Who Enjoys the Fruits of Trade?

By Wendy Muse Sinek

Photo by Kyle Simourd.

Valparaíso, Chile's busiest seaport.

If globalization is producing, as Joseph Stiglitz has described, "rich countries of poor people," then what is to be done? On October 2, 2006, Ricardo Lagos, president of Chile from 2000 to 2006 addressed this question with David Bonior, member of the U.S. House of Representatives from 1977 to 2003. Both spent a large part of their political careers addressing issues of international trade. While the two men demonstrated a great deal of mutual respect for one another and were in agreement at many points throughout the evening, each also brought a unique perspective to the issue of fostering both trade and development in the Western Hemisphere. Their interaction created an engaging and lively conversation for the overflowing crowd at the UC Berkeley Alumni House.

As moderator, Professor Harley Shaiken suggested they begin by commenting on what they believe governments can do to ensure that gains from trade are more equally distributed, benefiting ordinary people as well as a nation's overall GDP. Lagos immediately noted that a crucial issue with respect to greater equity lies in who is able to participate in defining the "rules of the game." In other words, it matters which international players decide what protective tariffs are permitted for a given industry, what constitutes a violation of the rules and what the consequences should be. At present, economically powerful countries have greater influence in setting the rules and resulting agreements tend to be weighted toward their interests.

For example, while larger countries have an incentive to protect their own internal markets, smaller countries such as Chile rely on their ability to export. Therefore, small countries with a comparative advantage in a given industry

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need not only reduced trade barriers but also the opportunity to export freely without being charged with anti-dumping sanctions by larger countries. Similarly, when trade barriers are lowered, capital flows to areas in which the greatest profit can be made without regard to national boundaries, yet labor — working people — cannot cross these boundaries in the same way. For this reason, Lagos argued that labor legislation should be an integral part of free trade agreements to ensure that countries do not have an incentive to compete over ever-worsening labor standards. International trade should lead to greater development worldwide, but for this to become a reality, smaller countries need a stronger voice in establishing the rules of the game.

Bonior expanded on this point, arguing that there has been a worldwide "race to the bottom" in terms of labor standards. He posed a revealing contrast: In the 1950s, General Motors was the world's largest corporation, paying factory workers at least $5 an hour so that they could afford to buy the cars they produced, fostering improved living standards for the working class. At present, Wal-Mart is the world's largest corporation, yet workers receive only $8.50 an hour, ensuring that they cannot afford to shop anywhere *but* Wal-Mart. Bonior related a wealth of statistics on deteriorating labor standards in the United States, many of which are available online at www.americanrightsatwork.org. The most striking, however, may be the fact that within the United States, every 23 minutes someone is fired or discriminated against for supporting a union in his or her workplace. Clearly, the reversal of fortunes for the working class is a concern for the United States as well as developing countries.

In Bonior's view, the results of the North American Free Trade Agreement (NAFTA) are a prime illustration of this dynamic. Since NAFTA lacks both labor and environmental standards, social decisions are outside the parameters of the agreement and resolved only by the unregulated market. Globalization managed in this way has created a vast income gap in both the United States and Mexico, allowing the wealthiest

President Lagos with the team that negotiated the U.S.–Chile free trade agreement.

Photo courtesy of www.presidencia.cl.

Photo by David R. Léon Lara.

David Bonior and Ricardo Lagos in conversation.

individuals to become disconnected from the fate of society as a whole. Giving poorer countries greater influence in establishing the rules of the game, as Lagos suggested, would be a step in the right direction. To facilitate this, Bonior proposed establishing a deeper integration (along the lines of the European Union) to provide an arena through which all nations in the Western Hemisphere could voice their concerns and create a common agenda for overall economic development.

In response, Lagos countered that existing social and economic asymmetries between the United States and most Latin American countries would be the main obstacle in creating such a confederation. Currently, there is little solidarity within the region as a whole, so there is scant motivation to create a unifying organization. Moreover, building solidarity would require greater concessions on the part of economically powerful actors in the region. For example, when Chile and Bolivia were negotiating a recent trade agreement, Chile agreed to eliminate protections on Bolivian goods immediately but allowed Bolivia to gradually reduce their tariffs, thus recognizing the economic asymmetries that exist between the two nations. Lagos claimed that the United States would need to take similar steps with respect to Latin America and asked Bonior if he thought the United States would be willing to do so.

For his part, Bonior agreed that developing countries in the region would likely require additional trade concessions. However, he stressed that the most important way to create hemispheric solidarity would be to incorporate labor standards within trade agreements. Currently, most Latin American countries are signatories to United Nations treaties that give workers the right to form independent unions, yet this right is unevenly enforced. Bringing workers' rights to the forefront of trade agreements would ensure that laborers across the hemisphere are treated fairly, thus creating greater regional solidarity.

