Free Trade and the Widening Gap Between Rich and Poor Countries

By Kelli Ketover

Abstract: *The gap between the world's poorest nations and the world's wealthiest nations continues to grow despite the promises made by the proponents of globalization. Increasingly however,"new internationalists" argue that free trade policy should be reconstituted as fair trade policy. Current policies have only served to strengthen the influence multinational corporations have over the policy debate. The trade off has often been at the expense of qualities not easily measured in economic terms such as human rights, depletion of natural resources, and inequitable distribution of wealth. Future trade policy will have to contend with competing forces issuing from those fearing loss of national soveriengty on the right and others concerned with social and environmental well being on the left.*

Free trade has increased 17-fold during the past 50 years, yet the gap between rich and poor countries has widened (Moore, 2001). Free trade has proven to be a determining factor in many nations' economic growth. According to Federal Reserve Chairman Alan Greenspan, "it has taken a half-century to roll back those barriers that were erected after World War I as country after country responded to economic downturns by erecting protectionist barriers that made economic conditions worse . . . international trade benefits all nations . . . those benefits are shared by people spread across quite different income brackets" (Crutsinger, 2000, 1).

Despite Mr. Greenspan's prognosis, after decades of trade liberalization the question remains: which nations' economic growth does free trade positively affect and what are the real and negative effects that accompany this trade liberalization?

Kelli Ketover is currently completing her Master of Public Administration degree at The George Washington University with a concentration in Managing Public Organizations. She earned a bachelor degree in Business Administration from Seattle Pacific University in Washington in 1994. She served as a PeaceCorps volunteer in Guyana from 1995 to 1997.

The traditional view of free trade, which involves only non-restrictive quotas and tariffs, is presently a small part of the constantly evolving global economy. Free trade increasingly encompasses pro-market reforms, diversification of exports, and participation in the multilateral trading system in addition to liberalized trade policies and lowered barriers to international trade. Even with significant economic growth in many countries and industries, debate continues over whether free trade has been a source of income divergence or income convergence between rich and poor countries. "This debate over winners and losers is one of the most important empirical policy issues of our time. Clearly, the argument here is that the number of losers is substantial and that the gap between the winners and losers is growing" (Cavanagh, 2000, 7). Dani Rodrik, Professor of International Political Economy at Harvard University's John F. Kennedy School of Government, claims that when developing countries concentrate their efforts on international integration, resources, such as human and political capital, are redirected away from more important development issues, including education, public health, industrial capacity, and social cohesion (Rodrick, 2001).

Extreme poverty is an enormous problem worldwide. According to the World Trade Organization (WTO), 1.2 billion people survive on less than one dollar a day and an additional 1.6 billion, more than one quarter of the world's population, survive on less than two dollars a day (Ben-David et. al., 1999). A growing number of "new internationalists" believe that free trade should be reshaped as fair trade "because the overarching goal is not to favor workers or communities in one country over another but rather to strengthen the role of all governments in protecting worker, community, and environmental improvement over narrow corporate interests" (Cavanagh, 2000, 11).

Current U.S. Foreign Policy

Globally, the U.S. economy remains the strongest and has proven to be quite stable in the face of financial crises that have deflated many other economies. Yet current U.S. foreign policy does not embrace the ideas of "new internationalism." U. S. Presidents since Franklin Roosevelt have consistenly promoted free markets, deregulation, privatization, and democracy, each hoping that global prosperity would follow. More prosperous times have come for some countries, especially in the last few decades, but not for others. Economies in Singapore, Taiwan, South Korea, and Japan have done extremely well in the past fifty years, while most African and Caribbean nations' economies have faltered (Moore, 2001).

More recently, the U. S. Congress supported the Clinton administration's aggressive trade agenda which, among other things, granted the Peoples' Republic of China (PRC) permanent access to U.S. markets. Additionally, President Clinton signed a trade agreement with the Republic of Vietnam in November 2000, and Congress is considering granting Normal Trade Relations status to Vietnam (*Saigon Times Daily,* 2000). In many countries, such as the PRC, Nigeria, and Mexico, efforts to enhance governmental respect for human rights seems to have been traded for the pursuit of economic liberalization. The trade may be free, but the rights of the people are not.

