

# Trade Liberalisation and Fair Trade Demands: Addressing Environmental Standards and Labour Issues

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December 11, 2015

- ▶ In this paper he provides arguments for rejecting the demands from the rich countries for higher environmental and labour standards.
- ▶ The author notes that high degree of competition in the world economy made nations sensitive to domestic policy or institution abroad that seems to give one's foreign rivals an extra edge.
- ▶ Protectionists seek protection by invoking unfairness of trade as an argument for getting protection.
- ▶ Race to the bottom – if lower standard attracts production in foreign countries, it also create a pressure on the rich governments to lower the standard.
- ▶ There could also be moral concerns by labour and environmental lobbies.

- An economist cannot object to Cross country Intra industry, CCII, differences in standards such as different pollution tax.

## a) *Indefensible Demands for Eco-dumping*

- ▶ The diversity of CCII standards will follow from differences in tradeoffs between aggregate pollution and income at different levels of income.
- ▶ When richer Americans prefer to save dolphins from purse-seins nets whereas poorer Mexicans prefer to put people first.
- ▶ Mexicans will want to worry more about clean water, as dysentery is a greater problem, than Americans who will want to attach greater priority to spending pollution dollars on clean air.

- ▶ We should recognise that if we lose competitive advantage because we put a larger negative value on a certain kind of pollution whereas others do not is simply the flip side of the differential valuations.
- ▶ Besides, it is worth noting that the attribution of competitive disadvantage to differential pollution tax burdens in the fashion of CCII comparisons for individual industries confuses absolute with comparative advantage.
- ▶ Thus, for instance, in a two-industry world, if both industries abroad have lower pollution tax rates than at home, both will not contract at home. Rather, the industry with the comparatively higher tax rate will.

- ▶ But one worry remains: free trade with countries with Lower Standards will force down ones Higher Standards.
- ▶ This is a valid theoretical point. But is there any empirical evidence that capital moves to countries with lower standards?
- ▶ Do we see strategic *race to the bottom*?
- ▶ There is very weak evidence in support of this proposition.
- ▶ A likely scenario is race to the bottom with respect to tax breaks and not environmental standards.

# Regulate the firms in Low standard countries whose headquarters are in High Standard countries

- ▶ The political voice behind the demand for harmonization of standards get strengthened when plants are closed by ones own multinationals and shifted to other lower standard countries.
- ▶ But leveling of differences is not so good idea.
- ▶ Moreover, as empirical studies suggest the gain from such policy is minimal.

- ▶ The disadvantage of this proposal is that it does violate the *diversity-is-legitimate* rule.
- ▶ It reduces the efficiency of gains from a freer flow of cross country investments today.
- ▶ Also there is intra OECD difference in high standards.
- ▶ This means that if British home standards are more relaxed than the French standards, British MNCs will have an edge over the French MNCs.

- ▶ Transborder spillover of pollution is an even more complex.
- ▶ Ozone layer depletion is one of the example of such issues.
- ▶ The major issue in such case is the problem of free riding.
- ▶ For example, if China reduces  $CO_2$  emission and US does not do anything, nothing can prevent US from enjoying the benefit from reduced  $CO_2$  that emanated from China's action.

- ▶ The problem is compounded because the agreement itself has to be legitimate.
- ▶ Otherwise nothing prevents the politically powerful (i.e. rich) nations from imposing inequitable burden of environment protection on the politically weak countries using the cloak of WTO agreement.
- ▶ Poor nations are on the defensive positions.

- ▶ Thus at the Rio conference in 1992, the Framework Convention on Climate change set explicit goals under which several rich nations agreed to emission level-reduction targets.
- ▶ The commitments of the poor countries were contingent on the rich nations footing the bill.
- ▶ Any formula for burden sharing depends on past emissions, current income, current populations etc is inherently arbitrary and they often don't show any regard for efficiency.

- ▶ Economists will argue for burden-sharing on the basis of cost minimization principle.
- ▶ If Brazilian rain forests must be saved to minimize the cost of a targeted reduction in  $\text{CO}_2$  because it is costly to stop the US from using gasoline, then that's the efficient solution.
- ▶ But in that case the US should compensate Brazil.
- ▶ The idea of pollution permit arises from this idea

- ▶ There are similarities and differences between the environmental question and the question of labour standard embedded in social clause.
- ▶ Labour issue has nothing analogous to transborder environment.
- ▶ Labour standards are purely domestic and has no externality.

- ▶ Social clause allows one contracting party to suspend other country's trading right based on the first party's morality.
- ▶ But diversity of labour practice may result from cultural diversity.
- ▶ labour standards. The notion that labour standards can be universalised, like human rights such as liberty and habeas corpus, simply by calling the labour rights ignores the fact that this easy equation between culture-specific labour standards and universal human rights will have a difficult time surviving deeper scrutiny.

- ▶ The values of the US is far from universal.
- ▶ In fact, many of the labour practice may be deemed immoral from European perspective.
- ▶ For instance, worker participation in decision-making on the plant, a measure of true economic democracy much more pertinent than the unionisation of labour, is far more widespread in Europe than in North America.
- ▶ Shall we then condemn North America to denial of trading rights by the Europeans?

- ▶ There are several cases of mistreatment of migrant labour in American agriculture due to corrupt enforcement.
- ▶ Does this mean that other nations should prohibit the import of US agricultural products?
- ▶ Sweatshops exploiting female immigrants in textiles with long hours and below-minimum wages are endemic in the textile industry, as documented amply by several civil-liberties groups.
- ▶ Does that mean that US textile export should be banned by other countries?

- ▶ Even the right to organise trade unions may be considered to be inadequate in the US if we go by results: only about 12 per cent of the US labour force in the private sector is unionised.
- ▶ It is no secret that unionization is actively discouraged in the US.
- ▶ The right to strike is restricted in essential industries. But the definition of essential industries reflects political culture.

- ▶ Even the issue of child labour is more complex than it seems in the first go.
- ▶ Even within north America there are age exemption for working in family farms.
- ▶ The pertinent question is whether children work in hazardous condition.
- ▶ Whether child labour should be altogether prohibited in a poor country is a matter on which views legitimately differ.
- ▶ Many feel that childrens work is unavoidable in the face of poverty and that the alternative to it is starvation which is a greater calamity.

- ▶ The demand of social clause is grounded on the belief that there exist universal morality regarding labour standards.
- ▶ The demand for social clause in the WTO emanating from major OECD countries is probably coming from the desire of labour unions to protect their jobs by protecting the industries that face competition from the poor countries.
- ▶ The social clauses that are being demanded are the ones which are generally lacking in developing countries.

- the choice of standards chosen for attention and sanctions at the WTO is also clearly biased against the poor countries in the sense that none of the problems where many of the developed countries would be found in significant violation - such as worker participation in management, union rights, rights of migrants and immigrants - are meant to be included in the Social Clause.

# If not Social Clause, What Else?

- ▶ If Social Clause is not a good idea, what can be done for improving labour standards?
- ▶ The author suggests some kind of domestic consultation process involving NGOs
- ▶ He also maintains that boycott usually does not get the desired result.
- ▶ He is of the opinion that it is ILO rather than WTO which is likely to create some consensus regarding labour standards.
- ▶ Moreover, even without social clause, domestic public sentiment forced the US (in Tuna Dolphin case) and France (in Beef hormone case) to take unilateral stand of trade suspension.