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DOES FREE TRADE CAUSE HUNGER? HIDDEN IMPLICATIONS OF THE FTAA

Jonathan B. Wight*

This division of labour, from which so many advantages are derived, is not originally the effect of any human wisdom, which foresees and intends that general opulence to which it gives occasion. It is the necessary, though very slow and gradual consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter, and exchange one thing for another.¹

Voluntary free trade has the potential, slowly and gradually over time, to create “general opulence” because it allows workers to acquire greater competency and specialization: in a word, workers become more productive. The creation of a Free Trade Area of the Americas (FTAA) would expand market areas and thereby potentially contribute to raising future living standards of workers. This paper seeks to analyze the theoretical basis for trade, provide an economic overview of FTAA countries, and analyze the winners and losers from trade.

“Labor” is not a homogenous input, and therefore the effects of FTAA on “labor” will be diverse. Free trade may exacerbate hunger problems among families in poor agricultural areas of Latin America where labor markets are uncompetitive, land rights questionable, or land distribution highly uneven. Accordingly, this paper argues that free trade works best when labor markets are competitive, when there are institutional mechanisms guarding property rights, and when those property rights are fairly evenly distributed.

L Theoretical Background

Writing in 1776, Adam Smith discusses two primary ways in which trade benefits workers. First, trade breaks down local monopolies, which lowers consumer product prices and thereby acts to increase the real wage of workers. Second, trade allows workers to enhance their productivity through specialization.² In the famous example of a pin factory, Smith says: “One man draws out the wire, another straightens it, a third cuts it, a fourth points it, . . . Those ten persons, therefore, could make

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¹ ADAM SMITH, AN INQUIRY INTO THE NATURE AND CAUSES OF THE WEALTH OF NATIONS 25 (R.H. Campbell & A.S. Skinner eds., Oxford University Press, 1976) (1776).

²*Id.* at 15.

among them upwards of forty-eight thousand pins in a day."³ What enables workers to specialize is a larger market area, and what limits it, are factors that restrict market size, such as geographical isolation caused by poor transportation networks or political barriers to trade.

In 1817, David Ricardo's theory of comparative advantage added substantially to our knowledge of the reasons for trade.⁴ Ricardo argued that relative costs of production, rather than absolute costs, provide a broader basis for understanding mutually beneficial trade.⁵ By integrating economies on a worldwide basis, production is made more efficient because domestic resources are not wasted making products that can be acquired more cheaply through trade. The immense intellectual power of Smith's and Ricardo's arguments led to the dramatic rise of free trade policies by the end of the nineteenth century. Many commentators thus observe that the world economy was more integrated a hundred years ago than it is today.⁶ This high level of globalization in the first decade of the twentieth century collapsed in the second, third, and fourth decades due to war, depression, and deliberate protectionist policies.

After the end of the Second World War, the pendulum swung again towards freer trade. The General Agreement of Tariffs and Trade (GATT), formed in 1947, and its successor organization, the World Trade Organization (WTO), formed in 1995, allowed for negotiated reductions in tariff rates from an average of forty-five percent to about five percent over the last half of the twentieth century.

Despite the strong economic rationale for trade, political factors are likely a stronger force behind most trade integration movements. The European Union, for example, was started explicitly as a mechanism for combining energy, steel, and other key industries in Europe so as to prevent another war between France and Germany. One can argue that The North American Free Trade Agreement (NAFTA) was also created largely for reasons involving illegal immigration and drug interdiction, rather than on purely economic considerations. The opening of U.S.-China relations was likewise mainly a Cold War strategy for creating a Soviet-Sino political wedge.

One of the consequences of globalization has been the dramatic rise in both the volume and value of world trade (Exhibit 1), as trade became an engine of growth for the world economy after the 1950s. Those areas adopting export-led industrialization strategies based on comparative advantage saw dramatic increases in average real incomes. East Asia, for example, with a high index of openness to trade (Exhibit 2), experienced average growth rates in real per capita income of over five percent a year from 1965-90.⁷ With compounding, the average citizen of this region experienced a remarkable doubling of their standard of living every fourteen years. For the most part, this growth was achieved at the same time income distribution became more evenly distributed.

³ *Id.* at 15.

⁴ See DAVID RICARDO, *THE PRINCIPLES OF POLITICAL ECONOMY AND TAXATION* 219-222 (Lloyd Reynolds & William Fellner eds., Irwin Paperback 1964) (1817).

