

EC246-2-AU – Lecture 9
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Globalisation, Trade, Environmental Protection and Labour Standards

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Plan of talk

- **Introduction**
 1. Globalisation: definition and **economic effects**
 2. WTO and the “**trade and ...**” agenda
 3. WTO and **environmental protection**
 4. WTO and **labour standards**
 5. Globalisation: how to address the **anxieties**
- **Wrap-up**

Aim and learning outcomes

- **Aim:** to understand
 - the process of globalisation
 - the role WTO and other international institutions have to play in it
- **Learning outcomes**
 - define and characterise globalisation
 - relate to it the currently debated agenda of WTO
 - clarify the tensions b/n WTO and environmental protection
 - explain why labour standards should not be the focus of WTO but rather of ILO
 - discuss World Bank agenda for an inclusive world economy

Globalisation: a definition

- World Bank website on Globalisation:
http://www1.worldbank.org/economic_policy/globalization/
- the process of **growing integration** of *economies* and *societies* around the world
- a *complex* phenomenon that affects at present **many aspects** of everyday human life
 - the terrorist attacks on the US on September 11, 2001
 - the rapid growth and poverty reduction in China, India and other countries that were poor 20 years ago
 - the development of the internet and easier communication / transportation
 - the spread of AIDS as well as the advance of life-extending technologies
- our **focus**, consistent with the course
 - on the *impact of economic integration on developing countries*
 - in particular, on the poor people living in them

Globalisation: key economic effects

- successful **integration** (into the world economy) has generally supported **poverty reduction**
 - poor countries with a population of 3 bln, the “new globalisers”, have become exporters of manufacturers and services, raising their avg income
- **inclusion** (into the global economy) has acted on *both* of two important dimensions related to **inequality**
 - **across countries**: higher income in most of the developing world; **yet** rising poverty and *marginalisation* of countries with 2 bln people (the extreme case of a “failed state” – e.g., Afghanistan or DR Congo)
 - **within countries**: integration has not typically led to greater inequality; **yet** winners (consumers and those who find jobs in new industries) and *losers* (firm owners and employees in protected inefficient sectors)
- **standardisation/homogenisation**: potential loss of *cultural* and/or *institutional* identity (“Americanisation”)

Globalisation: causes and anxieties

- *increased (economic) integration* is the **result** of
 - reduced costs of transport
 - lower trade barriers
 - faster communication of ideas
 - rising capital flows
 - intensifying pressure for migration
- globalisation has generated *opportunities* but also **fears** about
 - rising inequality (across and within countries)
 - shifting power (across and within countries)
 - cultural uniformity (across and within countries)

Globalisation: three waves

- 1870 – 1914: 1st globalisation wave, transport + trade + migration
 - from Europe to America: 60 mln people
 - from China and India to neighbouring East-Asian regions: of the same order
 - exports-to-income doubled to 8%, labour flows were 10% of population
- WWI, inter-war period (Great Depression), WWII: drawback to beggar-thy-neighbour protectionism
 - caused by (i) incompetent economic policies, (ii) unemployment, (iii) nationalism
 - trade share in income fell to its level of 1870, growth of p.c. income fell by 1/3
 - inward-looking policies thus erased 80 years of progress in transportation
- late 1940s – late 1970s: 2nd globalisation wave
 - mostly in rich countries (GATT, OECD) => long-lasting economic growth
 - growth in developing countries also recovered but less strongly => gap widened
- early 1980s – present: 3rd globalisation wave, spurred by
 - technological advance in transport and communications
 - the turn from import-substituting to export-oriented strategies in large developing economies (acting as regional leaders in the multilateral trade negotiations)

Globalisation and international architecture

- Trade policy ⇔ free movement of **goods**
 - rich countries maintain barriers in exactly the areas where developing countries have comparative advantage: agriculture and labour-intensive manufactures
 - protection in rich countries costs developing countries more than USD 100 bln per year, *twice* the total aid from North to South
 - a development round of MTNs to address and resolve such problems
- Financial architecture ⇔ free movement of **capital**
 - FDI to developing countries have soared
 - *sound* financial systems matter: 1997 financial crisis in East Asia
- Migration ⇔ free movement of **labour**
 - *economic pressures* for migration face *legal restrictions*
 - in Japan and EU, the *ratio of workers to retirees* will decline from 5 to 1 to 3 to 1 in 2015 => strain on *social security systems* => more migration

