



JOINING THE CONVERSATION → Economics Discussion Guide

WORLD TRADE ORGANIZATION



**Economics**

When many people think about international economics, they remember the protests in Seattle in 1999. The World Trade Organization (WTO), the leading body regulating international trade, held a summit which was attended by the world's leading diplomats, trade experts, then-Secretary of State Madeleine Albright and United Nations Secretary General Kofi Annan. Thousands of anti-globalization protestors shut down the city center, creating chaos, trapping summit delegates in their hotels and delaying the start of the conference.

What is it about the issue of trade that sparks such passion from supporters and critics?

**IS FREE TRADE FAIR TRADE?**

Free trade, in theory, is the ability of individuals and companies to buy and sell goods and services to and from individuals and companies in any nation without interference.

If companies have to compete globally, then -- in theory -- consumers all over the world will have access to goods and services that are produced as cheaply and as well as possible. The market, not governments, will determine which manufacturers or farmers or financial services will thrive.

Since World War II, U.S. foreign and economic policy has promoted free trade and global markets as the primary way to encourage economic growth, raise standards of living by boosting incomes and creating jobs, and ultimately lead to countries' stability.

The U.S. view is that "a strong world economy enhances our national security by advancing prosperity and freedom in the rest of the

**Key Definitions**

**Free Trade** - The export and import of goods and services between nations that occurs without barriers, like subsidies, tariffs or quotas.

**Export** - To send goods to another country for sale.

**Import** - To bring foreign goods into a country for purchase.

**WTO (World Trade**

**Organization)** - The WTO was created in 1995 to deal with the rules of trade between nations at a global or near-global level. As of mid-2003, 146 countries have joined the WTO, making it the leading trade organization in the world.

**NAFTA (North American Free Trade Agreement) -**

Trade agreement between the U.S., Canada, and Mexico, creating a free trade area, or a group of states that have reduced or eliminated trade barriers between themselves, but who maintain their own individual tariffs as to other states.

**Tariffs, Tariff Barriers -**

Governmental charges, or taxes, imposed on imported goods; often used to protect a domestic producer or industry.

**Quotas** - Non-tariff barriers that

world.... It allows people to lift their lives out of poverty, spurs economic and legal reform, and fights against corruption, and it reinforces the habits of liberty."

America promotes global economic cooperation and free trade through its work with groups like the World Trade Organization, which serves as a referee for trade negotiations and agreements. America has also promoted free trade regionally, through treaties like the North American Free Trade Agreement (NAFTA) between the U.S., Canada and Mexico.

### **FREE TRADE: THEORY VS. REALITY**

Critics, like the protestors in Seattle, say the case for free trade is fine in theory but falls apart in practice. They argue that free trade encourages the use of cheap, sometimes sweatshop labor and allows working or production conditions in countries that lack our environmental or labor standards. They say free trade demands big tradeoffs in the United States. It helps some U.S. businesses more than others, and helps some workers and not others.

Critics also argue that poor countries suffer under free trade. In 2002, the top five exporting countries -- America, Germany, Japan, France and Great Britain -- accounted for 37% of all world trade. In contrast, that year the 49 world's poorest countries made up for only 0.6% of world trade. They conclude that many less developed countries have not shared in the benefits of free trade and global markets and need ways to "level the playing field."

So what are the "rules of the road" for the global economy, and who makes these decisions -- America? International groups like the World Trade Organization? Should there be complete free trade, or should there be some levels of protection for certain industries and countries? And what are the consequences for the U.S. as a whole, for different regions and industries in the U.S., and for the rest of the world?

### **INTERNATIONAL RULES OF THE ROAD: LOCAL NEEDS, INTERNATIONAL**

put legal limits on the amount of a product that can be imported into a country. It can create shortages, which cause prices to rise, often to protect domestic producers or industries.

**Subsidies** - Paid for by taxpayers, subsidies are "grants" made by a government to domestic private or public industries determined to be in the "public interest," in order to reduce the price of a product or service in the international marketplace.

**Globalization** - The movement toward a worldwide investment environment, and the integration of national capital markets.

### **SOME POLICY CHOICES**

1. Undertake ambitious expansion of free trade agreements - among many nations when possible or with individual countries when necessary. We should eliminate subsidies as much as possible.
2. Allow moderate free trade expansion when it is clearly in our national interest. We should protect some jobs and markets when identifiable jobs are at stake, at least as a matter of transition.
3. Reject further free trade liberalization and maybe embrace some trade cutbacks when necessary.

## **CONCERNS**

On November 11, 2003, the New York Times newspaper ran an article, "U.S. Tariffs on Steel Are Illegal, World Trade Organization Says." The story highlighted the European Union's complaints to the WTO that tariffs imposed by the U.S. on imported steel in early 2002 broke international trade rules. As a result, Europe - also a major producer of steel - threatened to retaliate with over \$2 billion in sanctions against U.S. products if these duties were not lifted.

In December of 2003, President Bush said the tariffs had served their purpose and lifted them. The U.S. had imposed the tariffs - which are taxes on imported goods - on foreign steel after American producers complained that cheap imports were hurting business and were a threat to jobs in steel-producing states like West Virginia. But other U.S. industries criticized the move. They said the tariffs to protect the steel industry would make their own businesses, like auto manufacturing, less competitive. They said it would drive up costs of their products that use steel, cutting their profits and forcing them to layoff workers.