⁵ See *id.*

⁶ *E.g.*, Paul Streeten, *Integration, Interdependence, and Globalization*, *FIN. & DEV.*, June 2001, at 34; JOHN MICKLETHWAIT & ADRIAN WOOLDRIDGE, *A FUTURE PERFECT: THE ESSENTIALS OF GLOBALIZATION* (2000).

⁷ THE WORLD BANK, *THE EAST ASIA MIRACLE: ECONOMIC GROWTH AND PUBLIC POLICY* 2-4 (1993).

By contrast, Latin America initially engaged in diametrically opposite policies; ignoring comparative advantage through the use of import-substituting industrialization (ISI). Domestic consumers in this region, by dint of extremely high tariffs, were forced to buy domestically-manufactured goods regardless of their quality or price. This closed market system created enormously inefficient industries and consumers paid dearly. ISI spawned immense underground economies fed by price controls and shortages, which led to bribery and corruption. Burgeoning public deficits led to hyperinflation and capital flight which left an over-hanging foreign debt. The result was the "lost decade" of the 1980s in which Latin America struggled to restructure its economies more in line with comparative advantage. Not surprisingly, average annual per capita income increased less than two percent during the period 1965-90. Unlike trade based on comparative advantage, which produces a net win-win outcome, ISI produced a net win-lose outcome and therefore income and wealth distribution widened.

Meanwhile, sub-Saharan Africa, which had the lowest openness to trade index of any region, saw its citizens' incomes stagnate or even fall over the period 1960-90. On average, per capita income in the region rose just one-tenth of one percent a year.⁸ While no one would suggest that trade is the only—or even the main—reason for the observed differences in economic growth rates, openness to trade is most likely positively related to economic growth for the above mentioned reasons. Moreover, there is no necessary reason that faster growth must be regressive in terms of its impacts on the poor. Indeed, the poor have the most to gain from faster economic growth, since the uneducated and untrained laborers are often the last hired in any economic expansion.

II Overview of FTAA Countries

Within the context of this globalizing world economy, the FTAA proposes to create the world's largest market area, comprising approximately 800 million people in the thirty-four democracies of the Western Hemisphere. Notably excluded by this criterion is Cuba.⁹

As shown in Exhibit 3, a "Free Trade Area" would allow for the unrestricted trade between member nations, but nations would maintain existing and separate trade barriers against non-member countries. By contrast, the "Common Market" of the European Union creates deeper market integration by establishing common external barriers to trade, and by allowing for free flows of labor in addition to goods and services. The implication of this difference is that any labor impacts flowing from FTAA will come from trade effects and capital flows, not from the legal movement or migration of labor.

Exhibit 4 details the past and existing trading blocks in the Western Hemisphere. For a variety of reasons, none of these have achieved the permanence or success anticipated. The impact of FTAA, however, is potentially much greater because it would provide wide preferential access to the world's largest market, the U.S. As shown in Exhibit 5, FTAA countries are vastly different in terms of population,

⁸ THE WORLD BANK, *WHY AFRICA HAD TO ADJUST: REFORMS, RESULTS, AND THE ROAD AHEAD* 18-26 (Oxford Univ. Press, 1994).

⁹ See generally *Free Trade Area of the Americas (FTAA)*, at <http://www.ftaa-alca.org> (providing an overview of the process creating the FTAA).

economic size, income levels, industrialization levels, and many other characteristics of development. The U.S. is by far the largest country, constituting one-third of the proposed FTAA population and two-thirds of its GDP. The U.S. GDP is nearly eight times larger than Brazil's (the second largest economy in the region) and twenty-two times larger than the average GDP in the region. In addition, U.S. per capita income is nearly \$32,000; far higher than the weighted average of \$8,023 in all other countries. This data reinforces the view that FTAA is a partnership of highly unequal partners. The implication is that the U.S. market is already so sufficiently large and open to world trade that most of Adam Smith's specialization and anti-monopoly gains to trade have probably already been achieved. The United States has much less to gain in these respects than smaller economies that are not as involved in other trading areas.

