

The Political Viability and Mass Popularity of Free Trade in Latin America

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To expect, indeed, that the freedom of trade should ever be entirely restored in Great Britain, is as absurd as to expect that an Oceana, or Utopia should ever be established in it. Not only the prejudices of the public, but what is much more unconquerable, the private interests of many individuals, irresistibly oppose it.'

—Adam Smith

[*Wealth Of Nations*, IV.ii.43, page 471 (Glasgow Edition of WN, Oxford University Press; or pages 437-8 of **Edwin Canaan's** edition of WN, 1937, Random House)].

Over the last 20 years, free trade has been a surprisingly sustainable and viable economic policy in Latin America. However, in recent years it has hit some roadblocks, with the failure of the Free Trade Agreements of the Americas, the now-defunct Doha Round, and, of course, the slow implementation of the Free Trade Agreement with the United States in Peru. In this memo, I consider these trends from both a theoretical and empirical perspective. I first consider two different theoretical perspectives, or two “conventional wisdoms,” on the topic. I then consider two empirical facts that contradict these conventional wisdoms. I then conclude by reconciling these contradictions.

1. Political economists' view: “the private interests of many individuals ... irresistibly oppose freedom of trade”

According to political economists, trade liberalization can be a difficult policy and political project to sustain because it yields “concentrated costs with diffuse gains” (Frieden 1991; Haggard and Kaufman 1995; Olson 1982). A relatively small share of the population—trade “losers,” such as capitalists and workers in uncompetitive but formerly protected industries—loses a great deal from opening. In contrast, a larger share of the population—trade “winners,” such as consumers as well as capitalists and workers in export-oriented sectors—experiences

gains, but these gains are relatively small. Consumers enjoy slightly lower prices (and often higher quality) for tradable goods, but these economic gains are minor compared to the economic losses—declining or disappearing profits, layoffs and/or lower wages—experienced by trade losers. Because their losses are so intense, trade losers have a strong incentive to resist trade liberalization through lobbying, protesting, and other political activities. In contrast, because their per person gains are so minimal, trade winners have little motivation to mobilize in favor of free trade. To summarize this political economy viewpoint, trade losers end up being more vocal than eventual trade winners, making free trade a precarious project.

2. Political psychologists' view: “the prejudices of the public ... irresistibly oppose freedom of trade”

According to scholars of mass political psychology and public opinion, trade liberalization is a precarious political project for different reasons. Citizens do not hold opinions on trade (or other types of) policy that are motivated by self-interest, as political economists presume. Instead, their opinions are based on “sociotropic”—that is, national-level or macroeconomic—considerations or, in some cases, on shortcuts and stereotypes about relevant groups (Sniderman, Brody, and Tetlock 1991; Tajfel 1981). Citizens thus view trade liberalization as a threat to local jobs and as a “concession” to foreigners, against whom they hold a nationalist prejudice. While trade could be framed as a boost to macroeconomic well-being, the public more typically sees it as a national sovereignty issue.

In contemporary Latin America, however, we observe a number of things that run counter to these conventional wisdoms.

1. Trade liberalization has proven to be a surprisingly viable political project over the last two decades.

Protectionist barriers have fallen dramatically since the 1970s, and trade-weighted average tariffs are lower than 15% in most countries. Trade volumes have boomed. While further trade liberalization measures, such as the Doha Round and the FTAA, have stalled in recent years, there have been no major increases in protectionist barriers. (Contrast this with numerous reversals of the privatization process.) This is the case even in “left wave” countries, where leaders rail against “neoliberalism.” For example, under Hugo Chávez’s tenure in Venezuela, imports from the United States have doubled.

2. Latin American citizens like free trade.

According to public opinion surveys conducted by Latinbarometer (LB) and the *Wall Street Journal Americas* (WSJA) in eighteen Latin American countries, more than 75% of Latin American believed, in the late 1990s, that free trade was good for the country. Over 70% thought that imports help the country, and over 80% supported the eventually beleaguered FTAA (Baker 2009). Moreover, enthusiasm for free trade continued into the new millennium. The 2002 and 2007 Pew Global Attitudes surveys asked respondents in eight Latin American countries whether “growing trade and business ties between your country and other countries” was a good thing for (1) the country and for (2) the respondent’s family. Eighty percent responded affirmatively to both questions in 2002 and 81% did so to the former question (the only one of the two asked) in 2007. Moreover, 66% in 2002 agreed that globalization was a good thing (Pew 2003, 2007).

