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COMMENTARY

Free Trade May Not Be Fair Trade

The pacts are always biased toward the economically stronger nations.

By Roger Hollander
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By taking a look at how free trade works, we can see why virtually every labor, ecological and anti-poverty organization in Latin America is strongly opposed to the proposed Free Trade Area of the Americas, which is the subject of this week's Miami gathering of trade ministers from Western Hemisphere nations.

The critics see things this way: Let's say that the Newcastle mining industry in Britain can produce a ton of coal at the cost of $10, which it sells on the domestic market. The industry thrives. At the same time, coal mining in Pennsylvania is just as efficient, but with transportation and British import tariffs the cost to export coal to Britain would be $15 a ton. No deal. But the Pennsylvania mining interests, desperate for export markets, have powerful lobbyists in Congress, which in turn enacts the "Coal Law," providing a government subsidy of $5 a ton. Further, with a free-trade agreement between the U.S. and Britain abolishing the $2-a-ton tariff, there would be a net gain of $7 a ton for the Pennsylvania mining industry. Now its actual — if artificial — cost of production is $8 an exported ton, $2 cheaper than the $10-a-ton Newcastle coal. *Voila!* Coals to Newcastle. Goodbye Newcastle mining industry. Hello massive British unemployment.

The logic is simple. There are two ways to "protect" local industry: import tariffs and export subsidies.

Free trade eliminates tariffs, giving the economic advantage not only to those producers that are more efficient production-wise (largely because they are more capitalized) but also to those industries blessed with governments capable of delivering massive subsidies. In other words, to the already industrialized and wealthy nations.

Coal miners in Newcastle may not have to worry about my hypothetical example, but corn growers in Mexico have every reason to panic.

Grains are to Mexico as coal was to Newcastle. Since the initiation of the North American Free Trade Agreement among the U.S., Canada and Mexico in 1994, the earnings of Mexican growers of corn, wheat and rice, along with beans, have plummeted, while the cost to the Mexican consumer has risen by 257%.

Mexico, the land where corn was first domesticated centuries ago, is now importing "cheap" subsidized U.S. agribusiness corn. Coals to Newcastle indeed.

With a dramatic difference in industrialization (70 U.S. tractors, for example, for every Mexican tractor) and the powerful agricultural lobby in Washington maintaining enormous subsidies, it is no wonder that Mexican farmers cannot compete once protective tariffs are eliminated.

In theory, free trade should make everyone more competitive, replacing the inefficient with the efficient. The idea is that everyone should do what they are best at and purchase from their neighboring countries what those countries do best. Everyone gains.

In theory.

In reality, for historical and geopolitical reasons, what Third World countries are "best at" is having their natural resources extracted and exported to the industrialized nations (which in turn sell back manufactured products at a high cost) and having their populations exploited for cheap labor.

Advocates of free trade — the already developed industrialized nations and those in the Third World countries who do their bidding — argue in the abstract, taking advantage of words with positive connotations such as "free" and "trade." In the real world, however, economics is not a matter of ideology but rather of production and markets and the intervention of government. Bilateral agreements between unequal partners are inherently biased in favor of the stronger — and the greater the disparity, the greater the bias.

This is exactly the situation that exists between the U.S. and Latin American republics.

The World Trade Organization's treaties and the proposed Free Trade Area of the Americas are characterized by undemocratic processes, such as secret and semisecret pre-agreements and unrealistic deadlines, and economic blackmail including threats to withhold the International Monetary Fund and World Bank funding upon which the weaker nations' governments have become dependent. Rapidly expanding U.S. military presence worldwide only serves to reinforce the economic hegemony.

The impoverished nations of the Western Hemisphere have much to fear from the proposed trade agreement.