ENVIRONMENTAL AND LABOR STANDARDS
WHAT ROLE FOR THE WORLD TRADE ORGANIZATION?

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ABSTRACT

Environmental And Labor Standards: What Role For The World Trade Organization?

While social policies, particularly environmental and labor standards, are not new to trade policy fora, they are likely to have a more prominent role in the years ahead for the new World Trade Organization. Many developing countries perceive the entwining of these social issues with trade policy as a threat to both their sovereignty and their economies, while significant groups in advanced economies consider it unfair, ecologically unsound, even immoral to trade with countries adopting much lower social standards than theirs. This paper examines why these issues are becoming more prominent, why they are being entwined with trade policy, why this is a concern to liberal traders, and what roles if any the World Trade Organization (as compared with other multilateral fora) should play in providing the international rules and other institutional support needed for ensuring adequate environmental and labor standards.

Key words: Trade and environment, trade and labor standards, WTO, GATT

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SUMMARY

While social policies, particularly environmental and labor standards, are not new to trade policy fora, they are likely to have a more prominent role in the years ahead for the new World Trade Organization. Many developing countries perceive the entwining of these social issues with trade policy as a threat to both their sovereignty and their economies, while significant groups in advanced economies consider it unfair, ecologically unsound, even immoral to trade with countries adopting much lower social standards than theirs. This paper examines why these issues are becoming more prominent, why they are being entwined with trade policy, why this is a concern to liberal traders, and what roles if any the World Trade Organization (as compared with other multilateral fora) should play in providing the international rules and other institutional support needed for ensuring adequate environmental and labor standards.

The perceived need for international rules and institutions to address environmental and labor concerns arises from two sources. One is the long-standing problem that, since cross-country differences in standards affect the international competitiveness of firms, they give rise to claims of ‘unfair’ trade. Such claims can undermine support for the GATT/WTO rules-based global trading system unless those rules are widely perceived to be well designed for today’s circumstances. The other source of concern has to do with international spillovers. Examples of international physical spillovers abound with respect to the environment (eg, ozone, greenhouse). In addition, many would claim that other considerations also are worthy of attention, and with respect to not only the environment (eg, animal welfare) but also labor standards (eg, workers’ rights). When people want to influence the actions and policies of other countries for the sake of the environment or to improve workers’ conditions, a considerable degree
of complexity is added to international relations, not least because that motive can be used to disguise a traditional commercial motive for trade intervention.

The paper assesses the above concerns and their implications for the WTO and other multilateral institutions. It examines the need for altering WTO rules or at least promoting the appropriateness of existing rules to ensure that the global trading system is perceived as ‘fair’. It argues that the role for the WTO is very limited, especially with respect to labor standards, but again that there is a need to make it much more widely known as to why. The International Labour Organization is a more appropriate body to address labor market concerns, notwithstanding its difficulties with enforcement. Likewise, even in the absence of a World Environment Organization there is ample scope for solutions to international environmental problems via single-issue multilateral environment agreements. To encourage membership and compliance, such agreements have sometimes included trade provisions (eg, the Montreal Protocol on CFCs and the CITES agreement on endangered species). An important role for the WTO is to establish firm guidelines for the inclusion of such provisions and to be involved in the negotiating of such agreements to ensure they do not reduce welfare through undermining the global trading system, including via the settlement of disputes.
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WHAT ROLE FOR THE WORLD TRADE ORGANIZATION?

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During the past decade there has been a resurgence of interest in the links between trade and foreign direct investment on the one hand, and environmental and labor standards on the other. Social standards in poor countries are being questioned by groups in richer countries concerned about resource depletion, environmental degradation, and abuses of human rights in the workplace. Many in developing countries perceive the entwining of these social issues with trade policy as a threat to both their sovereignty and their economies, while significant groups in richer countries consider it unfair, ecologically unsound, even immoral to trade with countries adopting much lower social standards than theirs.

After first summarising the issues involved, this paper examines why these issues are becoming more prominent, why they are being entwined with trade policy, why this is a concern to liberal traders, and what roles if any the World Trade Organization (as compared with other multilateral fora) should play in providing international rules and other institutional support needed for ensuring adequate environmental and labor standards.

What are the issues?

Two separable but related sets of issues are involved. One is the concern in high-standard countries that some of their firms suffer a competitive disadvantage because of lower environmental and labor standards abroad. The other has to do with international externalities. Consider each in turn.

