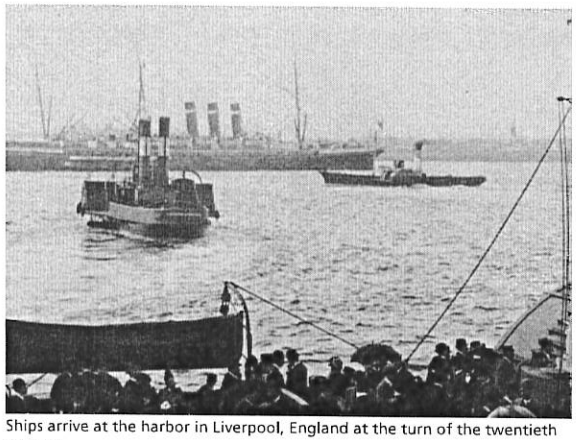

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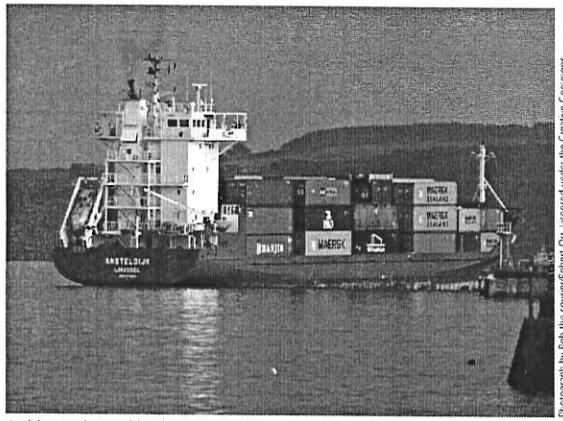
Ships arrive at the harbor in Liverpool, England at the turn of the twentieth century.



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A ship, registered in the island of Cyprus and carrying goods from a variety of companies from all over the world, docks at a harbor in Scotland in 2007.

Shipping has been crucial to international trade for hundreds of years. Today, as much as 90 percent of global trade is carried on ships, by hundreds of thousands of sailors on tens of thousands of ships. Shipping is so important to the world economy that the UN estimates that half the world would freeze and the other half would starve without the goods delivered by the international shipping industry.

Introduction: Trade and the Global Economy

In September 2008, the U.S. economy was hit by the largest financial crisis the country had experienced since the 1930s. While the crisis began in the U.S. housing market, the economic downturn soon enveloped markets around the world. In October, Iceland announced that its banking system had collapsed. Governments from Russia to Australia to the United States have stepped in to provide money and support to businesses and banks struggling to stay afloat. Unemployment has spiked around the world. Many analysts predict that it will be a long time before the economies of many countries are able to recover.

There are parallels between the economic crisis of today and the Great Depression of the 1930s. In both cases, the effects of economic disruption echoed around the world, and downturns in one country led to downturns in many others. But much has changed in the decades since the U.S. stock market crash of 1929.

In the 1930s, when economies plummeted, governments focused more on making their own industries competitive than on working with other countries to address the crisis. In the years after the Great Depression, many economists began to rethink how the global economy should operate. Globalization and trade agreements among countries pushed economies around the world closer and closer together. The rapid spread of the current economic crisis is directly related to the closeness of the world economy. Despite the dismal economic climate, leaders have vowed to continue to cooperate closely and promote trade.

> ***"There is a risk that slower world economic growth could lead to calls for protectionist measures which would only exacerbate the current economic situation....We...will refrain within the next 12 months from raising new barriers to investment or to trade in goods and services... [and from]...imposing new export restrictions."***
>
> —Statement by leaders at the Asia-Pacific Economic Cooperation (APEC) Summit, November 2008

Trade is one important piece to consider when thinking about the global economy. In the last hundred years, countries have wrestled over how to formulate trade policy that will best help their economies. In some periods, governments have used policy to block trade and help certain businesses at home. In others, leaders have heralded global trade and economic cooperation as the way to make everyone better off. Other factors also influence trade policy. Governments must consider the effects of policy on employment and the well-being of their people. Foreign policy concerns, from strengthening allies to addressing human rights issues, also have factored heavily into U.S. trade policy over the last half-century.