With this issue in mind, Bonior recalled that when he was following the negotiations toward a bilateral free trade agreement with Chile, the American A.F.L.-C.I.O. had discussed labor rights with unionized Chilean workers, and both

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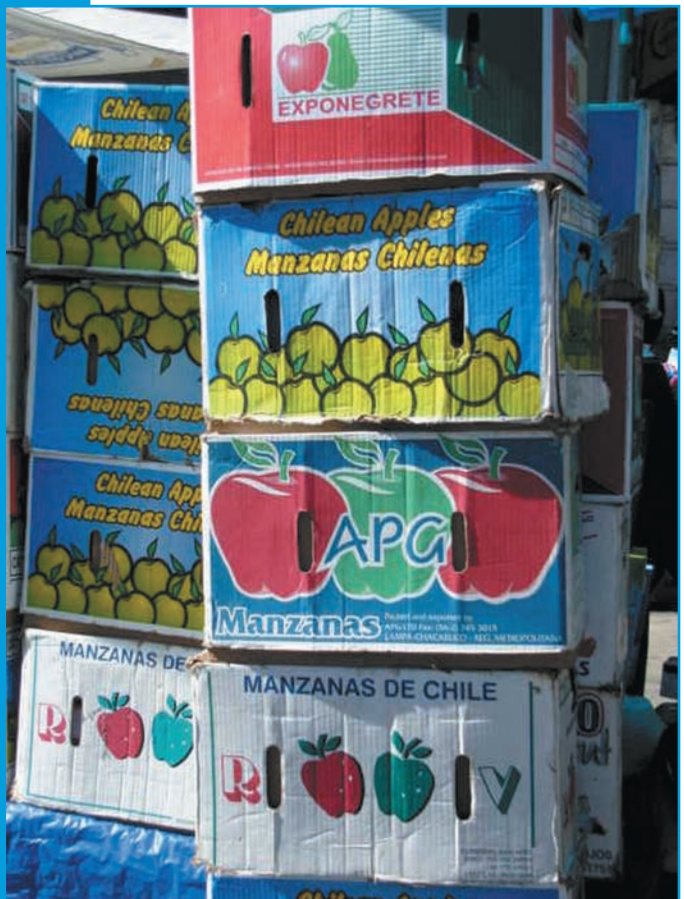

Photo by Rosa González.

Chilean imports in Bolivia.

sides favored incorporating labor protections into the trade agreement. However, when Bonior brought the idea to a key U.S. trade negotiator, it was dismissed. Bonior asked Lagos for his view on which party was behind this outcome: Was it the United States or Chile that was opposed to tying labor rights to the trade agreement?

Lagos responded that his impression was that labor rights were important to both sides, balanced with the desire for each country to retain sovereignty over labor legislation. Moreover, legislation in this area does not change through executive decree; it is crafted through the time-consuming process of congressional approval. Reaching a final trade agreement would have been nearly impossible if it had been contingent on labor legislation changes within Chile. While much progress has been made over the past 15 years, Lagos admitted that Chile could do more in terms of strengthening labor rights, especially in the area of collective bargaining protections.

At this point in the conversation, Shaiken noted that both Lagos and Bonior appeared to agree that discussions of globalization tend to be conducted too narrowly. Strong contingencies exist in both countries that support bringing the market and government together for progressive results, but the parameters of the debate are so constrained that to simply raise the question of reframing the debate is often seen as protectionist and is dismissed out of hand. As a result, the search for alternatives is considerably restricted. With this in mind, Shaiken asked both Lagos and Bonior to comment on what alternatives they consider most important from the point of view of their respective nations.

Lagos responded first, stating that trade negotiations need to acknowledge the inequalities that exist between developed and developing countries. For example, intellectual property rights are one of the most important issues within trade agreements at present. However, agreements tend to preference the rights of countries that hold patents on intellectual property while doing little to build technical capacity within developing countries. Doing so is possible, Lagos noted, citing a bilateral trade agreement with the European Union that gives Chilean universities the right to participate in research and development projects established by the EU. He argued that similar alternatives that address social discrepancies should be further explored.

Extending this idea, Shaiken asked Bonior to comment on how willing the United States might be to participate in a search for equalizing alternatives such as the one Lagos described and to incorporate them into future trade agreements. Bonior appeared optimistic in this regard. He stressed that the U.S. Congress is now more reluctant to support unfettered free market trade agreements because citizens feel the negative effects of current agreements such as NAFTA in their daily lives. It is at least equally important for nations to protect the rights of their workers within trade agreements as it is to protect intellectual and other property rights for the goods those workers create. Since workers' rights are often left out of the equation, ordinary people experience growing inequities, and they are beginning to pressure their representatives to ensure that future agreements contain basic social protections. Bonior closed his comments by stating that if representatives are not responsive, people will likely take their grievances to the streets, engaging in demonstrations against globalization until the process of reaching trade agreements is democratized.

In his closing remarks, Lagos reflected on the broader context of the discussion, in which some international actors have had more influence upon the world than others. In different historical cycles, powerful states — Egypt, Greece, Rome, the British Empire and, at present, the United States — have arisen, spent their time on the world stage and, inevitably, receded. The issue for powerful states, then, is this: When one is in the position to set the "rules of the global game," will the stage be set such that, when one's power and influence is lost, the arrangement remains satisfactory and fair? Trade discussions, and the agreements that result from them, are just part of the answer to this broader question. Although it is difficult to achieve — and in fact would be a historical first — Lagos urged the United States to take advantage of its position in the world to reduce inequalities and create more equitable trade agreements. In this way, not only nations, but ordinary people within them can begin to realize greater economic gains from international trade.

The discussion "Trade, Development and the Americas" was held at UC Berkeley on October 2, 2006. Ricardo Lagos was the president of Chile from 2000 to 2006 and a visiting professor at CLAS in fall 2006. David Bonior is currently Professor of Urban, Labor and Metropolitan Affairs at Wayne State University. Previously, he was a member of the U.S. Congress from 1977 to 2003 and House Democratic whip from 1991–2002. The discussion was moderated by CLAS Chair Harley Shaiken.

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Ricardo Lagos, David Bonior and Harley Shaiken on the Berkeley campus.

Photo by David R. Léon Lara.