Peeling Back Banana Republics: The Hidden Cost of Expanding Free Trade in Latin America

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Abstract

A century ago, the United Fruit Company transformed Central American economies around a deceptively simple product: the banana. The company accumulated enormous economic power through plantations, railroads, ports, shipping, and land, becoming influential enough in Guatemala and Honduras to help produce the phrase "banana republic." Today, the United Fruit Company is gone, but the economic structure that made the banana republic possible has not entirely disappeared. Many Latin American economies remain heavily dependent on commodities and similarly structured exports, creating a modern problem for proposals to expand USMCA-style trade throughout the hemisphere.

The problem is not free trade itself. Trade can increase productivity, expand markets, and create new economic opportunities. The problem is what happens when countries with highly similar export profiles enter the same market and compete primarily on price. Commodity dependence can expose developing economies to external price shocks, while competition for lower production costs can place pressure on already vulnerable labor markets. UNCTAD identifies commodity dependence as a structural development risk, while the International Labour Organization reports that nearly half of workers in Latin America and the Caribbean remain in informal employment.

This creates a modern version of the banana-republic dilemma: not foreign corporations directly controlling governments, but economies remaining trapped in low-value production because their easiest competitive advantage is cheap commodities and cheap labor. Expanding trade without simultaneously encouraging diversification, productivity, and enforceable labor protections risks increasing the amount of trade without changing the underlying structure of development.

Introduction and Context

Everyone loves free trade—at least in theory.

Lower tariffs mean lower prices. Larger markets mean more consumers. More competition means firms have stronger incentives to become efficient. And for countries in Latin America that have historically struggled to attract investment and build globally competitive industries, deeper integration with the United States seems like an obvious opportunity.

But there is a question that gets remarkably little attention in these discussions:

What are these countries actually going to sell?

That question matters because trade does not occur in an economic vacuum. Countries enter international markets with particular resources, industries, labor forces, and histories. If those countries produce complementary goods, trade can allow each economy to specialize in what it does best. But if they produce essentially the same things, integration can turn into competition.

And much of Latin America has exactly that problem.

The Economist reported in June 2024 that Latin and South American economies have highly similar export profiles, with commodities including oil, coffee, beef, and other raw materials appearing among the leading exports of countries throughout the region. That similarity matters because when countries sell comparable products to the same wealthy markets, they are often competing for the same consumers rather than creating a genuinely complementary regional economy.

The simplest example is a banana.

If Guatemala and another Latin American country both sell essentially identical bananas to the United States, American buyers have little reason to pay substantially more for one country's product. The producer that can offer the lower price gains an advantage.

At first, that sounds good. Consumers get cheaper bananas. But the producer still has to make money.

If technology, infrastructure, and productivity cannot be improved quickly enough to lower costs, firms have another option: reduce the cost of production. And one of the largest costs in labor-intensive industries is labor itself.

That is where a seemingly straightforward free-trade policy can create a much more complicated development problem.

Analysis: When Everyone Sells the Same Thing

Latin America's dependence on commodities is not merely anecdotal. UN Trade and Development defines an economy as commodity-dependent when commodities account for more than 60 percent of its merchandise export value. The organization warns that this dependence leaves economies particularly vulnerable to fluctuations in commodity prices and export volumes.

UNCTAD's Commodities and Development Report 2023 goes further, arguing that decades of dependence on a limited number of raw materials—including oil, copper, cacao, and wheat—have hindered economic growth and undermined well-being in commodity-dependent developing economies. The organization consequently identifies economic diversification as a central strategy for escaping this dependence.

That creates a problem for an expanded hemispheric free-trade regime.

Trade theory assumes that countries benefit when they specialize according to comparative advantage. But comparative advantage is not necessarily permanent. A country that has cheap labor and abundant agricultural land may have a comparative advantage in agricultural commodities today without that being the economic future it wants tomorrow.

If trade policy simply rewards that existing advantage, it can reinforce specialization rather than encourage transformation.

