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free trade faqs

Below are some of the most frequently asked questions about globalization and free trade. CTPS scholars have answered these questions and have provided links to related works that provide more in-depth analysis of the subject matter.

Have other questions about globalization and free trade? Submit your questions to our trade scholars [here](#). Select questions will be answered by a Center for Trade Policy Studies scholar and will be posted below.

- [Does free trade lead to a “race to the bottom” in workers’ rights in less developed countries?](#)
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Does free trade lead to a “race to the bottom” in workers’ rights in less-developed countries?

In fact, the opposite is true: wherever globalization has taken hold, there has been a measurable improvement in incomes and working conditions. First, the competition that accompanies globalization provides an incentive for local employers in developing countries--the overwhelming source of labor abuses--to improve their practices. As foreign-owned businesses move into a country, they pay their workers more and provide a superior working environment in order to attract the best people. If they are to survive, local employers are forced to improve pay and working conditions, too. Second, Western businesses know that treating workers poorly is bad for business back home. American consumers demand that US companies respect worker rights, and US companies producing abroad pressure their local suppliers to do the same--a truly virtuous cycle. Without trade, that beneficial consumer pressure evaporates.

Related Works:

- [The Blessings and Challenges of Globalization](#)

- [WTO Report Card III: Globalization and Developing Countries](#)
- [WTO Bashers Would Slam The Door On The World's Poor](#)
- [The Myth of the Race to the Bottom](#)

Also see the CTPS issue page, "[The Benefits of Globalization.](#)"

What are the benefits of free trade for the average person?

The historical record is very clear that free trade bestows many benefits to the average person. Those countries that lower trade barriers and open their markets enjoy higher economic standards of living. Consumers have access to a wider range of higher quality products at prices lower than they would otherwise pay. The average person also benefits in terms of wages and job opportunities. When labor and capital flow freely to the most productive areas of the economy, workers are employed in better, higher quality jobs with higher wages. While there are inevitable short-term transition costs in some sectors of the economy, the long-term benefits of free trade for all far outweigh such costs..

Related Works:

- [Protectionism Hurts Consumers](#)
- [WTO Report Card: America's Economic Stake in Open Trade](#)
- [Trade, Jobs, and Manufacturing: Why \(Almost All\) US Workers Should Welcome Imports](#)
- [The Blessings of Free Trade](#)

Also see the CTPS issue page, "[The Benefits of Globalization.](#)"

Does globalization give companies/countries an incentive to abuse the environment?

No, for several reasons. First, environmental standards are at best a minor factor in where businesses choose to set up shop. Such considerations as guaranteed property rights protection, a functioning legal system, a well-educated workforce, and sufficient infrastructure figure much more prominently in the calculations of most business managers than do lax environmental regulations. Second, there are considerable cost savings associated with standardized production techniques. Thus, companies tend to operate at the highest environmental world standard rather than adopt multiple production technologies for use in different areas. Third, much of the foreign direct investment directed to developing countries is used to privatize inefficient state-owned manufacturers, which tend to become less polluting as they are restructured. Fourth, trade and investment help speed the spread of pollution control technology and enable developing countries to purchase cleaner energy inputs on world markets. Finally, the most important result of trade and investment, is economic growth, which in turn leads to a better environment. That is true because, as incomes rise, the demand for improved environmental quality and the ability to pay for it also rise.

Related Works:

- [Trade, Labor, and the Environment: How Green and Blue Sanctions Threaten Higher Standards](#)
- [Protectionism with a Green Face and a Union Bug](#)
- [WTO Report Card III: Globalization and Developing Countries](#)
- [Free Trade: Why AFL-CIO, the Sierra Club, and Congressman Gephardt Should Like It](#)

Also see the CTPS issue page, "[The Benefits of Globalization.](#)"

Does the trade deficit harm domestic economic performance?

A trade deficit is not a threat to America's economic well-being. By virtually every measure--GDP growth, employment, industrial production, and poverty reduction--the US economy performs better when the trade deficit is rising than when it is falling. Trade deficits do not arise from unfair trade barriers abroad or uncompetitive industries at home, but from a net inflow of foreign capital. Foreign capital lowers domestic interest rates and funds new investment while imports lower prices and expand the choice and quality of products for consumers and producers. America's net international investment position, negative \$1.5 trillion in 2000, is not unduly large when compared to the nation's GDP or net wealth. Seeking to cure the deficit with new trade barriers would only harm the economy without reducing the deficit.