Many around the world have questioned the global economic system. What have been the effects of globalization and a closely-connected global economy? How have these changes been beneficial? How have their effects been negative? What have been the results of globalization for people around the world?

In the following readings and the activities that accompany them, you will have the opportunity to explore these questions as you consider the direction of U.S. trade policy. In Part I of the reading you will examine the history of the current economic system and the changes brought about by globalization. In Part II you will consider the effects of these changes—and of U.S. trade policy—on people in the United States and around the world. As you read, think about the following questions: Is trade good for people around the world? What are the effects of different trade policies? And finally, within this new global economy, what should the trade policy of the United States be?

Part I: Understanding Trade

Trade has been a fundamental part of the economic life of human beings for millennia. Throughout human history, trade has led not only to the exchange of goods but also to the exchange of scientific, religious, philosophical, and cultural ideas. Today, international trade in goods (including raw materials and manufactured goods) and services (including things like tourism, electricity, and education) is a multi-trillion dollar industry.

Why do people trade?

At a most basic level, people trade because there are gains to be had. Trade allows people to specialize in the production of goods and services in which they have the resources to be most efficient and successful. They can then trade these goods or services with other people. Trade can bring economic benefits, including access to a variety of goods that may be less expensive, of better quality, or unavailable otherwise. Without trade, a person would need to produce all of the goods and services that he or she needed.

International trade is trade between individuals and companies within different countries. The only difference between international trade and any other kind of trade is that international trade is an exchange that crosses international boundaries. A government can be involved in this exchange by regulating or controlling the trade across its borders. This may take the form of policies that encourage trade or policies that aim to limit trade. Governments raise political as well as economic concerns about trade.

Like individuals, countries also can gain from trade. There can be economic gains, for example, new markets to sell goods produced in the home country. There also can be political gains, such as cementing international relationships or boosting the economies of allies.

A business or person with the resources to produce a good or service more efficiently than another business is said to have a "comparative advantage." Countries also can have comparative advantages. For example, Saudi Arabia has a comparative advantage in producing petroleum, but it needs rice and other food products for its citizens. Although Saudi Arabia could produce rice, it makes more economic sense for it to produce petroleum and trade with a country with a comparative advantage in rice production. Trade allows countries to produce what they are best at and consumers gain access to a wider variety of goods that may be of better quality or less expensive.

Trade also can have negative effects. International trade can disrupt local economies, putting some companies out of business while others flourish. Governments may choose to focus their resources on industries in which they have comparative advantages. As a result, there may be fewer resources for other sectors. For example, a country that has a comparative advantage producing beans may decide to put most of its resources towards increasing bean exports and will have less resources for other sectors such as clothing manufacturing.

Trade can benefit everyone involved, but everyone will not necessarily benefit the same. The resources and capabilities of a country will affect how it fares in international markets. For example, a country like Costa Rica, which depends on exports of agricultural goods like bananas and pineapples, is likely to earn far less from its exports than a country like Germany, which exports goods like cars and machinery. Similarly, people without critical resources such as money or a good location are less likely to gain from international trade. At the same time, rich and poor people from around the world have benefited greatly from the wide variety of less expensive goods that have become available as a result of international trade. Much of the debate about trade is focused on who gains and who loses from trade, and how these unequal effects should be dealt with.

What is protectionism?

Protectionism is an economic strategy to limit trade. Governments construct "barriers" to restrict trade in order to help their domestic businesses.

There are a number of different policies that governments can use to create these barriers. Tariffs, or taxes on imported goods, make goods from other countries more expensive than locally-made goods. Subsidies are another form of barrier, in which the government gives money to certain industries so that those businesses can charge lower prices and be more competitive on the world market. Governments also can set import quotas. These quotas set a limit on the amount of a specific good that may be imported into the country, in order to protect domestic producers of the same good.