Competitiveness concerns

We should not be surprised that there are vast differences across countries in environmental policies and labor standards. These policy differences in part are a natural consequence of differences in national incomes: as communities become richer, they increase their demands for all normal goods, including higher environmental and labor standards. Environmental and labor policies differ also because of international differences in tastes and preferences. Indeed, one of the defining historical features of many countries was the bringing together of a group of people whose preferences were
more similar to each other than to those of neighboring groups (Alesina and Spolaore 1995).

As international economic integration proceeds, pressure increases to reduce differences in domestic policies that have significant trade consequences. This pressure is driven not just by the desire to reduce administrative and conformance costs. More important are concerns in countries with high standards that costs of production for their pollution- or labor-intensive firms are higher than those in countries with lower standards, causing them to be less competitive. Such differences become ever-more important as traditional barriers to trade and investment between countries fall (Bhagwati 1996). They lead to claims in the North of eco- or social-dumping, and fears in the South of reduced access to their export markets in high-income countries.

In high-standard countries some groups fear a ‘race to the bottom’ as governments compete to attract and keep investments in their territory by lowering standards. In poor countries, on the other hand, people fear being forced to raise standards at an earlier stage of development than they would otherwise choose, thereby reducing their comparative advantage in products whose production is intensive in the use of natural resources or unskilled labor.

*International spillovers*

The issues are made more complicated by the fact that they also involve some externalities that spill over national boundaries. The most obvious examples are physical spillovers associated with global environmental problems such as global warming and ozone depletion. Greenhouse gases contribute to climate change, and CFCs deplete the ozone layer, regardless of which country they are emitted from. Hence there is a concern that if one set of countries seeks to tax or otherwise induce less of these emissions by firms located in their region, the environmental benefits from those measures will be offset in so far as the activities responsible relocate to countries with lower standards. The freer are international trade and investment flows, the less effective will be sub-global regulation and hence the greater the need will be for international cooperation or coercion.

There are at least three difficulties that need to be addressed in coping with global environmental issues. One is the problem of free riding on the efforts of other countries in a many country world without global governance. Another is that countries contribute to these problems unequally, with the richer countries tending in the past at least to have contributed most. And thirdly, countries differ in the importance they place on reducing global environmental problems, depending on income, preferences, information as to causes, and so on. Hence a North-South divide also exists in seeking solutions to these global environmental problems.

To what extent is there a parallel claim with respect to labor standards? Many economists would say there is none, because they perceive no physical labor spillovers of the global-warming or ozone-depleting kind.¹ In addition to physical spillovers, though,

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¹ At least one minor one may be present in some times and places though. It is the effect of high standards for low-skilled workers in attracting unwanted migrants from less-developed economies across
people can be affected emotionally by and have humanitarian concerns for activities abroad. An example is that people may grieve if another country's activities threaten a particular animal or plant species in its jurisdiction, or involve abuse of worker rights or poor working conditions. Or they may grieve if they believe that the desires of another country’s citizens for higher environmental or labor standards in their country are not being recognized sufficiently by their national government (a political market failure).

Some would argue that such emotional/humanitarian concerns are less worthy of consideration than physical spillovers, not least because they are less measurable, less objective, and hence offer more scope for ‘capture’ by traditional protectionists. Others would counter that there is so much uncertainty about the extent and effects of physical spillovers that they too are subjective and hence are qualitatively no different from emotional/humanitarian concerns. Nor is there any reason a priori to presume that the latter are less important than physical spillovers in some ‘willingness-to-pay’ sense. Again, though, richer people are able to afford to place a larger value on such emotional/humanitarian concerns than poorer people, adding to the gap between North and South in terms of perceptions about the need for international mechanisms to deal with these problems.

Why environmental and labor standards have grown in prominence

Fluctuate though they might with the business cycle (positively in the case of environmental issues, negatively in the case of labor standards), these concerns are likely to keep growing. In the case of the environment, one reason is that, even though uncertainties remain, the scientific basis for many of the concerns is perceived as becoming ever-more solid. Another reason is that both the world's population and its real per capita income continue to increase at very high rates by historical standards, adding to demands on the environment. Unfortunately, though, the supplies of most natural resources and environmental services are limited, and markets for many of them are incomplete or absent (because of disputed, ambiguous, or nonexistent property rights, and/or because of the high cost of enforcing those rights).

It is true that the more advanced economies have established institutional structures to help handle the tasks of arriving at a social consensus on what are appropriate environmental or sustainable development policies for that society, of allocating property rights, and of enforcing policies. The same is true in some traditional societies, before they begin to modernize and their resources come under pressure because of declining mortality rates. But these institutions are less common in the newly modernizing economies, where growth in the world’s population and consumption is expected to be concentrated during the next few decades. And at the multilateral level, cooperative intergovernmental mechanisms for environmental policy have only recently

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borders that may be difficult to police. My thanks go to David Richardson for offering this suggestion. The first-best response to such a possibility may simply be to adopt measures to reduce illegal immigration.
begun to be formed and will take some time to become effective, especially where free-rider problems are rife.