Why do Latin Americans support trade so enthusiastically? In previous work (Baker 2003), I have demonstrated that the reason behind this widespread support for free trade is because most citizens *have* noticed the consumer gains of trade. Most tellingly, over 40% of respondents to a survey I conducted in Brazil in 1999 said they supported free trade because it lowered prices and/or because it improved the quality or expanded the availability of goods they could buy. This was by far the most frequently cited rationale for the widespread popularity of free trade.

So how do we reconcile these contradictions between conventional wisdoms and empirical evidence? In the political economists' conventional wisdom, the only grain of truth appears to be the insight that consumers gain from trade. The empirical evidence suggests that consumers notice these gains and translate them into policy attitudes. But where are the trade "losers," those undergoing concentrated costs who are expected to make open trade a political failure by mobilizing against it? Activism by trade losers are obviously evident throughout Latin America and have weighed in heavily on Peru's debate over the FTA. Protests by Peru's farmers are a prime example, and polling evidence suggests that producers in Peru are less supportive of the FTA in Peru than is the population at large.

Free trade remains entrenched, however, because of democracy. Democratization has shifted political power from relatively small groups to voters who, on average, support free trade. In other words, democracy has empowered the "diffuse gainers"—i.e., the trade winners who support trade because of consumption gains—at the expense of the "concentrated losers"—who express demands via lobbying and/or protest. In many ways, battles over trade policy are often waged, and won in favor of open markets, at election time. For example, the free-trading Alan Garcia's defeated the protectionist Ollanta Humala in 2006 in an election that was waged, at least partially, over the FTA. Similarly, Óscar Arias won election the 2006 Costa Rica presidential

election and then eventually a referendum in contests over CAFTA. Moreover, governments, even leftist ones, are subsequently constrained by voters' preferences for price stability: protectionist barriers would raise inflation.

If trade is popular and sustainable, however, why are there still remaining roadblocks to further trade liberalization measures, such as the FTA in Peru, the FTAA, and the Doha round? First, part of the reason is that, between elections, concentrated losers can still block trade liberalizing measures, as the diffuse gainers exercise their power only periodically at the ballot box. Second, many of these pending, and failing, trade liberalization efforts would have only minor effects on consumer welfare. For example, effective tariffs in many countries are already in the low double or even single digits, so consumers have every reason to be indifferent to further liberalizations.

Third and finally, the political psychology conventional wisdom also has a grain of truth that contributes here. Trade is popular in Latin America because it has provided consumption gains. However, evidence from public opinion data suggests that this effect on public opinion may be ephemeral. As mentioned above, in 1999, 40% of Brazilians justified their support of free trade by citing its consumer benefits. By 2005, just 20% did. The gains to consumers from trade are *static*, having accrued to Latin Americans in the 1980s and 1990s when trade liberalization and price stabilization occurred (Baker 2009). Citizens' memories are finite, so the fond memories of consumption gains are starting to fade.

As a result, citizens are no longer invoking consumption-based criteria when striking a position on trade policy. Instead, they are considering labor-market and macroeconomic criteria, which, as political psychologists would claim, do not necessarily incline citizens to favor free trade. For example, when asked in 1996 whether "there should be stricter limits on selling

foreign goods here, to protect the jobs of people in this country,” a large majority (85%) of respondents in eight Latin American countries agreed with this protectionist response. (World Values Survey 1996). In other words, when jobs and nationalism are primed, citizens quickly *do* become protectionist. When they think as consumers, citizens are free-traders.

Trade advocates should thus take heart that today, despite theoretical reasons to expect otherwise, all Latin American states—even those with leftist governments—practice mostly unfettered trade. Moreover, trade liberalization will be hard to reverse, as any return to protectionism would stoke inflationary pressures and risk the ire of consumers. Yet mass support for free trade should not be taken for granted, however, and trade losers have legitimate concerns that should be addressed.

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