal's farmers have decreased while agricultural imports from large-scale international corporations, who in some cases



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still receive generous subsidies from their governments, have greatly increased.

At the same time, foreign companies have established farms and factories in Senegal to grow and package fruits and vegetables for export. Exports of these products have increased markedly, from 2,700 tons in 1991 to 16,000 tons in 2005. The bulk of these products—primarily French beans, tomatoes, and mangoes—go to countries in the European Union. Not only has this development helped Senegal increase its exports, but it has also created jobs for many poor farmers who now work for the foreign companies.

The United States:

Since 2000, the U.S. economy as a whole has grown slowly. The U.S. government's budget deficit for 2008 is expected to be about $400 billion, a sharp difference from the surpluses of the late-1990s. People in the United States understand that the employment security and stability of the past have been swept away by economic globalization. Wages for millions of U.S. workers are held down by the international labor market. The demands of global financial institutions and markets often dictate national economic policy and personal economic choices.

Trade policy is not the only reason for the changing economic dynamics in U.S. society. Technological advances, high levels of immigration, globalization, the decline of labor unions, and a ballooning national debt also have been important factors. Nonetheless, trade issues have become a lightning rod for the larger debate on the United States' economic direction.

What is outsourcing?

While U.S. trade opportunities have expanded and new consumer goods have entered the market, most U.S. manufacturing workers have not welcomed competition on a worldwide scale. They fear that free trade threatens their jobs because it has led to outsourcing. Outsourcing is a way that companies can transfer some work to other companies for benefits such as lower costs, higher quality, or increased efficiency. In the last three decades, U.S. firms increasingly have outsourced work to companies overseas, mainly in developing countries. For example, U.S. clothing and textile companies have outsourced production to companies in countries like Mexico and the Philippines. U.S. companies in the service sector have outsourced jobs to places such as India, where college-educated and English-speaking workers are much less expensive than their U.S. counterparts. Frequently, people in the United States who call computer help desks, or doctors looking for medical transcription services are being connected to India. Corporations are becoming more likely to shift increasingly sophisticated services, such as software programming, overseas.

Many U.S. workers perceive outsourcing to be a major threat. A poll conducted in 2004 found that more than 70 percent of U.S. voters believed that outsourcing hurt the U.S. economy. But according to the U.S. Bureau of Labor Statistics, only a small percentage of mass layoffs by U.S. companies are a result of outsourcing. Many experts point to other changes, like technological innovation and the use of new machinery, as major contributors to the loss of U.S. jobs. Others argue that although jobs have been lost as a result of increased global trade, new jobs have been created in other sectors. For example, during the 1990s, the U.S. economy generated nearly nineteen million new jobs and in 2004 the United States generated more jobs than Germany, Japan, Great Britain, Canada, and France combined. Furthermore, many argue that "insourcing," in which foreign companies invest in businesses in the United States, has created far more jobs than have been lost to outsourcing.

How has growth in trade affected people in the United States?

Today, a growing share of U.S. exports are generated by a vibrant service sector that employs U.S. workers in industries ranging from business insurance to computer software to international hotel management. U.S. workers have recorded strong gains in productivity too. The opening of new markets in developing countries has proved to be a boon for many U.S. businesses. Most business executives, especially those in export-oriented areas, are optimistic regarding the United States' ability to compete globally.

The growth in trade also has given U.S. consumers a wider range of products to buy. Increased competition has forced producers to improve quality and hold down prices. Poor people, who spend a larger share of their money on consumer goods, have been among the prime beneficiaries of lower prices.

At the same time, U.S. workers have had a mixed experience over the last thirty years. In the 1990s and early 2000s U.S. incomes fluctuated, growing some years but falling in others. The gap between rich and poor in the United States has widened as well. As the share of workers with health and pension benefits declines, some economists calculate that people in the labor force under the age of thirty will earn less than their parents earned in their lifetimes.

Today, people across the United States are concerned about the globalized economy. While many of the economic changes experienced by people in the United States and around the world cannot be attributed to international trade, trade policy is one tool that governments have to navigate the international economy. Should trade policy be used to address concerns about poverty and inequality? Do economic globalization and free trade offer benefits or are these forces harmful? How should policy-makers balance their effects? How important are the concerns of U.S. workers? U.S. businesses? People around the world? How should these concerns affect the direction of U.S. trade policy?

You will have an opportunity in the coming days to consider a range of alternatives for U.S. trade policy. Each of the four options that you will explore is based on a distinct set of values and beliefs. You should think of the options as a tool designed to help you better understand the contrasting strategies from which people in the United States may choose.

After you have considered the four options, you will be asked to create an option that reflects your own beliefs and opinions about where U.S. policy should be heading. You may borrow heavily from one option, combine ideas from two or three options, or take a new approach altogether.