While the U.S. may have little to gain from trade in terms of additional economies of scale, the U.S. can still gain from FTAA by reallocating resources based on Ricardo's comparative advantage. In theory, when two countries specialize based on comparative advantage, both can gain from voluntary and free trade. More precisely, both countries can experience an increase in their average standard of living. Two points are worth emphasizing: averages can mask great differences between individuals (e.g., the distribution of income will likely change); and, while both countries gain on average, they probably do not gain equally. The relative gains from trade depend upon the *terms of trade*, that is, the price of exports compared to the price of imports. While the terms of trade represent an important issue for developing countries and the labor therein, it is outside the scope of this paper.⁹

A final question regarding the functioning of FTAA is the extent to which trade within this area will really be "free." For example, the United States and many other countries still maintain an extensive system of subsidies, quotas, and other price support activities for agricultural producers. As such, the United States and other countries engage in a free trade "fraud" according to some commentators.¹⁰ One particularly egregious example is the U.S. quota on imported sugar.¹¹ Since Latin American countries have a clear and compelling comparative advantage in sugarcane production, the stringent U.S. quota on sugar imports is extremely damaging to foreign workers and very costly to U.S. consumers. For example, at the same time that the U.S. was promoting its Caribbean Basin Initiative, Caribbean countries saw their U.S. sugar quota reduced by more than seventy-five (75%) over the period from 1984 to 1988.¹² The

⁹The International Monetary Fund tracks changes in commodity terms of trade which are published periodically in *WORLD ECONOMIC OUTLOOK*. The historical data suggests that workers in developing countries must work longer hours to buy the same imported items as before. The reasons for falling terms of trade most likely have to do with the historical patterns of trade in which developing countries produced raw materials and minerals and the developed countries produced manufactured goods. As world income grew, the demand for manufactured goods grew much faster than the demand for the raw materials to produce them. In addition, manufactured goods are more likely sold in monopolistically competitive or oligopolistic markets in which producers have greater pricing power. Commodities are generally sold in more competitive markets in which producers have very little bargaining power (oil and OPEC being notable exceptions).

¹⁰ See e.g. JAMES BOVARD, *THE FAIR TRADE FRAUD* (St. Martin's Press 1991).

¹¹ See *id.* at 71-76 (discussing sugar quotas).

¹² Jose Alvarez & Leo C. Polopolus, *The Sugar Program: Description and Debate*, U.

politics of free trade thus conflict with the economics, and the results from NAFTA suggest that any FTAA agreement will likely contain numerous agricultural exemptions and exceptions.¹³

Other commentators point out that FTAA would mock free trade because of its strict controls on labor flows but not on capital flows: “[s]lavery and feudalism are both based on birth. Immigration and other policies function to protect the high standard of living of North Americans . . . a system of privilege based on birth. How far is that from a global plantation system?”¹⁴ If capital is free to migrate to obtain its highest reward, so should labor, according to this view. Nevertheless, it is unlikely that the FTAA would ever become a Common Market, like the European Union, in which free labor flows would be allowed.

III. Winners and Losers From Trade

What allows one country to have a comparative advantage—the lowest opportunity cost—in production? According to the Heckscher-Ohlin theory,¹⁵ countries possess a comparative advantage in those goods whose production involves extensive use of factors of production which that country possesses in abundance. This common-sense theory suggests, for example, that if the United States is rich in capital and short on labor, it will likely produce capital-intensive products relatively cheaper than other countries and produce labor-intensive products relatively more expensively. The U.S. would consequently be expected to export capital-intensive goods and to import labor intensive goods. Trade thus impacts owners of resources differently. In the U.S., trade would enhance the demand for capital resources and reduce the demand for labor resources. The impact on the distribution of income is clear: “[o]wner’s of a country’s abundant factors gain from trade, but owners of a country’s scarce factors lose.”¹⁶

This theoretical prediction was subjected to its first empirical investigation by Wassily Leontief, who “discovered” the famous paradox that bears his name. Leontief “discovered” that, contrary to expectation, the United States actually imports capital-intensive products! The paradox was resolved when we learn that Leontief’s measurement of labor inputs was seriously flawed due to inappropriate aggregation. “Labor” cannot be treated as an interchangeable homogenous input. Rather, labor is a complex mix of heterogenous inputs including education, experience, training, health, attitude, and other factors. When a more precise accounting of the human capital inputs in labor is made, the Hechscher-Ohlin prediction can be rephrased by considering labor-augmenting human capital and technology. In this new view, the United States has abundant labor resources embodied in its research and development

OF FLA. COOPERATIVE EXTENSION SERV. (June 1998), at <http://edis.ifas.ufl.edu/SC020>.

¹³ See generally Leo C. Polopolus et al., *Sugar and the North American Free Trade Agreement: Final Results*, U. OF FLA. COOPERATIVE EXTENSION SERV. (March 1994), at http://edis.ifas.ufl.edu/BODY_SC043.