Related Works:

- [The Causes and Consequences of the US Trade Deficit](#)
- [America's Maligned and Misunderstood Trade Deficit](#)
- [What Should The Next President Do About the Record US Trade Deficit?](#)
- [Stop Worrying About the US Trade Deficit](#)

Also see the CTPS issue page, "[The Trade Deficit and Imports.](#)"

Do imports destroy jobs?

Imports do not cause a net loss of jobs in a nation's economy. Imports may displace some workers in less competitive industries, but the overall level of employment is determined by monetary policy, labor market flexibility and other non-trade factors. Thus, trade benefits an economy in the same way as technology, causing resources to shift to more productive sectors, raising overall living standards. For the overwhelming majority of American workers, imports raise real compensation by keeping prices down and stimulating domestic competition. Research shows that a rising level of imports to the United States usually signals the creation of more jobs, not the loss of jobs. Imports benefit American producers as well, providing capital equipment to make workers more productive and lower-cost inputs, such as steel, electronic components, and raw materials, that make their products more price-competitive in world markets.

Related Works:

- [Trade, Labor, and the Environment: How Green and Blue Sanctions Threaten Higher Standards](#)

- [Trade, Jobs, and Manufacturing: Why \(Almost All\) US Workers Should Welcome Imports](#)
- [The Fundamental Freedom to Trade](#)
- [Steel Quotas Will Harm US](#)
- [Anti-dumping Law is Discriminatory](#)
- [The Steel 'Crisis' and the Costs of Protectionism](#)

Also see the CTPS issue page, "[The Trade Deficit and Imports.](#)"

Does free trade force countries to make economic gains at the expense of their cultures?

The whole concept of "preserving culture" is premised on the notion that it is both valuable and endangered. These attributes are unlikely to coexist within a system of free trade, which is about the emergence of options through consumer choice. To the extent that local culture is valued, products and services reflective of that culture are desired and thus available among the many alternatives. Indeed, all major cultures have evolved through hybridization with external influences throughout history. Attempts to subvert this process by erecting trade and investment barriers deprive cultures of the positive influences that keep it from stagnating.

Related Works:

- [WTO Bashers Would Slam the Door on the World's Poor](#)
 - [Mighty is the Mongrel: Winning in the Global Economy](#)
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Is free trade a threat to the US manufacturing base?

Free trade is a boon to the US manufacturing base, which is alive and thriving according to statistical evidence. Access to a greater supply of raw materials at lower prices enables US manufacturers to reduce costs and become competitive in markets around the world. Without such access, US manufacturers would have difficulty pricing competitively in markets with relatively lower incomes and currency values. The presence of foreign-produced finished manufactures in the US compels domestic industries to be innovative and efficient, both of which are keys to profitability and longevity. Statistically, in constant 1996 dollars, manufacturing's share of GDP has held steady at slightly over 17 percent between 1977 (a period of relatively high tariffs) and 1998. Between 1992 and 1999, when the overall economy grew by 29 percent, the Federal Reserve's index of manufacturing output increased by 42 percent!

Related Works:

- [Trade, Labor, and the Environment: How Green and Blue Sanctions Threaten Higher Standards](#)
- [Trade, Jobs, and Manufacturing: Why \(Almost All\) US Workers Should Welcome Imports](#)
- [WTO Report Card: America's Economic Stake in Open Trade](#)
- [The Big Myth about US Manufacturing \(Fortune\)](#)

Also see the CTPS issue page, "[The Trade Deficit and Imports.](#)"

Is immigration bad for average Americans?

Immigration has been good for the US economy and the average American worker. Foreign-born workers fill gaps in the labor force where demand is greatest, allowing US companies to produce more efficiently and to keep prices down. Immigrants increase the domestic demand for goods and services, creating employment opportunities for other American workers. Highly skilled immigrants have been especially important to America's high-tech sectors, creating new products and production methods, and allowing the industry to expand production and reach new markets abroad. Much of America's New Economy could not function without the contributions of foreign-born workers. According to a major study by the National Research Council, immigrants and their children pay more in taxes than they consume in government services. They contribute to the richness and wide appeal of American culture.

