

Part II: The Effects of Global Trade

While many disagree about whether economic globalization is good or bad, no one disputes that it 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 people, while others are harmed by the new economic system.

Adjusting to Economic Change

One major problem is that 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 benefited from 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 unable to compete with international producers.

“Undoubtedly trade creates winners and losers. A good case can be made that the winners win more often than the losers lose, so the overall effects of trade are positive. But the distributional impacts can’t be ignored. The political reality is that winners don’t compensate losers. The only way those who lose from free trade can hope to be compensated is if they actively oppose it.”

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

Among policy makers, one major point of contention is over which types of policies restrain free trade. For example, many labor advocates in industrialized countries have accused poorer countries of unfair conditions, because they have industries that use child labor or do not follow certain environmental

Part II Definitions

Outsourcing is a way that companies transfer some work to other companies for benefits such as lower costs, higher quality, or increased efficiency. U.S. firms increasingly have outsourced work to companies overseas, mainly in low and middle income countries.

Income inequality is the gap between the rich and the poor. Income inequality has increased in the United States over the past thirty years.

or worker safety standards. In response, poor countries have argued that it is not reasonable to expect them to provide the same standards as rich countries. They claim that rich countries promote these standards as a way of protecting their own businesses.

Similarly, many of these labor advocates have complained that free trade is inherently unfair, because labor is so much cheaper in poor countries. Businesses will often “out-source” their operations to places where they can pay people less, and workers in rich countries often lose jobs as a result. Some economists counter that less expensive labor is an advantage of poor countries while rich countries have other advantages such as technological expertise.

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 international trade has helped numerous countries develop 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.

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 size of China's middle class has increased from 4 percent of the population to 68 percent in the last ten years. While some in China have gained more than others, a substantial portion of the



Photograph by chany14/Chany Crystal (CC BY-ND 2.0).

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.

Positions on Free Trade Policies	
Supporters Say:	Critics Say:
People have access to more affordable products	Income inequality 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

population—larger than 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.

“We have to make sure America writes the rules of the global economy. And we should do it today, while our economy is in the position of global strength. Because if we don’t write the rules for trade around the world—guess what—China will. And they’ll write those rules in a way that gives Chinese workers and Chinese businesses the upper hand, and locks American-made goods out.... We’re not going to be able to isolate ourselves from world markets. We got to be in there and compete.... When the rules are fair, we win every time. So this is why I’m such a strong supporter of new trade agreements.”

—President Barack Obama, May 8, 2015

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.

What do critics of free trade say?

While most critics do not oppose trade in general, many warn that U.S. trade agreements favor big business and ignore the interests of workers. Some people want the United States to withdraw from the WTO and other trade organizations in order to protect U.S. jobs. Others argue for reform of the trade system as a whole.

Critics of free trade maintain that it results in far more losers than winners in the global economy. Among those who are negatively affected are hundreds of thousands of U.S. workers who have lost manufacturing jobs in recent years and tens of millions of people around the world who have lost their jobs or businesses.

According to critics, those who benefit are mainly rich investors who shift their money from one market to another and big corporations that relocate factories to poorer countries to take advantage of low-wage labor and lower worker safety and environmental standards. The losers, free trade opponents assert, are typically found among the working class and the poor.

“Our politicians have aggressively pursued a policy of globalization, moving our jobs, our wealth and our factories to Mexico and overseas. Globalization has made the financial elite, who donate to politicians, very, very wealthy.”

—Presidential candidate Donald J. Trump, June 28, 2016

A broad coalition of organized labor, environmentalists, human rights activists, and



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Shanghai, China. Shanghai is a global financial center and home to about twenty-four million people. Over the last ten years, China's middle class has grown rapidly due to globalization.

nongovernmental organizations (NGOs) protest the free trade policies favored by the United States and other governments. They assert that these policies do not serve the interests of ordinary people and believe that more fair and equitable trade is possible.

“[T]he bilateral free trade agreements made by our governments aggregate even more power in the hands of already powerful and destructive transnational corporations, and lead to serious declines in the welfare of citizens.”