Historically, governments have used these types of policies to protect newly-developed industries. For example, in its early years the United States shielded its growing manufacturing industries from foreign competition. Similarly, many developing countries created barriers to trade in the mid-twentieth century to allow their new or "infant" industries time to develop before competing on the world stage. Some countries have used these policies to limit imports and encourage exports. Governments might also use these types of policies to support specific industries or sectors that it believes are necessary for the country. For example, the U.S. government gives subsidies to the producers of certain agricultural products that are important for the U.S. food supply. Many critics argue that protectionist policies, if continued indefinitely, can create inferior sectors that are unable to compete internationally without government assistance.

What is free trade?

Free trade, as opposed to protectionism, is trade that is conducted without barriers of any kind. Governments lower barriers in order to increase international trade. Free trade has been promoted by many Western countries since the end of World War II. But while the aim of most free trade supporters is to have completely free trade among all countries, in practice nearly all countries still have some barriers to trade.

In principle, nearly all economists agree that free trade is a good thing because it encourages trade. They maintain that increased trade has the potential to make everyone better off. But many also argue that countries may need to develop certain industries in order to be successful on the world market. In order to develop these industries, governments may need protectionist policies for a time. For instance, a country, because of location or available resources, may have a comparative advantage in producing Ethernet cables. But if the country does not have a well-established industry for producing these cables, it may struggle to compete with other producers internationally. If the government can protect this industry until it is strong enough to compete, the benefits from trade can be more fairly distributed. Many developing countries support this argument because their industries are less developed and may be less able to compete internationally.

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

In the following pages, you will read about the history of the global economic system and the forces that have shaped global trade over the last sixty years. As you read, consider how these basic principles of trade have shaped the trade policies of countries around the world.

A New Era of Global Trade

The global economic system that exists today was shaped in the period after the Second World War. World War II ushered in a new era of global economic relations. At the end of the war, the U.S. economy was by far the world's largest and most powerful. This gave U.S. policy-makers the power to direct the reconstruction of Europe and the creation of a new global order. The economic system that U.S. policy-makers helped create in the 1940s is the same one, with some modification, that exists today.

There were two major differences between trade under this new system and the way that countries had conducted trade in the past. Before World War II, many countries had protectionist trade policies, setting tariffs and other barriers to limit international trade. There had been a period in the second half of the nineteenth century when countries had lowered their tariffs and international trade had boomed. But in the decades leading up to World War II, governments became increasingly protective of their domestic economies. There was little cooperation among countries on trade issues.

The Great Depression and World War II caused policy-makers to rethink their trade policies. After the war, U.S. policy-makers advocated for fewer barriers to trade and pressured countries to move away from the protectionist policies of the past. Government officials and policy-makers began to see trade issues (as well as other global economic matters) as requiring international cooperation.

How did the Great Depression influence U.S. trade policy?

The stock market crash of 1929 and the economic depression that followed had immediate and long-term consequences for U.S. trade policy. At the peak of the Great Depression, one in four people in the United States was unemployed. Millions went hungry and many lost their homes. The depression ricochetted around the world, leading to major economic downturn and suffering in many countries.

As economic growth ground to a halt, many countries built greater barriers to trade, hoping to help their domestic businesses. For example, in 1930 the U.S. Congress passed the Smoot-Hawley Tariff Act in an attempt to protect U.S. industries struggling to compete with imports. Other countries passed similar measures. But these tariffs actually decreased world trade and created additional hardships, including increased unemployment and the near-total collapse of the banking systems in the United States and in Europe. Many have argued that the resulting breakdown in world trade significantly worsened the economic crisis, contributing to political instability in a number of countries, the rise of fascism in Europe, and World War II.

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This photo was taken in Berlin, Germany in the 1920s. At that time, German money was worth so little that it was possible to pay the equivalent of $50 million for a 5 cent cup of coffee. The woman in this photo is burning money to start the morning fire because it is less expensive than buying fuel. Many argue that economic hardship in Germany in the 1920s and 1930s contributed to the election of the Nazi party and World War II.

The effects of the collapse in world trade caused many to reevaluate domestic trade policies. Some U.S. policy-makers believed that greater international cooperation on trade issues could prevent these types of crises in future.

"[T]he absence of a high degree of economic collaboration among the leading nations will...inevitably result in economic warfare that will be but the prelude and instigator of military warfare on an even vaster scale..."