Imagine two countries that both produce coffee. If both want access to the same American market, neither can differentiate itself simply by producing "coffee." The products are substitutes. Their competition therefore shifts toward quality, efficiency, and—when those are difficult to improve—price.

The problem is that price competition has a floor.

A company cannot indefinitely lower its price while maintaining the same wages, benefits, infrastructure costs, and production expenses. Eventually, something has to give.

For workers in economies with strong labor institutions, that pressure may be constrained. But Latin America's labor markets already have a major vulnerability: informality.

The International Labour Organization reported that 47.6 percent of employment in Latin America and the Caribbean was informal in 2024. Informality is particularly prevalent among workers in low-value-added agriculture, where employment tends to be more vulnerable and social protections are weaker.

That means nearly half of the region's workers already operate outside the protections associated with formal employment.

Now add another incentive to cut costs.

The Race to the Bottom

This is where the argument against indiscriminate trade expansion becomes less about tariffs and more about incentives.

The concern is not that every Latin American exporter will suddenly exploit its workers. That would be both inaccurate and impossible to prove.

The concern is that when multiple countries compete for the same consumers with similar products, firms have an incentive to minimize production costs. Where productivity gains and technological investment are available, that can be beneficial. But where those improvements are expensive or slow, lowering labor costs can become an easier way to remain competitive.

History provides a warning.

United Fruit did not simply grow bananas. The company built an enormous vertically integrated system around them. A 1954 U.S. State Department document described United Fruit as owning or controlling plantations, approximately 1,500 miles of railways, ports, a fleet of 65 ships, and telecommunications infrastructure, with its operations affecting the economies of Guatemala, Honduras, Costa Rica, and Panama.

Academic research similarly documents how the company's economic influence extended into labor relations and political institutions. The Oxford Research Encyclopedia notes that United Fruit acquired such substantial power in Guatemala and Honduras that it came to function as a "state within a state," while dividing its workforce along racial and ethnic lines and receiving concessions over land, railroads, and ports.

The modern system is obviously different.

There is no United Fruit Company running Central America's railways.

But the underlying economic vulnerability can survive even when the institution disappears.

A country does not need to be politically controlled by a foreign corporation to become dependent on exporting low-value goods. It only needs an economy where remaining competitive requires continually keeping production costs low.

But Isn't USMCA Supposed to Protect Workers?

This is the strongest response to the argument—and it should be taken seriously.

USMCA is not simply NAFTA with a new name. It includes substantially stronger labor provisions, including the Rapid Response Labor Mechanism, which allows the United States to challenge specific Mexican facilities where workers' rights to freedom of association and collective bargaining are being denied.

And the mechanism has produced real results.

In 2024, the United States and Mexico successfully resolved labor cases involving facilities including Teklas Automotive and RV Fresh Foods. In the Teklas case, workers had faced retaliation and interference with union activity before remediation measures were implemented.

Another USMCA case involving Goodyear resulted in more than $4.2 million in backpay for workers, independent union representation, and additional benefits after the company was found to have denied workers their rights.

So the argument cannot simply be that trade agreements have no ability to protect workers.

They clearly can.

The more difficult question is whether those protections are enough to overcome the economic incentives created by expanded competition—and whether countries beyond Mexico would possess the institutions necessary to enforce similar standards.

That distinction is critical.

A labor provision can establish a right.

It cannot automatically create the institutional capacity required to enforce that right.

And when nearly half of the region's workers are already employed informally, enforcement becomes particularly important.

Cheap Goods, Expensive Economies

There is another reason to worry about excessive price competition: workers are consumers too.

When wages remain low, workers have less purchasing power. That matters because domestic consumption is itself an important component of economic development.

An economy that exports more but leaves most workers trapped in low-wage employment has not necessarily achieved broad-based prosperity.

This is why commodity dependence matters beyond the commodity sector itself.

If an economy's major exports remain concentrated in products with limited domestic value addition, the country may earn foreign exchange without developing the productive capabilities needed to move into higher-value industries.