Globalisation and domestic institutions

- Firms in *open* economies face **more competition**
 - ⇒ churning of *firms* (\equiv more entry and exit)
 - ⇒ and of *labour*
 - ⇒ a *disruptive* aspect of globalisation
 - ⇒ *social protection* needed: unemployment benefits, retraining
- Poor **investment climate**, problems with **property rights**
 - e.g., Nigeria, Pakistan, Russia in the 1990s
 - ⇒ need to be addressed if *integration benefits* are to be reaped in such countries
- **Skill premium** \equiv the *extra* pay of skilled workers
 - ⇒ a better *education* system to provide opportunities for all

WTO and the “trade and ...” agenda

- Kennedy Round: MTNs concerned about **domestic regulatory policies** and administrative procedures with an *impact* on trade
 - **Types of integration** (Tinbergen, 1954)
 - *negative (shallow)* integration ≡ agreement *not to do* specific things and *how* to retaliate (e.g., CVDs) → GATT/WTO: eliminating discrimination
 - *positive (deep)* integration ≡ agreement to pursue *common* policies, to *harmonise* → EEC/EU
 - Is WTO the *appropriate* forum to address a specific issue? Key criterion for inclusion is that an issue should be **trade-related**
- ⇒ **WTO’s “trade and ...” agenda**: trade and the environment, trade and labour, trade and competition, trade and investment, ...
- The challenge to WTO members now: to determine **how trade-related** should a regulatory issue be to be considered in WTO

WTO-relevance criterion: contestability of markets

- **Market access** has been the *raison d'être* of GATT
- Should it remain the basic objective of WTO? Many WTO members do not think so => **inclusion** of new issues, beyond market access (narrowly defined)
- A reasonable *criterion* to include an issue or not in WTO from an economic point of view is the **contestability of markets**: if policy directly affects competition => the issue is WTO-relevant
- In contrast to trade policy, when it comes to **regulation** and **market structure** there are few, if at all, clear-cut policy recommendations to ensure welfare gains => difficult to decide whether deep integration is called for – HK, Fig. 13.1, p. 417
- Trade policy is rarely an appropriate instrument for **non-economic** objectives!

WTO and environmental protection: history

- Late 1960s: the *impact* of **environmental regulation** on *trade* discussed in GATT
 - a period when *fears* arose about the limits of growth and the depletion of natural resources
 - OECD countries began pursuing *environmental policy* with more vigour
 - *complaints by affected industries* that the costs of complying with these regulations reduced their ability to compete
- 1971: GATT Working Group on **Environmental Measures and International Trade** → but *never met*, due to preoccupation with the oil shocks and the ensuing recessions
- 1991: GATT Working Group **reactivated** <= *tuna-dolphin* dispute
- 1994: within WTO, *transformed* into a **Committee on Trade and Environment (CTE)**

WTO and environmental protection: issues

1. **Cross-border spillovers** \Leftrightarrow *externalities*: production or consumption activities have negative impact abroad – e.g., air/water pollution, acid rain or consumption of ivory → trade policy is *not the right instrument*: direct cost internalisation
2. **“Inadequate” national policies**: no spillovers – US-Mexico GATT *tuna-dolphin* case (dolphin-friendly nets) in late 1980s
3. **Trade and the environment**: freer trade \Rightarrow more production and transport \Rightarrow more pollution → not necessarily, e.g., if internalising the cost of environmental standards or coal-industry protection vs imports of cleaner energy sources
4. **Competitiveness** → no sense to restrict imports, this promotes the polluting domestic activities which policy tries to constrain
5. **Environmental protectionism** → de facto, NTB effect – US newsprint recycling: 10% fall in US sales of Canadian firms