Income growth and expanding knowledge also are factors in the case of labor standards: as they become more affluent, people can afford to demand both better working conditions for themselves and, should it concern them, more information on worker rights and conditions abroad (the cost of which is dropping as travel and communication costs fall).

In addition to these general trends, three other economic developments have heightened the prominence of these issues recently. One is the rapid spread of export-oriented industrialization to a growing number of developing countries. That has expanded the demand for natural resources and environmental services in general and the use of fuels in particular which is adding to greenhouse gases. It has also expanded the supply of labor-intensive manufactures, depressing their relative price and hence eroding the demand for workers and capital in unskilled labor-intensive industries in high-income countries. That has contributed to other forces there that have resulted in high unemployment levels and/or a growing wage differential between skilled and unskilled workers in rich countries. There has been a tendency for trade from developing countries to be blamed disproportionately for the poor performance of labor markets in advanced economies, and for relatively low labor standards to be seen as part of the reason for low production costs in the newly industrializing countries.

The second economic development of significance is the accelerating economic integration of national economies regionally and globally. With the internationalization of the world economy, the decline in traditional trade barriers has ensured that any given cost-raising social standard is becoming relatively more important as a determinant of international competitiveness, and the deregulation of foreign direct investment abroad has increased the possibilities for firms to relocate their factories from high- to lower-standard countries.

And the third reason why environmental and labor issues have become more prominent at the global level is because they succeeded recently in penetrating regional integration agreements. Specifically, there is the Protocol on Social Policy annexed to the Treaty of Maastricht signed by EU member governments in February 1992 (Sapir 1996). As well, these issues became the subject of side agreements to the NAFTA in 1993 -- a price President Clinton paid to buy off opposition from environmental and labor groups to the NAFTA's passage through the US Congress. Having been encouraged by their success in those regional economic integration settings, and before that in some minor trade and investment agreements in the 1980s (see Lawrence (1995) for details), the advocates for those side agreements are now seeking to influence the multilateral trade system. In both situations, the desires of the GATT’s contracting parties to conclude, ratify and implement the Uruguay Round agreements on trade liberalization and to create the WTO are simply being used opportunistically by these groups to further their own causes, despite the tenuous connection of those causes with trade. Their relative success to date is in large part because their causes have superficial popular appeal, while the downside in terms of the potential risk to the global trading system is far from obvious to the layperson.
Why is trade policy being entwined with social standards?

In response to the above concerns, both North America and Western Europe sought successfully to have a Committee on Trade and Environment set up at the outset of the World Trade Organization’s establishment, and they have since been actively seeking a WTO Working Party on Trade and Labor Standards. In the latter case, the concern in high-standard countries ostensibly is not so much the lower wage level in developing countries but rather such things as poor occupational health and safety standards, worker rights to form unions and seek a minimum wage level and other improved conditions of employment, the use of child or prison or forced labor, and the derogation from national labor laws in export processing zones. For example, the United States, the European Union and Norway have been seeking the universal adoption of what they see as ‘core’ labor standards: freedom of association and collective bargaining, elimination of exploitative forms of child labor, prohibition of forced labor, and non-discrimination in employment. The US and France were at pains to make clear at Marrakesh that their push for the WTO to consider trade/labor issues was very much focussed on differences in labor standards other than wages. Like ‘green’ groups pushing for tougher environmental regulations, human rights activists and development NGOs often add support to union calls for higher labor standards in developing countries, believing that would improve the quality of life there.

To more fully understand why concerns about environmental and labor standards are being entwined with international trade and investment policy, it is helpful first to ask what economic theory suggests might link them and then to look for empirical evidence that might support that theory.

What does economic theory suggest?

The standard theory of changing comparative advantages in a growing world economy has been developed without consideration of environmental concerns, but it can readily be modified to incorporate at least some of those concerns. As espoused by Krueger (1977) and Leamer (1987), this theory suggests that when a developing country opens up to international trade, its exports initially will be specialized in primary products. This is because its stocks of produced capital relative to natural resources are comparatively low. Should those non-natural capital stocks per worker (including human skills) expand more for this country than globally, the country's comparative advantage will tend gradually to shift to more capital- and skill-intensive activities (particularly manufactures and services). If such countries are relatively land-abundant, some of that produced capital and new or newly imported capital-intensive technology may be employed profitably to extract minerals or farm the land. But in most such countries the new capital will encourage the expansion of nonprimary sectors and shift these countries’ comparative advantage away from primary products. Thus countries that are relatively lightly endowed with natural resources or that are densely populated will tend to industrialize at an earlier stage of economic development, and their nonprimary exports will tend to be more intensive in the use of unskilled labor initially. In the case of
manufactures, the gradual process of upgrading to more capital-intensive production leaves room in international markets for later-industrializing, resource-poor countries to also begin with labor-intensive, export-oriented manufacturing.