—Harry Dexter White, Treasury Department official, 1942

What foreign policy concerns helped shape U.S. trade policy after World War II?

World War II dramatically altered the position of the United States in the world, largely because of the huge boost it gave to the U.S. economy. By 1944, the United States had the world's strongest economy and was one of the most powerful countries in the world. At the close of the war, George Kennan, the architect of the U.S. strategy for containing the Soviet Union, maintained that there were five centers of industrial and military power: the United States, Britain, Germany and central Europe (these three centers are often referred to as the "West"), the Soviet Union, and Japan. To stop Soviet expansion, Kennan argued that the United States needed to ensure that the other three powers were supportive of the United States and economically strong.

"A basic essential to peace, permanent peace, is a decent standard of living for all individual men and women and children in all nations. Freedom from fear is eternally linked with freedom from want. [And] it has been shown time and time again that if the standard of living in any country goes up, so does its purchasing power—and that such a rise encourages a better standard of living in neighboring countries with whom it trades."

—President Franklin D. Roosevelt, 1944

CP-Allison/Library of Congress, Prints & Photographs Division, LC-DIG-ppmsca-03199.

Traders at the New York Stock Exchange (NYSE). A stock exchange is a place for buyers and sellers to trade shares (or stocks) in companies. A share is money that an investor gives to a company, in exchange for returns (money) when the company makes a profit. Stocks are an important way for companies to raise money in order to do business. Many countries or regions of the world have their own stock exchanges. In 1963 when this picture was taken, stock trade was still conducted on paper. Today, traders use electronic readouts, computers, and the Internet to find out prices and to see what stocks are for sale.

President Harry Truman and his successors followed Kennan's recommendations. Leaders of Truman's generation believed that international trade was crucial to the health of the U.S. economy and the stability of the West. Many U.S. policy-makers believed that sustaining U.S. economic growth post-war would require a strong European market in which the United States could sell its goods. Truman's top priority was to restore the prosperity of U.S. trading partners in Western Europe.

How did the United States encourage world trade after the war?

After World War II, the United States worked to foster new trading relationships among its allies. In 1944, U.S. policy-makers led a meeting of delegates from forty-four nations in what became known as the Bretton Woods Conference. There, officials worked to come up with ways to encourage international trade. They also agreed on regulations that would make trade less risky. The International Monetary Fund (IMF) and the World Bank, international institutions that help provide global economic stability, were established at this conference. These institutions are still in existence today.

Delegates to Bretton Woods also established the General Agreement on Tariffs and Trade (GATT). GATT was a trade agreement between not just one or two countries, but twenty-three. (Today, the World Trade Organization, which is the successor of GATT, has 153 member nations.) The primary aim of GATT was to promote trade by working to decrease barriers to trade among its members. The agreement also set ground rules for trade among member countries. After GATT's founding session in Geneva in 1947, member countries met in seven additional rounds to negotiate further reductions in tariffs and other trade barriers and to widen the scope of GATT to cover other sectors of the economy.

The United States also encouraged other trading partnerships among its allies in Western Europe and East Asia. In 1957, six European countries formed the European Economic Community. The trading bloc (known today as the European Union) eliminated many restrictions on the movement of people, goods, services, and capital (money) among member nations. Today, the European Union (EU), with twenty-seven member nations, represents an economy larger than that of the United States.

Why did the United States promote free trade?

Free trade was another policy that the United States used to encourage more international trade. In order to make trade free, countries must reduce barriers or "liberalize" their trade. The United States has promoted trade liberalization among its allies since the end of World War II. Nevertheless, many countries—including the United States—continued some protectionist policies after the war. For example, the countries of Western Europe and East Asia relied on high tariffs to nurture and protect key industries during their economic recoveries. Similarly, many Latin American countries depended on barriers to trade to protect their new, developing industries in the 1960s and 1970s.

In the last seventy years, most countries have liberalized their trade policies to some extent. But even the United States has not fully eliminated all forms of protectionism. U.S. tariffs are held at relatively low levels but the U.S. government continues to provide subsidies to some industries such as energy and agriculture. Although trade today is freer than it was in the 1940s, some barriers to trade exist in most countries. Still, many U.S. policy-makers promote free trade as a cornerstone of U.S. economic policy.