UNCTAD explicitly identifies this problem, arguing that long-term reliance on a limited number of raw-material exports has hindered development in commodity-dependent economies.

The goal of trade policy, therefore, should not simply be to help countries export more.

It should be to help them move up the value chain.

Selling coffee beans is useful.

Processing, branding, packaging, financing, distributing, and marketing coffee can capture substantially more of the value generated by the final product.

The same principle applies to agricultural goods, metals, energy, and manufacturing.

Trade should provide a ladder.

It should not become a treadmill.

The New Banana Republic

This is why the history of United Fruit remains relevant—but only if the analogy is used carefully.

Modern Latin America is not the Central America of the early twentieth century. Governments have far more authority over multinational corporations. Workers possess legal rights that did not exist in the same form a century ago. And modern trade agreements can contain meaningful labor enforcement mechanisms.

But the economic question remains familiar:

Who captures the value?

United Fruit's historical power came partly from controlling the infrastructure surrounding a commodity. Modern economic dependency can operate through a different mechanism: countries remain specialized in commodities while foreign consumers, corporations, and markets capture much of the higher-value activity surrounding them.

The difference is that the modern version does not require anyone to take control of the country.

The incentives can do the work themselves.

If Guatemala, Chile, Colombia, Ecuador, Honduras, Peru, and other economies increasingly compete for access to the same wealthy markets while maintaining similar commodity-heavy export structures, expanded trade could increase competition without fundamentally changing the production model.

They would have more access to the American market.

But they could still be selling the same things.

And if they are selling the same things, they have to compete somehow.

If they cannot compete through productivity, technology, infrastructure, or innovation, they may compete through price.

And if price becomes the primary measure of competitiveness, labor becomes one of the easiest costs to squeeze.

That is the modern banana republic—not a foreign corporation controlling an entire government, but a region whose economic development remains constrained by what it can produce cheaply.

Conclusion and Policy Implications

The answer is not to abandon free trade.

Latin America needs international markets. It needs investment. It needs access to American consumers. And the evidence does not support the simplistic claim that trade inevitably makes workers poorer.

The problem is trade without transformation.

An expanded USMCA should therefore be evaluated according to whether it helps Latin American countries diversify their economies rather than merely export more of what they already produce.

That means pairing market access with policies that encourage higher-value manufacturing, domestic processing, infrastructure, worker formalization, technological investment, and productivity growth.

The goal should be to make Latin American workers more valuable because they are more productive—not because they are cheaper.

That is the fundamental difference between development and dependency.

A century ago, the United Fruit Company helped turn Central America into the world's banana republics by building an economic system around a single commodity and wielding extraordinary power over the infrastructure surrounding it.

Today, no corporation needs to control the railroads.

If countries remain trapped competing against one another over the price of the same commodities, the market itself can reproduce a version of the same dependency.

History will not tell us whether expanding free trade creates prosperity or simply expands the market for cheap commodities.

But it does tell us one thing:

We should stop going bananas over trade agreements that measure success by how much Latin America exports instead of what Latin America becomes capable of producing.

Limitations

- Commodity dependence varies substantially across Latin American countries; regional patterns should not be interpreted as identical national conditions.
- Trade does not inherently produce exploitation or low wages. Export participation can increase productivity, and the relationship between exports and worker compensation is more complicated than a simple "race to the bottom."
- The USMCA Rapid Response Labor Mechanism demonstrates that trade agreements can successfully enforce certain worker protections, making it inaccurate to argue that labor provisions are inherently ineffective.
- The United Fruit Company analogy describes a structural similarity in economic dependence, not an assertion that contemporary Latin America is politically equivalent to the early twentieth-century "banana republics."
- Commodity dependence measures export composition and vulnerability; it does not by itself establish that a country has low wages, poor labor enforcement, or weak institutions.
- The argument that price competition necessarily produces labor exploitation is therefore better understood as an incentive-based risk rather than an inevitable outcome.

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