If national boundaries were such that there were no international environmental spillovers and no global commons, the above determinants of comparative advantage need be complicated only slightly to incorporate labor standards and nonmarketed environmental services and pollution by-products. The complication required is simply to allow for the fact that as a country's per capita income and industrial output grow, the values its citizens place on the environment and on labor conditions increase and with it their demands for proper valuation of resource depletion and environmental degradation, for the assigning and better policing of property rights, and for the implementation of costly domestic pollution abatement and labor policies—at least after certain threshold levels of income or pollution are reached. Beyond those threshold points the severity of abatement policies is likely to be positively correlated with per capita income, population density, and the degree of urbanization.

If all economies were growing equally rapidly but from different bases, the progressive introduction of national environmental taxes and regulations would tend to cause pollution-intensive production processes to gradually relocate from wealthier or more densely populated countries to developing or more sparsely populated countries. Those environmental policies would also slow or reverse the growth in demand for products whose consumption is pollutive, especially in wealthier or more densely populated countries, where taxes on such products would tend to become high. If more-advanced economies are net importers of products whose production is pollutive, as is likely, the imposition of these countries' optimal environmental policies would worsen their terms of trade to the benefit of poorer economies. Such policies would also worsen the terms of trade of more-advanced economies if they were net exporters of products whose consumption is pollutive (Siebert et al. 1980; Anderson 1992a). The extent of the benefit to developing countries would be greater the more their terms of trade improved as a result of rising standards in advanced economies.

In the case of labor standards, such things as shorter working weeks, higher overtime pay, longer annual leave, and safer and healthier working conditions may (but need not) ultimately raise worker welfare. They presumably raise the cost of employing labor though, otherwise they would have been adopted voluntarily and so there would be no need for government or union action. They are therefore similar to other taxes on production that differ across industries in that their indirect effects need to be considered as well (Ehrenberg 1994). Specifically, they effectively make (particularly low-skilled) labor scarcer. Their gradual introduction as living standards rise contributes to ensuring that the cost of production in labor-intensive industries rises even faster than it otherwise would in relatively rapidly growing economies, thereby reducing the capacity of those industries to compete with producers in low-standard countries while enhancing the

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2 So-called neo-institutionalists argue that higher labour standards would raise worker productivity (see, e.g., Hanson 1983, pp. 53-63), but it is reasonable to assume firms will have already recognised any such possibilities and incorporated them in their work practices. If not, the first-best role for government is to subsidize the provision of information about those opportunities.
capacity of other industries in high-standard countries to so compete, along Rybczynski (1959) lines.

Thus even countries without (or with unchanged) environmental and labor standards are affected through foreign trade and investment by the development of environmental and labor policies that accompany growth in other countries. Hence one country's environmental or labor policy choice is not independent of the choice of standards of other countries. The imposition of higher standards at home alters the international competitiveness of industries, in particular by harming the more pollution-intensive (or labor-intensive) industries in countries with higher standards. Unless they had been developing new, environmentally friendlier (or labor-saving) technologies, such industries would tend to lobby against the imposition of higher standards at home, particularly if their competitors abroad were not being subjected to similar cost-raising policies and/or were equally able to access new technologies. Producers in the less-polluting (or less capital-intensive) industries at home, on the other hand, could benefit from the raising of a particular environmental (or labor) standard.

Environmental and labor groups in rich countries perceive that, since the loss of competitiveness of pollution- and labor-intensive industries could be offset by restrictions on imports from lower-standard countries, such restrictions could at the same time reduce such industries’ opposition to higher standards at home and increase the incentive for foreign firms and their governments to adopt higher standards abroad to avoid being labeled a pollution or cheap-labor haven and subjected to anti eco- or social ‘dumping’ duties. Not surprisingly, those features make trade policy very attractive to environmentalists and unionists. But because such uses of trade policy are discriminatory and protectionist, they are equally unattractive to supporters of liberal world trade. For those concerned about the welfare of unskilled laborers in poor countries, it should be kept in mind that import restrictions in rich countries simply reduce the demand for such workers. So too would the raising of labor standards in the formal sector of poor countries: it simply drives employment into the informal sector (where labor standards are even lower), and/or lengthens the queues of unemployed people seeking high-paid, high-standard formal sector jobs. In the case of young women displaced from their jobs by higher labor standards, they may have to marry and bear children earlier than otherwise, or even to enter prostitution, in order to survive.