How did trade liberalization help the United States during the Cold War?

Freer trade served both U.S. economic and foreign policy interests. As trade barriers fell, world trade in merchandise increased from $53 billion in 1948 to nearly $1.5 trillion in the mid-1970s to more than $13.8 trillion today. U.S. exports soared. At the same time, access to the U.S. market helped Japan and Western Europe recover from World War II, strengthening key U.S. allies.

> ***"Throughout the Cold War, Congress empowered presidents with trade negotiating authority to open markets, promote private enterprise and spur liberty around the world—complementing U.S. alliances and strengthening our nation."***
>
> —U.S. Trade Representative, Robert B. Zoellick, 2001

In East Asia, U.S. investment and support helped Japan develop into a regional hub of economic activity. As the Japanese economy took off, it developed close economic ties with important U.S. allies in the region. U.S. financial support also helped South Korea, Taiwan, Hong Kong (now reunited with China), and Singapore as they followed economic development policies based on increasing trade. The success of East Asia's "four tigers" allowed these countries to develop industry rapidly and maintain high growth rates from the early 1960s onwards. U.S. support to this region was part of a larger effort to strengthen countries on the front line of the struggle against communism.

With the end of the Cold War, the national security priorities that guided U.S. trade policy and the alliance system that bound the United States to Western Europe and Japan lost some of their strategic significance. Today other foreign policy concerns such as fighting terrorism influence U.S. trade policy. The expansive growth of new technologies and forms of communication has increasingly directed world attention toward the phenomenon of globalization. The rapid changes introduced by globalization over the last three decades have made this topic highly charged and increasingly important for U.S. trade policy.

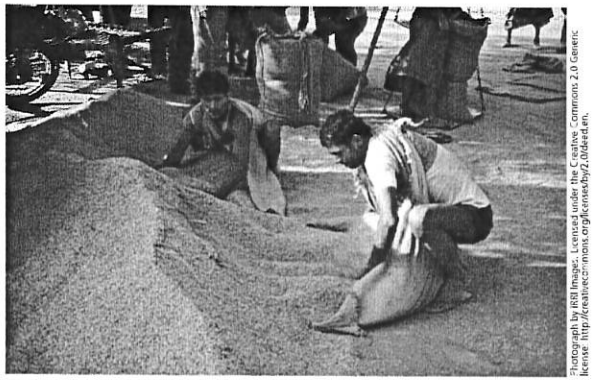
The Pressures of Globalization

Ours is not the first era to experience globalization; many periods in history have seen globalization of varying forms. But globalization today distinguishes itself by its speed and magnitude. Though the seeds of transformation were sown long before, the end of World War II marked the beginning of a new global era. The wave of globalization since 1945 has fundamentally changed the face of the international system and has dramatically altered the lives of people around the world.

What is globalization?

Globalization is an umbrella term that refers to the economic, political, cultural, and social transformations occurring throughout the world. It reflects the increased interdependence (dependence on each other) of various countries and people today. The migration of large numbers of people, as political and economic refugees or as voluntary immigrants seeking new lives, helps to spread ideas and establish connections that did not exist before among many cultures.

With globalization, economies around the world have grown increasingly interdependent. The production of goods now takes place on a global scale. For example, a good that used to be produced by a single business within one country may now be produced by the labor of many businesses located all around the world. Moreover, an expanding international commitment to free trade among countries has given people around the world



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Traders at a rice wholesale market in India. Although rice is the staple food for about half of the world's population, only about 7 percent of rice is traded internationally. In recent years, amid fears of food shortages, rice-producing countries have instituted measures to decrease their rice exports in order to meet the needs of their own populations.

access to goods that were previously unavailable.

In addition to the exchange of goods across borders, financial traders move billions of dollars around the world every day with the click of a mouse. Many companies also have moved parts of their businesses across borders to countries where they can operate less expensively. For example, U.S. corporations have sought a competitive edge by opening factories in Latin America and Asia to take advantage of cheap labor. Meanwhile, Japanese and Western European companies have invested in the United States, hoping to benefit from U.S. research expertise and to tap the huge U.S. market. Today, a U.S. citizen's economic well-being is closely linked to international trade relationships and international financial markets.