CTE and environmental protection: lessons

- Work of **CTE** has led to the following conclusions
 - trade policy has *little if any* role to play in the pursuit of environmental objectives
 - WTO does *not* restrict use of green policies by its members
 - *multilateral environmental agreements* (MEAs) are the appropriate instrument to address global environmental problems (global warming)
 - *carrots, not sticks*, are called for if a country seeks to induce another to adopt stricter environmental norms: the *shrimp-turtle* dispute b/n US and India, Pakistan, Malaysia and Thailand in 1997
- It seems more appropriate for concerned **NGOs** to push for *voluntary labelling* or *consumer boycott*: such an approach
 - allows *consumers* to make informed choices and
 - creates incentives for *producers* to incur technologies and labelling costs by increasing the price of goods preferred by certain segments of society

ILO and labour standards: (pre)history

- Discussions of workers rights and trade have a long history
 - 19th century: the main question was of **improving working conditions**, **trade** entered the debates because of concerns that domestic legislation
 - prohibiting *child labour* and
 - limiting the *working week*
 - put industries at comparative disadvantage
 - 1919: **ILO** – a unique body, insofar *tripartite*: employers, labour unions and governments brought together
 - numerous *conventions* dealing with aspects of working conditions
 - governments may adopt (ratify) them on a *voluntary* basis => no binding enforcement mechanism although compliance monitored
 - *complaints* and *economic sanctions* envisaged but never applied
 - since 1950s: US and some OECD countries have tried to introduce, without success, **labour issues into GATT**

WTO and labour standards: history

- The *primary* reason why proponents seek bringing labour standards into WTO is WTO's **functioning DSB** (as with *IPRs*)
- A *complementary* factor is fear that closer integration may lead to a **race to the bottom** (as with the *environment*)
- Final stage of Uruguay Round: US and France at last succeeded to bring labour standards into WTO agenda → their objective was to introduce a **Social Clause** specifying *minimum standards*
- mid-1990s: ILO urged WTO that members ratify ILO conventions on so-called **core labour standards**
 - prohibition of forced labour
 - right of workers to form unions and engage in collective wage bargaining
- Populist calls to reduce differences in **labour costs** make no sense ⇔ protectionism: *gains from trade* arise from differences in costs, due to endowments, technologies and productivity!

WTO and labour standards: issues

1. Is there a **link** between labour standards and trade: are trade flows distorted and competitiveness impaired because of differences in standards?
 - Ehrenberg (1994): impact on competitiveness of firms depends on the circumstances, so it is not necessarily the case that high standards w.r.t. social security reduce the ability of firms to compete on world markets
 - if the implicit tax is borne by workers, via lower wages, labour costs remain unaffected
 - if they are, higher prices reduce foreign demand and the exchange rate depreciates, lowering living standards but alleviating competitiveness loss
 - As with environmental policies, as long as labour standards reflect voters' preferences, the costs of their implementation simply involve a trade-off b/n monetary and non-monetary wealth that society has made!
2. Are trade sanctions **efficient** to enforce labour standards?
 - No, they lead to welfare cost at home and to unemployment in the target country!
 - This should be an ILO, not WTO, task!

Globalisation: World Bank's agenda for action

1. A development round of trade negotiations ⇔ Doha 2001
2. Good economic governance
 1. control of corruption
 2. well-functioning regulation
 3. protection of property rights
 4. contract enforcement
3. Good delivery of education and health services
4. Social protection tailored to the labour market
5. More and better managed foreign aid
6. Debt relief
7. Tackling greenhouse gases and global warming: broader, non-economic issues

Concluding wrap-up

- **What have we learnt?**
 - what globalisation is and what its causes are
 - what its economic effects are and why some related anxieties appear reasonable and require solutions
 - what reactions to globalisation problems within WTO are inappropriate from an economic point of view
 - what could, however, be done to address them outside WTO
- **Where we go next:** to the political economy of international trade policy as exemplified by the tensions b/n NGOs and WTO in Seattle 1999 and after