¹⁴ Interview with Ben Blevins, Executive Director, Highland Support Project (Oct. 3, 2001).

¹⁵ For this discovery, Bertil Ohlin received the Nobel Prize in Economics in 1977.

¹⁶ PAUL R. KRUGMAN & MAURICE OBSTFELD, *INTERNATIONAL ECONOMICS: THEORY AND POLICY* 77 (4th ed., Addison-Wesley 1997).

scientists, skilled labor, and semi-skilled labor.¹⁷ U.S. exports will likely be products rich in those resources (e.g., intellectual property and services).¹⁸ The U.S. has very small shares of unskilled labor, and this implies that the losers from trade in the U.S. will be unskilled labor, who under free trade will now compete with unskilled labor from around the world.

Job losses in the United States due to trade hit textiles and other low-skill, labor-intensive, industries particularly hard. Workers in these industries who lack the mobility to move to other areas clearly constitute the "losers" from free trade.¹⁹ The winners from trade in the United States include makers of engines and turbines, and construction and mining machinery.²⁰ Even so, most estimates suggest that trade is not a significant factor explaining the widening income gaps between the rich and poor in America. Far more important in explaining this effect are the dramatic changes in the technology of production, which make unskilled workers obsolete even in industries not threatened by trade.²¹ The introduction of cheap imports from low-wage countries accounts for only a small fraction of this trend.²² This is readily apparent when we observe that imports, although growing rapidly, still account for less than fifteen percent of national income in the United States.

The bottom line is that it is difficult, if not impossible, to speak of "labor" impacts of the FTAA in a generic way. Labor is an amorphous concept, and requires refinements in definition before anything substantive can be said. Furthermore, the institutional market structure under which labor is hired matters. For these reasons this paper analyzes a particular type of labor in a particular market setting: rural labor in Central America.

¹⁷ See DOMINICK SALVATORE, INTERNATIONAL ECONOMICS 118 (5th ed., Prentice-Hall 1995) (providing estimates of the factor endowments of different countries).

¹⁸ The U.S. will continue to import a high proportion of capital-intensive products simply because of its large oil imports. Oil extraction and refining use large amounts of capital and relatively little labor.

¹⁹ See generally RICARDO, *supra* note 5, at 219-222 (Ricardo argues that trade outcomes reflect relative, not absolute, differences in productivity. Given his insights, workers making clothing in the United States are actually somewhat more productive in an absolute sense than overseas workers. The reason they are hurt by trade is because the United States a lot more productive in other sectors.)

²⁰ SALVATORE, *supra* note 17, at 69.

²¹ *Id.* (In addition, deliberate policy changes have also reduced the relative distribution of income for those at the bottom: income taxes have become less progressive over the past twenty years, and the minimum wage has not kept pace with inflation since the 1970s).

²² See ADRIAN WOOD, NORTH-SOUTH TRADE, EMPLOYMENT, AND INCOME INEQUALITY 108, 159-61 (Clarendon Press, 1994); Robert Z. Lawrence & Mathew J. Slaughter, *Trade and U.S. Wages: Giant Sucking Sound or Small Hiccup*, 1 BROOKINGS PAPERS ON ECON. ACTIVITY 161, 172-73, 179 (1993); see also Paul Krugman, *The Spiral of Inequality*, MOTHER JONES, Nov./Dec. 1996, at 44 (providing an overview generally favorable to labor).

IV. Rural Labor in Central America

Rural workers in Latin America are substantially poorer than urban workers. Many factors contribute to holding down wages in rural areas, namely, poor peasant productivity due to small plots, low yields, and government policies that have been biased against agricultural output and earnings. Historically, these detrimental policies have included overvalued exchange rates that limit export earnings, credit rationing, and price controls.²³

Alongside small-scale peasant agriculture in Latin America, the past centuries have seen large agricultural estates developed as export-enclaves in coffee, sugar, bananas, cacao, and other products. In rural areas of Latin America, large estates control the lion's share of land: seventy-two percent of the land under cultivation in Latin America is owned by only one percent of the population.²⁴ These enclaves typically exhibit labor market conditions known as "monopsony": one buyer of labor and many sellers of labor.²⁵