The U. S. economy has grown remarkably. In 1998, businessman and publisher Mortimer Zuckerman proclaimed, "the American economy is in the eighth year of sustained growth which transcends the 'German miracle' and the 'Japanese miracle of earlier decades ... everything that should be up is up –GDP, capital spending, incomes, the stock market, exports, consumer and business confidence. Everything that should be down is down – unemployment, inflation, and interest rates" (1998, 2). However, Zuckerman did not address the income inequality between the richest and the poorest nations. This disparity has been rising for well over a century. Growth, as measured on an economic scale, has been one-sided. Former Vice President Al Gore (1992) explained what is missing from the current U.S. approach:

> The hard truth is that our economic system is partially blind . . . . It carefully measures and keeps track of the value of those things most important to buyers and sellers, such as food, clothing, manufactured goods, work, and, indeed, money itself. But its intricate calculations often completely ignore the value of other things that are harder to buy and sell: fresh water, clean air, the rich diversity of life in the forest, [freedom]... (183).

Paradoxically, the policies of the Clinton Administration were a continuation of previous Republican ideals of advancing free trade. In the three major areas of global economic policymaking, including trade, investment, and finance, the policies of the Clinton Administration accelerated corporate globalization. For example, trade policies broadened with the passage of the North American Free Trade Agreement (NAFTA) in 1993 and the WTO in 1994; investment negotiations produced a Multilateral Agreement on Investment (MAI) as well as regional investment agreements. In finance, the multilateral agencies, along with the U.S. Treasury, have advocated financial liberalization in South Korea, Thailand, the Philippines, Mexico, Brazil, and Russia (Cavanagh, 2000).

The globalization movement appears to be one of the factors that has caused a disproportionate amount of political power to be concentrated in corporations. According to Cavanagh, by "utilizing their trade associations, pressure groups, and thousands of well-paid lobbyists, corporations have been able to shape U.S. policy so they are the prime beneficiaries" (2000, 2). Fifty-one of the world's largest economies are not countries but corporations. Richard Kaplan refers to corporations as the "feudal domains that evolved into nation-states; they are nothing less than the vanguard of a new Darwinian organization of politics" (1997, 15).

International corporations wield a significant level of power in the global arena. Corporations pursue globalization, arguably sometimes to the detriment of an individual country's culture and environment. The destruction of old growth rain forests by logging companies in the Amazon Basin and the dislocation of the indigenous people who relied on the forest and clean rivers for their existence are often cited examples.

Two Illustrations of U.S. Foreign Policy and Trade

North American Free Trade Agreement (NAFTA)

NAFTA calls for the gradual removal of tariffs and other trade barriers on most goods produced and sold in North America. Effective January 1, 1994, NAFTA formed the world's second largest free-trade zone (after the European Common Market), bringing together 365 million consumers in Canada, Mexico, and the United States in an open market. It called for immediate elimination of duties on half of all U.S. goods shipped to Mexico and the gradual phasing out of other tariffs over a period of approximately 14 years. Restrictions were removed from many categories, including motor vehicles and automotive parts, computers, textiles, and agriculture goods.

After eight years, NAFTA has produced mixed results. On the positive side, the agreement has resulted in increased sales and jobs, increased multinational business alliances, and a new mentality towards international business. Olaf Carrera (1999) notes that trade between all three countries has grown exponentially, surging more than 70 percent since 1993, from US $300 billion to US $515 billion. The United States is Mexico's largest trading partner with a 71 percent rise in two-way trade.

However, others argue that NAFTA has caused problems, including increased trade disputes, the dislocation of U. S. businesses to Mexico, environmental degradation, and has widened the gap between rich and poor within North America. According to Pilar Franco (2000), the benefits of NAFTA have not been distributed evenly across Mexico. The northern states, those closest to the U.S. border, have absorbed most of the benefits. Franco points out that almost $9 of every $10 in foreign investment that went into Mexico from 1994 to 1999 went to the northern states and Mexico City, in which 54 percent of the Gross Domestic Product is produced. On the other hand, the southern regions gained barely 70 cents of every $10 invested by foreign firms. Ricardo Grinspun, argues that social groups that have the least protection, such as unskilled labor, will be most affected (Simmons, 2000).

Trade in Endangered Species

The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) is a United Nations convention that came into force in 1975. The United States has had mixed results when attempting to enforce it unilaterally. CITES states that international cooperation is essential for the protection of certain species of wild fauna and flora against over-exploitation through international trade (CITES Preamble).