—The Global Exchange, an international human rights organization, from its website, February 13, 2017

Critics of free trade argue that 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.

The debate on U.S. trade policy has other dimensions as well. For instance, another area

of concern is how the United States should balance foreign trade with foreign aid.

U.S. Trade Policy and Global Development

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

Increasing trade in these countries serves U.S. economic interests as well. For example, in 2015 the United States spent more than \$19 billion on imports from countries in Sub-Saharan Africa and exported \$18 billion of goods to

the same region. 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.



Bryan Wittal (public domain via 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 countries. Computers, GPS maps, and electronic sensors are routinely used on many large-scale farms.

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. The Department of Agriculture provides about \$20 billion per year to U.S. farmers. Most of those subsidies go to large agricultural firms, whereas very little goes to small farmers.

“Farming is a risky business. Farmers need a safety net.”

—Thomas Bond, a cotton grower in Belzoni, Mississippi, reflecting on the subsidies his farm received from the U.S. government, December 10, 2013

Challenges in the WTO to farm subsidy programs in rich countries have caused the United States to defend 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. Some estimated that without these subsidies, U.S. cotton exports would shrink by 41 percent. In 2014, the United States agreed to pay Brazil more than \$300 million in return for Brazil permanently dropping its complaint to the WTO about U.S. cotton subsidies.

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 that 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. As international trade grows, it is clear that some countries have been more successful than others in international markets.

Why do some countries benefit more from trade than others?

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, including the United States, have created programs to reduce the negative effects of trade on their people by providing worker training programs or social welfare support. Governments strapped for cash have a harder time reducing the effects of global competition on the citizens who have lost their jobs.

Whether rich or poor, all countries bear the costs of adjusting to the global economy. But more often than not, opening up to global trade poses great challenges for developing economies. A lack of capital and infrastructure

makes it hard for emerging industries to take off. This is made all the more difficult by the fact that new industries have to compete with pre-existing firms in wealthier countries that already produce on a large scale. Many argue that free trade disadvantages developing countries by forcing them to remove protections and compete internationally, while 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.”

—Economist Ha-Joon Chang, 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 poorer 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 other groups have benefited much less or have faced severe hardship.

How have income levels changed in the last thirty years?

Most economists agree that inequality between people with the highest incomes in the wealthiest countries and people with the lowest incomes in the poorest countries continues to grow. Per capita income (the average income per person) in the United States and other wealthy societies is many 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 continually since the 1980s.

At the same time, the World Bank estimates that extreme poverty has declined by 35 percent since 1990. Today, about ten percent of the world's population gets by on a little less than \$2 a day. Levels of poverty remain high in Sub-Saharan Africa and other parts of the world. At the same time, poverty has declined in parts of Latin America, South Asia, and East Asia. Some of these changes can be attributed in part to free trade policies and globalization.

“[T]rade does tend to reduce poverty, but only in specific settings: in countries where financial sectors are deep, education levels high, and governance strong.”

—Raju Jan Singh, program director,
The World Bank, February 19, 2013

While some see international trade policy as one way to address international poverty, others argue that trade policy cannot solve the world's social problems. The following case studies explore some of the mixed results of international trade and globalization in 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 increased participation in the global economy began in the early 1990s. Since then, its economy has grown dramatically. 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 reducing poverty and providing 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 international trade affected India's automotive industry?

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, the cost of having a car was completely out of reach, and so the market for these companies to sell to was very small.

Over the last several 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. Up from five drivers per one thousand people in 2000, India had eighteen drivers per one thousand people in 2016. (India has a population of more than 1.25 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 eager to establish factories in other parts of the world. The Indian government has looked to these companies to provide jobs, exports, and new technology.

According to the Indian government, in 2014, the automotive industry created 7.1 percent of India's total economy and 45 percent of its manufacturing. Between 2006 and 2016, the industry created nineteen million jobs. Some experts claim that 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 partnered with existing Indian auto companies and auto parts manufacturers, contracting some of the work to them and creating more jobs. The Indian government hopes that the country will become a major exporter of cars in the future.