The monopsony power of these estates is created and heightened by a variety of factors which make it difficult for workers to find employment elsewhere. Bad roads and poor public transportation limit the possibility of commuting to work and raise the cost of searching for work elsewhere. Poor communication skills further intensify these problems: many in the population are illiterate and the region's infrastructure lacks telephones. In addition, indigenous rural workers often speak traditional languages and dialects that make it difficult for them to communicate in the language of commerce and of the *conquistadors* (Spanish or Portuguese). In Guatemala, for example, native Indians comprise fifty-five percent of the population and speak fifty-three non-Spanish languages.²⁶ Workers may also be unable to migrate because of heavy indebtedness to company stores run by the plantation, which make workers subject to arrest if they leave. Finally, migrants are in many cases unable to search for better jobs because of laws restricting immigration.²⁷

One predictable consequence of such monopsony conditions is that employers can succeed in paying wages below the value of the worker's marginal product—in essence, "exploiting" the worker. It is imperative to note that the existence of low wages alone does not constitute evidence of exploitation, because low wages exist in competitive labor markets when workers are simply not very productive. Rather, exploitation exists when a poorly developed market structure—or outright collusion among employers—limits competitive forces from raising the wages of workers up to the value of their marginal products. Adam Smith was well aware of this problem, saying, "whoever imagines, upon this account, that masters [employers] rarely combine [to create a monopsony], is as ignorant of the world as of the subject."²⁸

²³ See MICHAEL P. TODARO, *ECONOMIC DEVELOPMENT* 508-09 (7th ed., 2000).

²⁴ *Id.* at 373.

²⁵ Such markets arise in the United States in coal-mining towns or one-mill towns, where there is only one major employer.

²⁶ SIL, Int'l, *Languages of Guatemala*, at http://www.ethnologue.com/show_country.asp?name=Guatemala (last visited Oct. 24, 2001) (formerly known as the Summer Institute of Linguistics).

²⁷ As noted earlier, the FTAA provides free trade in merchandise and in capital, but does not allow the free movement of labor to seek its highest return.

²⁸ ADAM SMITH, *THE WEALTH OF NATIONS* 28 (William Benton ed., 1952) (1776); see also

In this setting it is important to examine how free trade would affect two labor groups in rural areas in Latin America: peasant farmers working small private plots and workers at large-scale monopsony enclaves.

An earlier section of this paper suggests that the creation of FTAA would enhance the demand for labor resources used in making export products. For example, this could entail labor-intensive cultivation of winter crops in Guatemala, such as fresh fruits and vegetables demanded in the U.S. In theory, labor used in making export products would earn higher returns from trade. This assumes labor markets are competitive, so a rise in demand for labor is translated into a significant gain in earnings for that resource. In monopsony, the gains to trade would disproportionately go to the monopsonist, not the worker. Even so, assuming all other factors are constant, a rise in demand for export workers will increase wage rates even in a monopsony market.

Eliminating monopsony structures, however, could greatly enhance the gains to trade for the poorest laborers in Central America. For example, a study of sub-Saharan Africa by the World Bank found that virtually every agricultural and mineral export industry was plagued with monopsony, generally run by the government itself as a means of raising revenues.²⁹ The World Bank has made eliminating monopsony a priority in liberalizing markets in developing countries.

In regards to peasant workers, free trade means that Guatemalan consumers will be competing with American consumers for the use of land resources in Guatemala. Since U.S. consumers have higher incomes, U.S. consumers can easily "bid away" land resources that formerly were used to produce staple foods for domestic consumption in Guatemala, shifting them to production of exotic food for export to the U.S. (in which the value-added is higher). In turn, staple food production in Guatemala will fall as resources are diverted into agricultural export products.

This is only half of the story. Guatemala would now be producing products for which it commands a comparative advantage. Its earnings from exotic fruits and vegetables will more than compensate for its losses of domestic staple crops, and it now would have the export earnings needed to buy cheap staples of wheat and corn from the United States. In theory, Guatemalans are better off from trade since they will not be wasting resources trying to grow corn in a mountainous environment, when mechanized farms in Kansas can produce corn more easily and inexpensively. Trade based on comparative advantage can thus provide Guatemala with a higher average standard of living even if domestic staple food production falls.

The downside of this story is that average incomes can rise even if the benefits are highly skewed. Will rural workers making exotic fruits and vegetables in Guatemala have the income to buy the imported staples from the U.S.? If workers owned the land in production, this would obviously be true. But as noted earlier, land is very unevenly owned in Latin America. Therefore, as demand for export resources grows to meet the U.S. demand, land will be diverted from small-scale diversified peasant farming to more specialized farming. Trade would provide incentives for the greater concentration of land into larger plots needed for commercial farming.

id. at 35-36 (referring to the oppression of workers).