As already mentioned, the demand for unilateral use of trade policy for the above reasons has grown with the internationalization of the global economy, in two ways. One is that the decline in traditional trade barriers (tariffs, transport and communications costs, and so on) is making any given environmental charge or labor standard relatively more important as a determinant of international competitiveness, ceteris paribus. The other is that, with the deregulation of financial markets and foreign direct investment during the 1980s, the possibilities for firms to disinvest in countries with high standards

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3 This could easily be shown using a Harris-Todaro type of model as modified, for example, by Corden and Findlay (1975). The consequences of raising labour standards in a multi-good, multi-country world can be quite complex and sometimes counter-intuitive, depending on the assumptions adopted. See the theoretical analysis of several possibilities by Brown, Deardorff and Stern (1996).

4 I am grateful to Anne Krueger for suggesting this possibility.
and relocate their factories in countries with lower standards have increased markedly. Environmental and labor groups fear this development will result in governments delaying the introduction or enforcement of stricter environmental policies or labor standards -- and possibly even a lowering of standards in a ‘race to the bottom’ -- in their attempts to attract or retain investments and hence jobs (Wilson 1996). They also worry that greater relocation opportunities will reduce the incentive for firms to develop more environmentally friendly technologies.\(^5\)

The story becomes more complicated when important international environmental or labor spillovers are taken into account, be they physical or psychological. Controversial though they may be, many people perceive a need for multilateral action to reduce these spillover problems—and that is where trade policy again enters the debate. Trade measures are seen by environmentalists and unionists as providing powerful carrots and sticks for attracting signatories to multilateral environmental or labor agreements and for penalizing nonsignatories, as well as for encouraging other countries to adopt higher national standards, including for the sake of their own citizens and environment. Even just the threat of trade sanctions (particularly if broadened to include unrelated products) may have a rapid and persuasive effect on raising national standards or encouraging a country to join an international environmental or labor agreement and subsequently to abide by its rules.

We know from the standard theory of distortions and welfare that if there is only one distortion in the global economy (for example, trade restrictions), then reducing the extent of that distortion will be welfare enhancing for the world as a whole. Not all groups need gain, but the extent of gain to those who benefit is more than enough to compensate all those who lose. That theory also tells us that if the world has more than that one distortion (for example, also environmental externalities that have not been addressed by optimal policies from a global viewpoint), then reducing only one distortion (trade restrictions) may not increase global welfare. For example, liberalizing trade between industrial and developing countries could lead to excessive felling of tropical forests if there was inadequate protection of forest property rights in the developing countries (Chichilnisky 1994). In such cases all other divergences must be reduced at the same time as trade is being liberalized in order to achieve unequivocal global welfare improvement. Even then, theory tells us that some countries may be made worse off and the environment may still be harmed (Copland and Taylor 1995). Thus it should be

\(^5\) Where the environmental damage caused by production is purely local, the calls by disadvantaged firms for trade restrictions or subsidies to offset the decline in their international competitiveness because of standards being raised has no economic logic: such assistance would tend to offset the desired effect of limiting by-product pollution. See, for example, Baumol (1971) and Siebert (1974). Such protection from import competition cannot be justified on economic efficiency grounds (nor for that matter on environmental grounds) because the environmental policy is aiming to eliminate an unjustifiable (implicit) subsidy arising through undervaluation of environmental resources, rather than to add an unjustifiable tax (Snape 1992). Nor is it reasonable to conclude that other countries are engaging in “eco-dumping” if the imports that they are able to supply are produced with laxer environmental standards, if those lower standards are consistent with the preferences and natural resource endowments of the exporting countries (for example, because those countries are poorer, less densely populated, or less urbanized).
acknowledged by liberal traders that it is not possible to claim with certainty that trade liberalization will improve the environment and welfare for different groups of countries in the presence of significant environmental externalities without appropriately offsetting environmental policies in place.\textsuperscript{6} But equally it should be acknowledged by environmental groups that in many situations trade liberalization may actually help not only the economy but also the environment.

As with environmental standards, traditional protectionist forces in high-income countries are prompt to support any calls for import restraint by countries with high labor standards against goods from lower-standard countries. They sometimes bolster their case by quoting simple trade theory (the Factor-Price Equalization and Stolper-Samuelson Theorems) in support of their argument that liberal trade can lead to factor price convergence and in particular to a drop in low-skill wages in high-wage countries (Brown, Deardorff and Stern 1996) -- even though those theorems have been shown to be not very robust when more than two countries, goods and factors are involved.\textsuperscript{7} As with the environment, it is an empirical question as to what extent if any trade has contributed to the poor labor market performance of OECD countries during the past couple of decades.