How has economic globalization affected the United States?

Today, the U.S. economy is still the world's largest. The U.S. dollar serves as the most accepted currency of international trade. The United States is one of the world's leading exporters and maintains a lead in many of the future's most promising industries, including biotechnology, space technology, and computer software.

But the United States no longer dominates the world economy as it did in 1950. While total manufacturing output in the United States has grown, the U.S. share of global manufacturing has fallen from half of the world output in the 1950s to about 8.5 percent today. People in the United States have watched their automobile, steel, and consumer electronics industries lose ground to foreign competition. Whereas in 1950 countries throughout the world turned to the United States as a supplier of capital (money for investment), today the United States is the world's biggest borrower. Because the U.S. government routinely spends more than it has in its budget, it must rely on foreign lenders, including foreign governments, corporations, and individual investors, to finance government spending.

In addition, the United States now faces chronic trade deficits—buying (importing) far more than it sells (exports). (See graph on page 9.) This is a big change from the trade surpluses routinely recorded in the 1950s and 1960s. A trade deficit is a problem because it means that the U.S. market is spending much more than it is earning from trade. Some suggest that the U.S. trade deficit may have been a contributing factor to the global financial crisis of 2008.

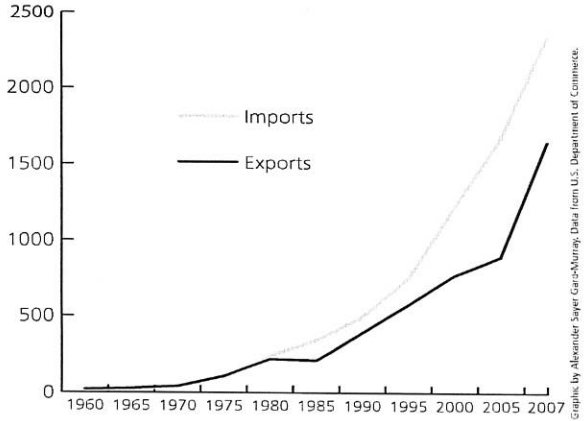
The relative change of the U.S. position in the international economy does not mean that the United States has become poorer. On the contrary, U.S. per capita income (average income per person) has continued to increase even as countries in Western Europe and Asia have caught up economically with the United States.

Construction workers in the city of Dubai, United Arab Emirates (UAE). Real estate and construction are booming industries in Dubai, contributing a large chunk to the city's economy. These industries are dependent on poorly-paid workers, many of them illegal immigrants from South Asian countries. Recent economic growth in India has led many Indian workers to return home or not to come to Dubai in the first place. Construction companies in Dubai now face labor shortages by as much as 40 percent. The men in this picture are from Afghanistan and Pakistan.

How has globalization affected trade?

Globalization has created new opportunities in international trade for many countries. In the next twenty-five years, developing countries in Africa, Latin America, and Asia are likely to account for about two-thirds of the increase in world imports. In 2006, exports from developing countries made up approximately 36 percent of total world exports. Nevertheless, global changes have not shaken the hold that rich countries have on the world economy. In 2007, industrialized countries accounted for 71 percent of global production although they had only 15 percent of the world's population.

U.S. Trade in Merchandise in Billions of Dollars



Graphic by Alexander Sayer Garcia-Murray. Data from U.S. Department of Commerce.

Overall, economic globalization has had mixed and unequal effects. Some countries have been successful because they have the resources to expand production worldwide and to create goods that are in demand internationally. Individuals and small businesses have access to much larger markets and to new buyers. On the other hand, some countries and individuals have been hurt because they are not able to compete with strong foreign producers.

Globalization has swept away the employment security of the past. Businesses large and small must learn to compete on a global scale or be left by the wayside. Economists have noted that the United States has been more successful than much of the world in adjusting to these demands. The United States has, for the most part, turned the forces of change to its advantage.

Why do some resent the presence of U.S. firms around the world?