²⁹ See THE WORLD BANK, *supra* note 9, at 232-39 (outlining data on specific industries and countries).

However, peasants are unlikely to be the ones doing the consolidating because they lack the credit, education, training, and other characteristics that make such a transition easier. It is far more likely that a rise in demand for land would cause taxes on land to rise, forcing peasants off the land when they are unable to pay the higher taxes. Larger farming operations would then consolidate the land, and peasants would change from being independent self-sufficient producers of staple foods to day laborers in a monopsony labor market. Their real standard of living would likely fall.

In darker terms, there are Latin American countries in which property rights are undefined and/or not well protected. Land titles may have traditionally been oral, passed down to a village. In such settings the potential for land fraud, corruption, and theft is immense, and many cases have been observed, leading to "land wars".³⁰ Under these various scenarios, land is more likely to become consolidated into modern, large scale agriculture, and the peasants relegated to working as day laborers. If market conditions are those of a monopsony described above, workers may be exploited. The bottom line for peasants is that their real incomes could fall, with hunger being the result of free trade in food.³¹

V. Beneficial Impacts of Trade

This highly pessimistic scenario should be tempered with other observations. First, the disappointing results for labor noted above flowed from a variety of institutional factors which are not the fault of trade *per se*. Trade highlights the problems that already exist in these societies—income and wealth inequalities, lack of institutions, and a fabric of justice. However, free and voluntary trade is not the cause of these problems,³² suggesting that institutional changes—such as protection of indigenous property rights, and the amelioration of the conditions which give rise to monopsony labor markets—are both desirable and possible. Trade may act as a stimulus for these changes.

For example, in Guatemala the end of civil war and the reduction in death squad activities has produced a window of opportunity for Mayans living in the highlands to begin producing small manufacturing products for export. This provides a demand for labor that competes with the coffee and banana plantations on the coast. Non-governmental organizations (NGOs) have been working to create U.S. market

³⁰ See JORGE AMADO, *THE VIOLENT LAND* (Samuel Putnam trans., 1974) (providing a particularly graphic account in novelized form of the history of land wars during the cacao boom in Brazil).

³¹ See also *HUNGRY FOR PROFIT* (Robert Richter Prod. 1994) (making a controversial charge espoused by numerous critics of free trade).

³² Many would object to this sentence by noting that while trade may not be the proximate cause of these structural problems, it is certainly a strongly contributing factor in the historical development of Latin America. Going back to the conquest and the mercantile and colonial trading system, trade was indeed carried out behind the barrel of a gun. U.S. imperialism is also cited as a factor contributing to the lack of judicial processes (e.g., the alleged CIA overthrow of democratically-elected governments in Guatemala in 1954, Chile in 1972). With one or two exceptions, however, governments in Latin America are today democratically elected. The horrors of previous trading systems based on involuntary participation and uncompetitive markets do not necessarily presage the relevant outcomes in the 21st century.

openings in textiles, silver, pottery, weaving, and other products.³³ Needless to say, there is a huge learning curve for small scale artisans to produce for export, and many barriers of language, shipping, financing, marketing, and retailing to overcome. Nevertheless, this growth in non-traditional exports has been rapid. Seen in this light, trade can provide the impetus for economic growth and development even in a country beset by institutional constraints.

VI Conclusions

The FTAA would join together a disparate group of countries, bound more by geographical proximity than by cultural or economic affinities. Workers in the United States are concerned that the FTAA will produce the “giant sucking sound” of jobs flowing to low-wage countries in FTAA.³⁴ By contrast, workers in poorer FTAA countries worry that their jobs will be lost to highly productive U.S. workers with far more capital and technology at their fingertips. To some extent, both groups of workers have reason to worry. Modern trade theory suggests that while free trade would raise average standards of living in both countries, there will also be changes in the distribution of income. Some owners of resources will be made better off, and others worse off, from trade. The key political issue is whether the winners will compensate the losers so that trade can move forward. Since the winners from trade are often a decentralized group of unorganized consumers, while the losers from trade are often highly organized special interests, such political deals may be hard to structure. On the other hand, some worry that a “Gresham’s Law” of regulation will reduce workplace safety and environmental issues to the lowest common denominator.³⁵ In practice, there is little evidence of trade causing this to happen. The experience of NAFTA suggests that “if a society wishes to preserve a set of distinct institutions, globalization need not prevent it from doing so.”³⁶

Regarding rural labor in Latin America, free trade could create the potential for greater hunger if labor markets are not competitive or if property rights are weak. In such a scenario, consumers in America bid away land resources from staple food production toward exotic food production for consumption in America. In this case the

³³ See The Highland Support Project of Guatemala, available at <http://www.highlandssupportproject.org> (last visited Nov. 30, 2001) (illustrating an example of such an NGO).