\textit{What does the empirical evidence show?}

The reasons often given by environmental groups for their opposition to trade and investment liberalization tend to be based on one or more of the following grounds: that freer trade means more output and income, which they presume would mean more resource depletion and degradation of the natural environment; that freer trade and investment encourages the relocation of environmentally degrading industries to countries with lower environmental protection standards or more fragile natural environments, and leads to greater transport activity, which contribute further environmental damage; and that freer foreign investment reduces the incentive to develop environmentally friendlier technologies.

However, none of these assertions is unambiguously supported by empirical evidence. The first, that income increases mean greater damage to the natural environment, may be true initially for some developing countries (in which case any additional environmental damage has to be weighed against the marginal economic benefits of higher incomes for poor people). But once middle-income status is reached, people tend to alter their behavior in ways that reduce pressures on the environment. A key change is in family size: higher incomes lead in time to lower population growth rates. This change is going to reduce the rate of environmental degradation due to population pressures in developing countries. In rural areas it means fewer people felling trees and denuding hillsides to eke out a subsistence income, while in urban areas it

\textsuperscript{6} Even so, the first-best action is to overcome that political market failure so that trade reform can contribute to boosting welfare (Bhagwati and Srinivasan 1996).

\textsuperscript{7} See Falvey (1995). Markusen and Venables (1996) develop a model in which while multinationals can increase the skilled-unskilled wage gap in rich countries, imposing import barriers does not protect their unskilled labor.
means fewer unemployed or underemployed squatters in shanty towns with poor water and sanitation services. This no doubt is one reason for the empirical finding that many forms of pollution first increase and then decrease as per capita income rises (Grossman 1995, Grossman and Krueger 1993, 1995, Hettige, Lucas and Wheeler 1992, Radetzki 1992, Seldon and Song 1994, and Shafi and Bandyopadhyay 1992). That evidence suggests the demand for implementing and enforcing pollution abatement policies is income-elastic, and that an inverted U-shaped environmental transition may be commonplace as stricter environmental policies are implemented and less-pollutive technologies are introduced.8

Another common behavioral change as economies open up and incomes rise is that the demand for education expands, and with more income and education comes more skillful management of all resources, including the environment, and more forceful demands on governments to improve the establishment and policing of private property rights and of more stringent environmental policies (as indicated by the inverted U-shaped or environmental transition curve mentioned above). As well, the political cost of implementing such policy reforms is reduced because of increased opportunities for businesses to meet stricter standards by acquiring more and cheaper environmentally benign production processes and products from abroad. One might therefore expect that as trade and investment liberalization leads to upward convergence in incomes around the world, there would be an upward harmonization of environmental standards as well (Casella 1995).

As to the assertion by some groups that the relocation of production following trade and investment liberalization necessarily harms the global environment, we know from the law of comparative advantage that not all industries will relocate from rich to poor economies when trade barriers in rich economies are lowered: some industries will expand at the expense of industries in developing countries, and conversely. Recent preliminary examinations of the likely environmental effects of reducing government assistance to two of the most protected industries in industrial countries -- coal and food - -reveal that in both cases the global environment may benefit from trade liberalization, especially if complementary environmental policies are in place. That outcome is possible partly because production of those goods tends to have a higher environmental cost in industrial countries than elsewhere. Moreover, reducing coal producer subsidies in Europe would raise the international price of coal, thereby discouraging its use elsewhere and so lowering global carbon emissions (Anderson 1992b,c; Steenblik and Coroyannakis 1995; Anderson and McKibbin 1997).9

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8 See also Deacon and Shapiro (1975) on the correlation between income levels and voter attitudes toward environmental priorities. Studies aimed at explaining this transition (sometimes called an environmental Kuznets curve) are now beginning to emerge. Beltratti (1995) seeks to explain it in terms of transitional dynamics of endogenous growth models, while Jones and Manuelli (1995) provide a positive political economy model. See also Dean (1996) for an econometrically testable simultaneous equations model to measure the effect of trade liberalization on the environment taking into account the income growth from liberalization.

