

If the agreement can be achieved, the proposed market would involve more than 850 million people in the Americas.

In the meantime, two South American regional trading blocs have combined forces into the Union of South American Nations known as UNASUR (Unión de Naciones Suramericanas). This body was constituted relatively recently from the customs union Mercosur (Argentina, Brazil, Paraguay, Uruguay, Venezuela, and Bolivia) and the Andean Community of Nations (Colombia, Bolivia, Ecuador, and Peru). Given the growing importance of Brazil and its increased position as a regional power, and the long-time hostility between the US and Venezuela, this union may forestall the likelihood of a US-dominated Free Trade Area of the Americas for a long time.

The unprecedented development of technology, the increased global awareness, and especially the adoption of neoliberalism worldwide have driven the process of globalization. Under the trend of globalization, regions have increasingly moved toward economic integration. These trends present both opportunities and challenges to business. This chapter reviews the historical evolution of and policies advanced by neoliberalism, examines the debates surrounding free trade, and introduces government policies in relation to promoting or protecting trade. Business students are expected to gain insights into building effective connections with government in the face of the challenges of a growing global market.

#### **ANALYTICAL CASE: SUGAR FARMERS AND CAFTA-DR\***

Mark Olson was a sugar producer who owned 500 acres of sugar beets in Willmar, Minnesota. In 2004, when the Dominican Republic–Central American Free Trade Agreement (CAFTA-DR) was proposed, sugar farmers like Olson were very vocal in opposition to the trade agreement. CAFTA-DR, with the intention to liberalize trade with five Central American nations and the Dominican Republic, became a divider in the agricultural industry. Most American agricultural groups, such as corn and dairy farmers, were in full support of the agreement, anticipating that the larger market would promise an additional 44 million consumers outside the US access to their products. Others, particularly sugar farmers like Olson, however, believed that CAFTA-DR would spell disaster for them.

Agriculture has been traditionally subsidized by government. Unlike most US farmers, sugar farmers were not directly subsidized by the government. Instead, the United States sharply limited sugar imports, keeping sugar prices higher in the domestic market in the absence of overseas competition. Passing the CAFTA-DR agreement would result in falling trade barriers, and increased sugar imports from Central American countries.

According to Olson, other countries subsidized the production of their sugar. And under government subsidies, sugar farmers produced more than what their country needed and dumped their products onto the world market at a cost well below that of production. Olson claimed that the US sugar farmers were some of the most efficient sugar beet producers in the world, but they could not compete with other countries where farmers received government subsidies. Olson had invested half a million dollars in his business. In the US, 90 percent of the sugar was processed in

farmer-owned co-ops like Olson's southern Minnesota beet sugar cooperative. The industry employed some 140,000 Americans. Leaders of the co-ops were afraid that if CAFTA-DR passed, foreign producers would dump sugar on the US market and eventually drive people in the sugar industry out of their jobs.

The Bush Administration argued that the sugar producers were overstating their case. It estimated that CAFTA would allow less than 2 percent more sugar from Central America into this country. Free trade advocates, who proposed to stop protecting the sugar industry, pointed out that the price of sugar in the US market was twice that of outside prices, which led to higher profits for sugar farmers, but higher prices for consumers.

Olson, on the other hand, argued that the price of sugar in the US was less than almost any other developed country in the world and consumers were not paying too much for sugar. He pointed out that the only people who complained about the price of sugar were the big candy companies, and that if they bought sugar more cheaply, consumers would not see a reduction in the cost of their products at all.

Despite the debate, CAFTA-DR was narrowly passed by the US Congress (with a vote of 217 in favor and 215 against in the House of Representatives) in July 2005.

### Questions for Discussion and Analysis

1. According to the theory of comparative advantage, should US farmers continue producing sugar?
2. According to Olson, other countries all subsidized sugar producers. In that case, should the US remove its import barriers to sugar or should the US subsidize American sugar producers?
3. What effect of CAFTA do you anticipate for American consumers?
4. If you were public policy-makers, how could government placate the different interests among citizen groups for CAFTA?

\*The case was developed based on the PBS NEWSHOUR Video *Farmers Differ over CAFTA*, July 20, 2005 at 12:00 AM EST.

### PRACTICAL SKILL

#### Selling overseas

Thanks to the Internet and globalization, small businesses like Double Z Beauty can easily tap into the international market for their goods or services. There are many government resources that you can explore. A convenient starting point can be [www.export.gov](http://www.export.gov). The website helps US companies that are interested in starting or expanding exports explore training and counseling programs, develop business plans, conduct market research, find foreign buyers, finance exports, and resolve trade problems.

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