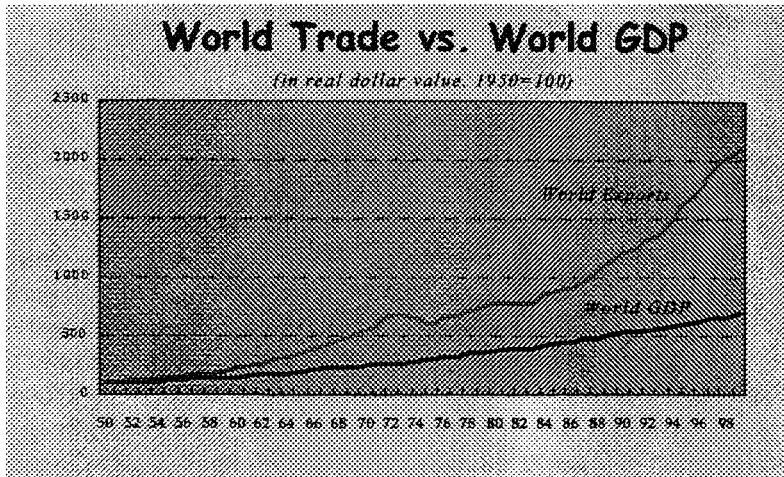
³⁴ *The 1992 Campaign; Transcript of 3d TV Debate Between Bush, Clinton and Perot*, N.Y. TIMES, Oct. 20, 1992, at A20 (noting Ross Perot’s famous prediction for NAFTA).

³⁵ Sir Thomas Gresham observed in 1664 that two types of commodity money, say gold and silver, cannot for long both circulate as money. One of these invariably becomes overvalued and is spent; the other becomes undervalued and is hoarded. Loosely construed, “Bad money drives out good money.” Applied to labor regulation and trade, Gresham’s Law would suggest that a country which tries to enforce “strong” workplace safety rules in a globalized economy will experience job losses in those industries. Factories will move overseas where regulators are more lax. In other words, “Weak regulators drive out strong regulators.” As noted in the text, however, there is no evidence that this has actually happened. Rather, environmental and labor regulations may be strengthening around the world as a consequence of trade agreements.

³⁶ Michael R. Smith, *What Have the FTAA and the NAFTA Done to the Canadian Labor Market?* 30 F. FOR SOC. ECON. 2, 25-50 (Spring 2001).

benefits to trade may flow not to workers but to landowners. This pessimistic possibility is mitigated by alternative sources of rural employment, which, if developed, could make trade an engine of growth for the rural poor in Central America.

Exhibit 1
World Exports and World GDP



Source: Gene Huang, Economics of the Transportation Industry, Federal Express Finance Learning Development Center, (June 2001) (on file with author).

Exhibit 2
Regional Differences in Openness to Trade and Growth Rates

	Openness to Trade Index*	Average Annual Per Capita GNP Growth, 1965-90 (%)	Approximate Doubling Time of Per Capita Income (Years)
East Asia	3.2	5.3	13.6
Latin America	2.5	1.8	40.0
Sub-Saharan Africa	0.8	0.1	720.0

Sources: THE WORLD BANK, THE EAST ASIA MIRACLE 2 (1993); THE WORLD BANK, WHY AFRICA HAD TO ADJUST 25 (1994).

* A high score corresponds to more outward orientation over the period 1965-85.

Exhibit 3
Types of Trading Arrangements

Type	Definition	Examples
Trade Preference Association	Each member establishes lower governmental barriers against imports of goods from other members than against comparable imports from nonmember countries.	Bangkok Agreement
Free Trade Area	Member countries eliminate all governmental barriers on trade between their countries, but maintain existing and separate barriers against nonmember countries.	NAFTA ¹ ASEAN ²
Customs Union	Eliminate all trade barriers, as in a free trade association, but all member nations agree to have identical barriers to nonmember countries (e.g., a common tariff barrier)	CACM ³
Common Market	A customs union, in which in addition to the free trade of merchandise goods, there is also free movement of labor, capital, and services between member countries.	European Union Mercosur ⁴

Source: Norman S. Fieleke, *One Trading World, or Many: The Issue of Regional Trading Blocs*, NEW ENG. ECON. REV. (May/June 1992).