The ability of U.S. firms to expand throughout the world has helped kindle resentment of "Americanization" in many different countries. Some fear that the cultures and traditions of their countries will be overwhelmed by the values, popular culture, technologies, and life-styles of the United States. For many overseas, globalization has led to both shifting and uncertain cultural and economic landscapes.

> ***"On top of it all, globalization has a distinctly American face: It wears Mickey Mouse ears, it eats Big Macs, it drinks Coke or Pepsi and it does its computing on an IBM or Apple laptop.... Therefore, while the distinction between what is globalization and what is Americanization may be clear to most Americans, it is not to many others around the world. In most societies people cannot distinguish anymore between American power, American exports, American cultural assaults, American cultural exports and plain vanilla globalization. They are now all wrapped into one."***
>
> —Author Thomas L. Friedman, 1999

Although globalization began as a U.S.-dominated phenomenon, in recent years the face of globalization has begun to change. European businesses have eclipsed many of their U.S. rivals in size and market share. Many of the biggest and richest companies in the world today are from so-called "emerging markets," industrializing developing countries like India, China, and Brazil. Some of these companies have even bought out their U.S. competitors. Additionally, there has been a dramatic increase in the amount of trade not only from developing countries but among developing countries, also called South to South trade. Much of this growth can be attributed to the rise in trade agreements among countries throughout the world in recent years.

HENG
LIANHE ZAOBAO
Singapore
SINGAPORE

Heng in *Lianhe Zaobao*, Singapore. CWS/Cartoonists International. Reprinted with permission.

Trade Agreements

Trade agreements—agreements aimed at increasing trade between specific countries—became popular after World War II, when U.S. policy-makers began promoting international economic cooperation. A country might sign a trade agreement for any number of reasons, including to guarantee markets for its exports or to ensure a steady supply of a specific good like oil. Many of these agreements are signed with an aim to reduce barriers and create freer trade between countries. Others are much more ambitious. For example, the European Union has developed a single market, a single currency, and a political governing body, in addition to free trade, among its member nations. Trade agreements often are described as "preferential," which means that only those countries who sign the specific agreement will trade on those terms. For example, while the United States might lower its tariffs on lumber from Canada according to a trade agreement, it will not lower its tariffs on lumber from other countries.

The vast majority of trade agreements are bilateral, that is, agreements between two countries. There are also multilateral agreements, which are between multiple countries. Some multilateral agreements are known as regional trade agreements because they are among countries within a specific region. The North American Free Trade Agreement (NAFTA), to which the United States, Mexico, and Canada are signatories, is an example of a regional trade agreement.

In recent years, the world has seen a proliferation in the amount of regional trade agreements. The United Nations expects that there will be as many as four hundred of these agreements by 2010.

There is significant debate both within the United States and around the world as to whether trade agreements are beneficial for individual economies. While many argue that everyone is made better off by more trade, some worry that by tying economies closer together, countries become more dependent on each other.

Some supporters of free trade policies claim that regional agreements hurt free trade because barriers are only lowered for specific countries and not for trade overall. They further argue that trade agreements take attention away from efforts to create worldwide free trade, and most particularly the efforts of the World Trade Organization (WTO).

What is the WTO?

The World Trade Organization (WTO) is an international organization aimed at liberalizing trade. In July 2008, it had a membership of more than 153 countries that conduct more than 95 percent of world trade.

The WTO began in 1995, as a successor to the General Agreement on Tariffs and Trade (GATT). WTO member states meet periodically to negotiate new trade regulations and to lower barriers to trade. The WTO then oversees the agreements that are signed and helps member states settle disputes. Disputes arise when one state believes another is violating a WTO agreement and has an unfair advantage in trade. For example, the EU and the United States have each accused the other of providing unfair subsidies to major aircraft manufacturing companies that are in competition with each other. In addition to subsidies, another common problem is "dumping," in which companies flood markets with goods priced far below what they cost to produce. Dumping disadvantages producers who are not subsidized. These producers lose business to the dumpers, who are able to sell below market value.