Trade control is seen as one of the instruments for protecting endangered species. President Clinton referred to the international standards established by CITES in his speech on November 8, 1993, regarding violations of endangered species regulation (specifically rhinos and tigers) by the PRC and Taiwan. He stated, "Neither the PRC nor Taiwan has fully implemented the international standards established by CITES for controlling the trade in these species, and the poaching of rhinoceros and tigers continues in their native ranges fueled in part by the market demand in the PRC and Taiwan" ("Message from the President," 1993, 1). President Clinton asserted that the United States must work to diminish the trade of these species in order to prevent their extinction. A commission was established to assist Taiwan and the PRC in evaluating their progress towards protecting rhinos and tigers as recommended by a CITES resolution. Additionally, Clinton announced that "import prohibitions will be necessary, as recommended by the CITES Committee" if Taiwan and the PRC did not progress in their enforcement on illegal trade of rhino and tiger parts by March 1994 (1993, 2).

On April 11, 1994, President Clinton sent a letter to Congressional leaders regarding the actions taken by the PRC and Taiwan in rhino and tiger conservation. The letter stated that the PRC had taken explicit steps towards restraining illicit trade by consolidating stockpiles of rhino horns and tiger bones, by attempting to educate the people through media, and by improving enforcement in seizing illegal stockpiles. As a result, the president did not impose import restrictions on the PRC. He did warn, however, that the steps were insufficient and that further action needed to be taken by the PRC to ensure conservation of tigers (Public Papers of the President, 1994).

Taiwan, conversely, did not heed the rhino and tiger conservation recommendations. The Taiwanese Government failed to pass national laws mandating protection and was unable to pass adequate amendments to the country's Wildlife Conservation Law. As a result, President Clinton suspended the import of wildlife specimens and products into the United States from Taiwan (Public Papers of the President, 1994). The president noted that when Taiwan adopted appropriate legislative actions along with enforcement measures to reduce the illegal trade of rhino and tiger parts, the U. S. Government would conisder lifting the ban.

U.S. Policy and Public Opinion

The U.S. approach to free trade is under attack from those advocating an increased focus on social justice and environmental protection on the left and those fearing the loss of national sovereignty on the right. Social activists and environmentalists have questioned the impartiality of the people behind the spread of globalism.. Three separate stances arise from general public opinion, those for or against free trade as it is, and those for reshaping free trade to encompass social and environmental issues. For example, 58 percent of Americans polled in a December, 1998 NBC News Public Opinion Survey said that they believed free trade was not improving the U.S. economy (*Wall Street Journal*). Yet, Michel Mandel and Paul Magnusson (1999) point out that expanding trade and overseas investment has increased the output of industrialized countriesby 20 percent, one quarter of the total global economic activity over the past two decades. They report that tariffs on goods entering industrialized countries are down 90 percent due to previous trade pacts such as NAFTA.

International trade has blossomed and touches nearly all of the world's consumers. Many economists, policymakers, and executives have concluded that countries cannot prosper unless they are part of the global economy. Indeed, the Clinton Administration was an active promoter of free trade and the WTO and provided much of the impetus for free trade's momentum. Ironically, supporting the WTO wholeheartedly was at odds with U.S. policy on free trade and U.S. public opinion. Despite the hesitancy voiced in opinion polls, U.S. trade policy will most likely continue its course as the public becomes more aware of the long-term benefits of free trade.

Current Policy Winners and Losers

Supporters of globalization take the position that consumers and workers alike benefit from trade liberalization. They argue that globalization provides the promise of economic advancement for poor countries because it allows the production of goods to be dispersed geographically. Thus, they believe that free trade follows the theory of "comparative advantage."

The theory of comparative advantage holds that "unrestricted exchange between countries will increase the total amount of world output if each country tends to specialize in those goods that it can produce at a relatively lower cost compared to potential trading partners" (Cypher & Dietz, 1998, 305). Those products and services will then be traded with other nations for their goods that can be produced at a lower cost than at home. Thus, imports are balanced with exports and no country incurs a trade deficit (Cypher & Dietz). A shortcoming with this theory, when applied to globalization, is that it can work only when perfect competition exists and all resources are fully used. Many question the ability of the comparative advantage theory to conform to economic reality (Cypher and Dietz). This raises the question of validity in applying free trade to help alleviate poverty within poor countries.