¹ North American Free Trade Agreement.

² Association of Southeast Asian Nations.

³ Central American Common Market.

⁴ Southern Cone Common Market, also called Mercosur.

Exhibit 4
Western Hemisphere Trade Arrangements

	<i>Year Est.</i>	<i>Members</i>	<i>Goals</i>
Andean Community	1969	Bolivia, Columbia, Ecuador, Peru, Venezuela	Common market
Caribbean Community	1973	Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Guyana, Grenada, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago	Common market
Central American Common Market	1961	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	Customs union
Canada-U.S. FTA	1989	Canada and U.S.	Free trade area
Mercosur	1994	Argentina, Brazil, Paraguay, Uruguay	Common market
NAFTA	1994	Canada, Mexico, and United States	Free trade area

Source: JAMES GERBER, INTERNATIONAL ECONOMICS 353 (1999).

Exhibit 5
Development Indicators for 34 FTAA Countries (1999)
Ranked by Population Size

	Country Name	Population (millions)	GDP (PPP*- \$ millions)	Per Capita GDP (PPP* \$)	Exports (% of GDP)	Paved Roads (% of total)
32	United States	273.0	8,867,673	31,872	11**	59
7	Brazil	168.0	1,181,980	7,037	11	10
22	Mexico	96.6	801,326	8,297	31	34**
10	Colombia	41.5	238,797	5,749	18	14
2	Argentina	36.6	449,093	12,277	10	29
8	Canada	31.0	800,424	26,251	44	35
26	Peru	25.2	116,623	4,622	15	13**
34	Venezuela, RB	23.7	130,268	5,495	22	N/A
9	Chile	15.0	129,933	8,652	29	19
14	Ecuador	12.4	37,167	2,994	37	19
17	Guatemala	11.1	40,734	3,674	19	35
13	Dominican Rep.	8.4	46,286	5,507	30	79**
6	Bolivia	8.1	19,161	2,355	17	N/A
19	Haiti	7.8	11,427	1,464	12	N/A
20	Honduras	6.3	14,780	2,340	43	20
15	El Salvador	6.2	26,732	4,344	25	N/A
25	Paraguay	5.4	23,493	4,384	23	N/A
23	Nicaragua	4.9	11,211	2,279	34	N/A
11	Costa Rica	3.6	31,798	8,860	54	22
33	Uruguay	3.3	29,415	8,879	18	N/A
24	Panama	2.8	16,516	5,875	33	35
21	Jamaica	2.6	9,251	3,561	49	N/A
31	Trinidad/Tobago	1.3	10,570	8,176	50	N/A
18	Guyana	0.9	3,116	3,640	99	N/A
30	Suriname	0.4	N/A	N/A	N/A	N/A
3	The Bahamas	0.3	N/A	N/A	N/A	N/A
4	Barbados	0.3	3,828	14,353	50	99
5	Belize	0.2	1,224	4,959	49	N/A
28	St. Lucia	0.2	850	5,509	58	N/A
29	St. Vincent/Gren.	0.1	606	5,309	52	N/A
16	Grenada	0.1	661	6,817	49	N/A
12	Dominica	0.1	396	5,425	58	N/A
1	Antigua/Barbuda	0.1	689	10,225	71	N/A
27	St. Kitts and Nevis	0.0	474	11,596	48	N/A
31	Aruba	0.1	N/A	N/A	N/A	N/A
26	Cayman Islands	0.0	N/A	N/A	N/A	N/A
29	Sao Tome and Prin.	0.1	N/A	N/A	35	N/A
	FTAA	797.5	13,056,502	16,195***	16***	
	FTAA minus U.S.	523.7	4,188,829	8,023***	23***	
	US share in FTAA	0.34	0.68			

Source: THE WORLD BANK, WORLD BANK DEVELOPMENT INDICATORS (2001).

* Market exchange rates diverge widely from purchasing power parity because of financial flows and other factors. Purchasing Power Parity (PPP) estimates convert Gross Domestic Product from local currencies into U.S. dollars using an estimate of the PPP exchange rate.

** 1998 data.

*** Weighted averages based on population size (for per capita GDP) and GDP size (for export ratios).