## **PROTECTION: THE CASE FOR SUBSIDIES**

The imposition and then the lifting of steel tariffs demonstrates the role that protection plays in the discussion about trade. Tariffs raise the cost of foreign goods in the U.S. marketplace, making U.S. products more attractive. Another tool governments have to protect domestic industries is subsidies. Subsidies are payments made by a government to manufacturers or farmers to reduce the cost of their products to consumers.

Supporters of subsidies in countries like France, Germany, and America also argue that subsidies may be used to protect a "way of life," like that of the small farmer or local industries, which have a harder time competing in the global market.

## **U.S. Options**

Supporters of such trade protections often criticize international organizations like the WTO and free trade. They say the U.S. limits its options by agreeing to trade rules that are

## **REGIONAL TRADE PACTS: THE NAFTA EXAMPLE**

One approach to trade is through regional agreements, like the North American Free Trade Agreement (NAFTA), implemented in 1994 between the U.S., Canada, and Mexico to remove trade barriers between these countries. NAFTA created an integrated market of 400 million people with \$6.5 trillion worth of goods and services annually. The agreement held the promise of bringing prosperity to Mexico,

harmful to specific American industries.

They also say that liberalizing global markets results in the relocation of U.S. jobs overseas, creating unemployment. In addition, these critics assert that sometimes multinational corporations take advantage of poorer countries' lack of labor standards laws and regulations. This, they say, results in people working in sweatshop conditions or companies employing child labor. They also say poor countries desperate for even low-paying jobs may not have effective environmental regulations, in an era when pollution has global consequences.

### **FREE TRADE: THE INTERNATIONAL APPROACH**

Supporters of promoting free trade argue against subsidies. A major factor in world trade today is that developing countries have become or are becoming major exporters of agricultural products. In the eyes of countries like Brazil or those in Africa, subsidies for farmers in rich countries prevent their farmers who live in poorer, weak countries from successfully competing in the global market.

Critics of subsidies point to the case of West African cotton growers. Even though they are the most efficient producers of high-grade cotton, they cannot compete on the world stage because of the \$3 billion in subsidies the U.S. spends on its some 25,000 cotton growers.

Supporters of free trade also suggest that U.S. companies investing overseas provide jobs and income for people, which would otherwise not exist, ultimately raising the local standard of living. Additionally, companies that invest overseas also contribute taxes to the host government, which can then provide more public services to its people.

Finally, those who support the WTO's approach to free trade say that the U.S. will benefit by making sure that nations involved in international trade follow the rules and that this will only happen if the U.S. also abides by them. They argue that strengthening the rules established by the WTO helps protect the U.S. because it is a major exporting nation that

cheaper goods to America, and increased job growth in all three countries.

Supporters and critics of this trade agreement reflect perceptions and divisions about global trade and free markets more generally.

The World Bank has argued that NAFTA has been positive for Mexico, particularly in the areas of job creation, and raising the standard of living in the country's north. Mexico's combined exports and imports more than doubled, from \$117 billion in 1993 to \$341 billion in 2000. More closely integrating the economies of the U.S., Canada and Mexico has also helped stabilize the Canadian economy.

Many American labor unions and others say NAFTA has cost the U.S. jobs to lower paid workers in Mexico. At the same time, others assert that NAFTA has not helped improve the lot of Mexico's poor. They say wages in Mexico today are lower than when the trade agreement was adopted. And Mexican agriculture has been hurt by U.S. exports of subsidized crops, such as corn.

would be hurt if other nations took actions designed to unfairly protect their own agricultural or manufacturing industries. They point to cases like the U.S. steel tariffs to argue that one country's attempt to protect its own industry will inevitably trigger a counter-measure from a country whose industry is damaged by the move.

In this view, the U.S. has as much at stake as any other country in the WTO and a rules-based, global economy. Otherwise, countries might arbitrarily close their markets to outside imports. This would disrupt the global trade flow and raise the cost of production and consumer prices.

### **ECONOMICS AND NATIONAL SECURITY**

After the attacks of 9-11 and in an age of global terrorist threats, many have turned their attention much more sharply to determine how economic growth and prosperity can promote security and democracy.

Current U.S. foreign policy reflects that idea that free trade and liberalized markets are a moral principle that promotes the rule of law, fights corruption and encourages countries to build democracies. Poland is an example of how a blossoming economy can help bolster an emerging democracy. As its economy developed in the late 1990s, the country's political life stabilized. The formerly communist country joined NATO in 1999 and hopes to join the European Union in 2004.

Opponents of this approach are concerned that this kind of foreign and economic policy is the direct cause of the large income gaps between rich and poor nations. They suggest that the continuation of policies of free trade and global markets will only lead to more poverty, environmental decay, and instability. Free trade, critics argue, is helpful to big business and corporations but does little to help people in poor nations, especially in the matter of promoting democracy and security.

*This backgrounder was written by Steven Barnes, Assistant Dean for External Affairs, Woodrow Wilson School of Public and International Affairs, Princeton University.*

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