9 The question of whether it is environmentally friendly to pursue broadly based liberalizations such as the Uruguay Round, as distinct from liberalization in individual product markets, requires large-scale formal global modeling analysis that as yet has barely begun to be attempted. Even if quantitative
The extent of international relocation of productive activities due to the raising and enforcing of environmental or labor standards should not be exaggerated. Recent studies suggest that the effects of such policies on comparative costs may be quite small (Leonard 1988, Low 1992, Jaffe et al. 1995, OECD 1996, Levinson 1996). They also indicate that multinational corporations tend to use cleaner technology than local firms in developing countries (Harrison and Eskeland 1996), and tend to provide higher labor standards than local firms. Japanese multinational corporations are in fact required to adopt the same environmental standards abroad as operate in Japan. Moreover, Tobey (1990) finds little evidence of actual changes in patterns of trade specialization in response to the imposition of environmental regulations since the 1960s -- although as Hoekman and Leidy (1992) note, the absence of observed changes in trade patterns may be the result of import barriers that were raised to offset any decline in the competitiveness of affected industries. Technological changes induced by the raising of standards, and environmental and labor standards raised by the availability of new technologies, also would reduce the likelihood of observing a correlation between rising standards and the international relocation of production.

Nor need the risk of environmental damage from transport activity increase with trade reform. The lowering of import barriers to processed primary products, for example, would allow more raw materials to be processed in resource-rich countries, reducing the bulkiness of shipments. And if there are negative externalities associated with shipping itself (such as the risk of oil spills), a more efficient course of action rather than reducing trade generally would be to ensure shippers pay more of the full cost of their activity (say, through an international agreement requiring a minimum standard of double hulls on oil tankers).

What of the argument that the opportunity for capital outflow breeds pollution havens abroad and thereby reduces the development of environmentally friendlier production technologies in countries with higher environmental standards? Some observers have argued that the opportunities for such innovations are so great that raising environmental standards could boost rather than retard a country’s economy (Porter and van der Linde 1996). But that argument begs the question of why such investments would not have been made in an open economy without the imposition of stricter standards (Palmer, Oates, and Portney 1996). In any case, there is little empirical evidence to suggest that raising standards stimulates innovation, just as there is little theoretical or empirical support for the notion that raising standards has a significant impact on the competitiveness of firms in industrial countries or on their decisions to invest in developing countries (Jaffe et al. 1995, Wilson 1996).^{10}

^{10} Estimates of the various key environmental effects were available, a formidable task would remain in valuing those pluses and minuses and comparing the net value with the conventionally measured economic welfare gain from trade liberalization.

That does not mean, however, that developing country firms would find it inexpensive to conform to the high environmental standards of industrial countries. The reason is that local firms in developing countries may be using older, less environmentally friendly technology that would be more costly to adapt. Indeed, the cost of conformance in industrial countries may be relatively low simply because the raising of legislated standards to some extent follows rather than precedes the development of cleaner technologies. That has been cited as one reason for the relative ease with which agreement was reached
What evidence is there that trade liberalizations and/or differences in labor standards between rich and poor countries contribute, through trade’s effects on factor markets, to the poor performance of labor markets in rich countries? At the outset it should be noted that, once allowance is made for differences in labor productivity, labor is not much cheaper in developing than high-income countries (Trefler 1993). Also, in their recent simulation work, Francois, McDonald and Nordstrom (1996) found real wages in all country groups are projected to increase as a result of implementing the Uruguay Round. Using a similar global CGE model, Tyers and Yang (1995) found through both backcasting and projecting forward that increased imports from Asia do contribute to unskilled-skilled wage dispersion and possibly lower real wages and/or unemployment in the US and EU, but only to a minor extent. Significantly, they also found that restricting imports from Asia would be an ineffective response since its impact through contracting the global economy would be to lower real rewards to all types of labor in industrial countries. Lawrence (1994) and Burless (1995) also found that imports are at most only a minor contributor to poor labor market performance in the US, while the Commission of the European Communities (1996) found that the unemployment problems in the EU were mostly attributable to structural distortions within the Union. Other contributors of much more importance to the changing demand for unskilled relative to skilled workers than trade with newly industrializing countries are the computer and information technology revolutions and the growth of the service sector (Wood 1994). The survey by the OECD (1996) concurred. Moreover, the OECD found little evidence that economies with low labor standards performed better than high-standard economies, nor that economies with low labor standards attracted more foreign direct investment. It also found a positive correlation over time between sustained trade reform and improvements in labor standards.

Why worry about the entwining of trade policy and social standards?

The use of trade policy as a stick (or possibly a carrot) to influence unilaterally the social policies of other countries, and/or to increase the workability of multilateral environmental or labor agreements, raises potential conflicts of interest between rich and poorer economies. There is even dispute over what constitutes national sovereignty and the global commons. Some would argue, for example, that a country or region should not have to bow to international pressure to preserve endangered species in their territory (or at least not without adequate compensation), while others would argue that such countries are merely the custodians of those resources for the benefit of humankind generally.