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 poor crop harvests. 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 poorer 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 improve Senegal's capital city, Dakar, with new roads and hotels to attract more foreign investment and tourism. But the country has high levels of unemployment and poverty, and the Senegalese people have struggled to cope with the rising food and fuel prices.

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 much 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.

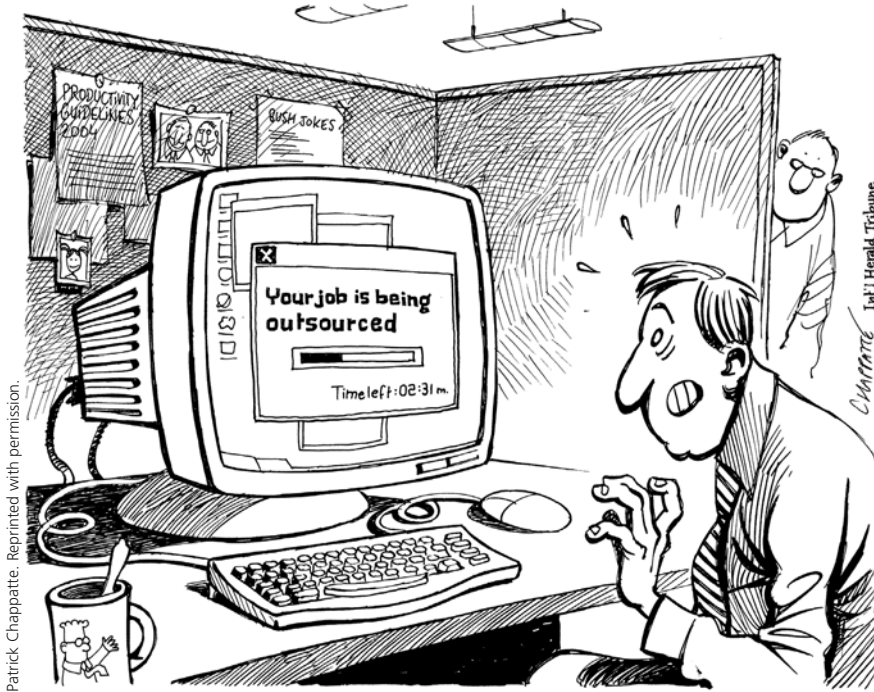
Today, most Senegalese buy imported produce because it is cheaper. Government subsidies to Senegal's farmers have decreased while agricultural imports from large-scale international corporations, who in some cases still receive generous subsidies from their governments, have greatly increased.

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 dramatically—from \$24 million in 2010 to \$59 million in 2014. 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.



Fishers in Senegal set out to sea. While most of the fish that are caught are consumed by the local population, in recent years, increasing amounts of certain fish are refrigerated or canned and exported to foreign markets. Fishers in Senegal have struggled as overfishing, both by local and foreign fishers, has greatly depleted local fish populations.

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Patrick Chappatte. Reprinted with permission.

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 low and middle income 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

The United States

Since the end of the Great Recession in 2009, the U.S. economy as a whole has grown slowly. Many people in the United States believe 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 economic changes in U.S. society. Technological advances, especially the automation of manufacturing, have also affected the U.S. economy. 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

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 2012 found that more than 86 percent of U.S. voters believed that outsourcing jobs hurt the U.S. economy. But while some layoffs by U.S. companies are a result of outsourcing, experts point to other changes, like automation 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. Others note that “insourcing,” in which foreign companies invest in businesses in the United States, has created more jobs than have been lost to outsourcing.

“I used to have a really good job, and I liked the people I worked with—until it got overtaken by a machine, and then I was let go.”

—Robert Stillwell, age thirty-five of Evansville, Indiana reflecting on the loss of his auto parts manufacturing job, December 26, 2016

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

Today, a growing share of U.S. exports are generated by the service sector, which 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 benefitted 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 the rich and the 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, many 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 solely attributed to international trade, trade policy is one tool that governments can use 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 perpetuate inequality and poverty? 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 these questions and 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.

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.