Economic growth is not the only indicator for poverty alleviation. An emphasis on global trade integration "undermines nascent democratic institutions by removing the choice of development strategy from public debate" (Rodrik, 2001, 1). Free trade can be exclusionary when human rights, environmental, and societal issues are not considered as factors for gauging a country's development.

Advocates acknowledge problems associated with free trade. Globalization intensifies dislocation in poor and rich countries alike because economies undergo a nearly constant transformation. Creative solutions are needed to address the problems caused by free trade.

The World Bank, which is made up of 180 member countries, recognized that economic growth alone may not solve the poverty problem for poor countries. In a report on its worldwide antipoverty programs, the World Bank concluded that because political and economic systems favor rich countries over poor ones, economic growth alone would not alleviate poverty. The report stated, "in a world where political power is unequally distributed and often mimics the distribution of economic power, the way state institutions operate may be particularly unfavorable to poor people" (Phillips, 2000, A2).

As mentioned above, opponents of free trade argue that it leads to loss of jobs, environmental degradation, child labor, exploitation of resources, pollution, and societal problems. They claim that the benefits of free trade have not been evenly distributed among and within countries. Some workers in the United States feel victimized when corporations move to developing countries for cheap labor.

Trade negotiations that once focused on reducing quotas and tariffs now involve everything from regulating Internet sales to protecting endangered species (Mandel & Magnusson, 1999). Free trade promotes globalization, the elements of which are inextricably linked but which do not necessarily lead to social or political harmony. Alan B. Simmons, Editor of *International Migration, Refugee Flows and Human Rights in North America* (1996), suggests that these elements taken together tend to create social, cultural, and economic tensions. He contends that this tension creates conflict in countries with new trade patterns and results in loss of jobs and tax revenue for social programs in countries that rely on tariffs and quotas to provide basic human needs. Countries in this situation are usually poor and do not have a reliable tax base by other means.

Bernard Wysoki reports that the richest countries have averaged a three to five percent increase in annual Gross Domestic Product (GDP), while many of the poorest countries have actually regressed in terms of GDP. While GDP is not the best measurement for how well a country is succeeding in meeting basic human needs, it does give a slight indication of a country's ability to begin meeting those needs. Underscoring what GDP omits, former Vice-President Gore said, "[it] completely excludes any measurement for depletion of natural resources . . . . everything in nature is simply assumed to be limitless and free" (1992, 337). What is most disturbing is that civil war, famine, natural disasters, corrupt political leadership, and the migration of highly educated citizens to more successful industrialized countries plague many of these poor countries. These situations seriously hinder a government's ability to raise revenue within its own borders. Naturally, these governments will seek revenue-raising ability from sources outside their country,and will often raise tariffs and quotas on imports. Clearly, more creative ways need to be explored to create and sustain wealth in poor countries.

A third group, including many nongovernmental organizations, international organizations, and local groups, challenges the narrow view of protectionism by advocating a restructuring of free trade. This group opposes trade deals that undermine healthy communities, clean environments, and human dignity. This view is sometimes referred to as the "new internationalism," wherein U.S. policy would actually protect standards and regulations abroad while improving the quality of life at home. Al Gore questioned the end result of a free market economy when he said, "the stunning victory of free market economics . . . has brought with it a new obligation to change those features of our economic philosophy that we know are flawed in light of the ecological destruction they legitimized, and even encouraged" (1992, 337). John Cavanagh, Executive Director of the Institute for Policy Studies, suggests that the aim of new internationalism is to "maintain and improve the quality of life in the United States while ensuring that the foreign projection of U.S. economic and political power also advances sustainable and equitable development abroad" (2000, 2).

Policy makers should be guided by whether the majority of people, both in the United States and abroad, benefit or lose from the market deregulation approach to globalization. Supporting the status quo is supporting the continued expansion of the divide and the inequitable distribution of economic growth as it relates to globalization. Free trade will create a more dynamic tension as cultural and political beliefs of rich and poor countries clash and corporate entities, even in emerging economies recently "freed," continue to place greater importance on profit margin than sustainable development. Examples of corporate responsibility including The Gates Foundation, Ted Turner's recent donations to the United Nations, and Chevron's successful partnership with the World Wide Fund for Nature (WWF) in Papua New Guinea are encouraging. Nevertheless, the immediate future of free trade continues to create a divide between the "haves" and the "have-nots." Even as nongovernmental organizations struggle to reduce the discrepancies, the gap between the world's poorest nations and the world's wealthiest nations continues to widen.

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