In order to settle disputes, other WTO member states consult experts and rule on whether a violation has occurred. If a country is found in violation of an agreement, it will be asked to change its policies. Between 1995 and 2006 there were approximately 350 disputes filed with the WTO.

Why do some groups criticize the WTO?

Some complain that the WTO's processes are too secretive and undemocratic. They argue that, despite the fact that every country gets one vote, some countries have more power than others. They claim that richer countries have more strength in negotiating because their economies are larger and more crucial to the world economy and also because they have more political power on the international stage. Oftentimes WTO negotiations expose rifts between industrialized and developing countries. Many developing countries express concern that richer countries push through agreements that hurt poorer countries. For example, the Uruguay round of negotiations in the 1990s placed heavy obligations on developing countries to protect intellectual property rights (things like copyrights or trademarks) but did little to curb the massive subsidies that rich countries use to support their agricultural industries.

Among the general public, regular large-scale protests at WTO meetings highlight the unease generated by the evolving international economic system. Organized labor, environmentalists, human rights activists, and non-governmental organizations (NGOs) continue to protest the WTO and the free-trade policies that it represents. Many argue that WTO agreements do not do enough to make sure that trade helps alleviate poverty. Demonstrations against "globalization without representation" continue whenever the WTO convenes a meeting.

> ***"...so unfair has the trade been, that not only have poorer countries not received a fair share of the benefits; the poorest region in the world, Sub-Saharan Africa, was actually made worse off as a result of the last round of trade negotiations."***
>
> —Joseph E. Stiglitz, Nobel prize winner in economics

Some trade activists have introduced the term "fair trade" as an alternative to free trade. Supporters of fair trade lobby for reform of international trade—and the WTO in particular—to create an international marketplace in which everyone has an equal opportunity for gain. There may always be winners and

losers, say fair trade advocates, but the winners should level the playing field. Fair trade would involve reducing government subsidies to industries and lowering tariffs on imports in rich countries, as well as banning the practice of dumping.

Other opponents of the current trade system in the United States fear that the authority of the WTO will increase at the expense of U.S. sovereignty. Under the General Agreement on Tariffs and Trade (GATT), each participating country had the power to veto GATT decisions. The WTO has eliminated this veto power. Instead, member states are obliged to comply with WTO rulings in international trade disputes.

Environmentalists, labor union leaders, and consumer advocates argue that foreign countries will use the WTO to attack U.S. regulations as unfair trade barriers. Laws intended to protect the environment, workers' rights, and the health and safety of consumers could be especially vulnerable. Other critics raise concerns about the membership of the WTO and suggest that the U.S. should restrict trade relations with countries that do not respect basic human rights.

What other trade partnerships does the United States have?

In addition to its membership in the WTO, the United States has separate trade agreements with many countries, including numerous bilateral and multilateral agreements. These agreements are aimed at reducing tariffs and increasing cooperation.

The United States is also a part of the North American Free Trade Agreement (NAFTA), a regional trade agreement that took effect in 1994. NAFTA was created to lower barriers to trade among North American countries. In the United States, this means that U.S. exports are now cheaper for Mexican and Canadian consumers, and at the same time imports from Mexico and Canada are cheaper for U.S. consumers. Today, NAFTA is the largest trading partnership in the world, totalling close to $1 trillion in trade per year.

The United States is also in the process of negotiating a number of new bilateral, multilateral, and regional trade agreements. For example, U.S. policy-makers have been working since the 1990s to create a new trading bloc among countries in the Pacific Rim. The Asia-Pacific Economic Cooperation (APEC) members, which include countries like China, South Korea, Russia, the Philippines, Japan, Mexico, Chile, the United States, and Canada, are home to billions of people and account for more than half the world's economic output. But the road to an APEC trade pact promises to be bumpy. Most observers believe that APEC is decades away from achieving the tightly knit integration of the European Union. U.S. negotiators are also working to create free trade agreements with Central American countries and the countries of the Western Hemisphere.

In the next section of the reading you will consider how trade policies and globalization affect people around the world. How have recent changes helped people in the United States and in other countries? How have they been harmful? As you read, keep in mind that when you have finished the reading you will be asked to formulate your own policy for U.S. trade.