Related Works:

- [Willing Workers: Fixing the Problem of Illegal Mexican Migration to the United States](#)
- [FAIR Ads Unfairly Blame Immigrants for Urban Sprawl, Traffic Jams](#)
- [The H-1B Straitjacket: Why Congress Should Repeal the Cap on Foreign-Born Highly Skilled Workers](#)
- [Cato Handbook for the 106th Congress: Immigration](#)
- [Immigration: The Demographic and Economic Facts](#)

Also see the CTPS issue page, "[Immigration.](#)"

Should the United States enact and enforce laws that aim to promote "fair trade" and create a "level playing field" for its workers and industries?

While "fair trade" sounds good in theory, in practice, the term is really code for protectionism. Fair trade, as the term is now used, usually means government intervention to direct, control, or restrict trade. Fair trade means government officials decide what Americans should be allowed to buy and what prices they should be forced to pay. Other countries often have a comparative advantage over the United States in a particular industry. Attempts to "level the playing field" by subsidizing the US industry is really a tax on US consumers and only prolongs the economic woes of the industry in question.

Related Works:

- [Antidumping 101: The Devilish Details of "Unfair Trade" Law](#)
- [The Myth of Fair Trade](#)
- [The US Antidumping Law: Rhetoric versus Reality](#)
- [Nailing the Homeowner: The Economic Impact of Trade Protection of the Softwood Lumber Industry \(An example of a "fair trade" failure\)](#)
- [The Perpetual Steel Crisis](#)

Also see the CTPS issue pages, "[US Antidumping Law](#)" and "[Trade Politics.](#)"

Does the World Trade Organization undermine national sovereignty?

As sovereign nations, WTO members share a common recognition that open markets are superior to protected markets. The WTO was established as an extension of this ideal to arbitrate disputes within the context of a set of rules created and agreed to by sovereign member nations. Excluded from WTO perusal are broad categories of trade restrictions, including those related to national security, public health and safety, conservation of natural resources, and banning imports made with forced or prison labor. Member nations are encouraged to abide by WTO rulings, which are rendered in cases where an arbitrated dispute settlement does not obtain. However, the WTO has no authority to force member nations to pay fines, change laws, revoke sanctions or do anything. By contrast, national sovereignty is threatened in the absence of WTO rules, where market barriers or sanctions by one country against another are more likely.

Related Works:

- [WTO Report Card II: An Exercise or Surrender of US Sovereignty](#)
- [The Myth of Surrendered Sovereignty](#)

Also see the CTPS issue page, "[The World Trade Organization.](#)"

Should the World Trade Organization include all groups, not just governments?

The WTO should only include government representatives of nation-states or customs territories. Including other groups is not only impractical but unwise. It is impractical because it would be impossible to fairly choose which groups would have a seat at the table and which groups would be denied. Allowing every group into the WTO, whether corporate or nonprofit, would result in a morass of bureaucratic red-tape where decisions could never be implemented. Interest groups rightly have the opportunity to influence their government representatives who meet at the WTO, but allowing every group into the WTO will expand the WTO to cover non-trade related issues, something that should not occur.

Related Works:

- [Globalphobia in the Streets--Again](#)
- [WTO Critics Trade Away Truth for Soundbite](#)
- [Explaining the Debacle in Seattle](#)

Also see the CTPS issue page, "[The World Trade Organization.](#)"

Are unilateral sanctions effective foreign policy tools?

More often than not, unilateral sanctions end up achieving the opposite of what their authors intend by making the target country more self-sufficient and strengthening its resolve to continue objectionable policies. Examples abound: from Cuba to Iran to Burma, sanctions have

failed to achieve the goal of changing the behavior or the nature of target regimes. At the same time, sanctions have deprived American companies of international business opportunities, punished domestic consumers, and hurt the poor and most vulnerable in the target countries. Given this record of failure, unilateral sanctions should be used sparingly by U.S. policymakers.

Related Works:

- [Cato Handbook for the 106th Congress: Sanctions](#)
- [Economic Casualties: How U.S. Foreign Policy Undermines Trade, Growth, and Liberty \(March, 1999\)](#)
- [Going Alone on Economic Sanctions Hurts US More than Foes](#)
- [What's Wrong with Trade Sanctions?](#)

Also see the CTPS issue page, "[Unilateral Sanctions.](#)"

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