Such uses of trade policy should concern the world at large, and developing countries in particular. The reason is not so much because the latter may be required to impose higher environmental or labor standards in order to avoid seeing trade barriers raised against their exports. In fact, the competitiveness of some industries in middle-
income countries with mid-level standards may well be enhanced if low-income countries with low standards were required to raise their standards more than them to reach minimum acceptable levels. Even the negative direct effect for low-income economies of having to raise their standards could be offset somewhat by a terms of trade improvement if many such countries were to raise their standards simultaneously. And such benefits would be greater the more developing countries taxed or otherwise restricted the export (or better still the production or consumption) of environmentally sensitive products rather than left the developed countries to tax imports of such products (the lesson from OPEC). Still, people in developing countries are suspicious of the motives of high-income countries, and object to what they perceive as social imperialism and a denial of their national sovereignty.

While developing countries are not being singled out *per se*, the fact is that environmental and labor standards tend to be lower in developing countries simply because they are poorer. That, together with the fact that their comparative advantages often are in natural resource-intensive and labor-intensive industries, means those countries are vulnerable either to being pressured to enforce stricter standards, or to facing less market access for their exports to countries with stricter standards and/or less foreign investment from such countries.

In addition, there are at least three other reasons why the world should worry about the entwining of trade policy with social standards. First, trade policy measures usually are not the best instruments for achieving social objectives. This is because trade sanctions do not directly affect the root cause of environmental or labor market problems. Their use in place of more efficient instruments increases the use of global resources\(^{11}\) and reduces unnecessarily the level and growth of global economic welfare as conventionally measured—and may even add to rather than reduce global environmental degradation.\(^{12}\)

The second reason for concern is that producer interest groups and some environmental groups are finding it mutually advantageous to use environmental and worker rights arguments to support their claims for unilateral import restrictions, particularly following the costly imposition of stricter standards on domestic producers (Hillman and Ursprung 1992, Hoekman and Leidy 1992). In this sense environmental

\(^{11}\) Even the threat of trade restrictions can be environmentally counterproductive. The talk of European import bans on tropical hardwood logs (together with tariff escalation on timber product imports) has encouraged Indonesia to ban log exports. But since felling and timber-product exports have been allowed to continue, this policy has simply lowered the domestic price of logs and thereby raised effective assistance to Indonesia's furniture and other timber-using industries to extremely high levels (GATT 1991, p.127). With lower log prices and lower-quality saw-milling techniques than in importing countries, it is not surprising that less of each tree is now used and little reduction in logging has been observed since the log export ban was introduced.

\(^{12}\) The ban on ivory trade provides a case in point. By lowering the value of elephant products, the ban reduces the incentive for rural Africans to tolerate elephants trampling their crops and so ultimately could result in more rather than less culling of elephants in some areas. In other areas with poor meat storage and transport facilities, the ivory trade ban has reduced the value of the animal so much that it is no longer profitable to cull the herd. An unfortunate environmental consequence is that bushland in national parks is being decimated by the increased number of elephants, which is endangering other species (Barbier et al. 1990).
and labor concerns can provide a convenient additional excuse for raising trade barriers—and one that is socially respectable (Steil 1994). However, such protectionist actions reduce real incomes not just at home but elsewhere too, especially in developing and natural resource-abundant countries.

Third, insofar as this activity can lead to an escalation in trade disputes—as is almost inevitable, especially given the North-South dimension involved and the fact that environmental or labor uses of trade policy are inherently discriminatory—they could be followed by retaliatory and counter-retaliatory action, the end result of which would be an undermining of the global trading system.

What roles for WTO?

The demands for greater harmonization across countries of domestic policies, for competitiveness reasons, coupled with the greening of world politics and the growing interest in worker rights and conditions beyond national borders, are likely to put the WTO and trade policy under pressure to perform tasks for which they were not designed and are not well suited -- and at a time when the WTO needs first to consolidate its role in the world and ensure the completion of unfinished business and implementation of the Uruguay Round.13 Supporters of the WTO are therefore tempted to say the institution should resist all attempts to become involved in these issues.

That strategy is risky, however. While many developing countries might support it, reflect for a moment on its possible consequences. One is that we might see more aggressive unilateral use of trade measures against countries with lower social standards (as with the US against Mexico regarding tuna fishing). Another might be a lesser willingness of advanced economies to maintain liberal trade policies and to participate in future multilateral trade negotiations.14 And a third possible consequence is that we might see more regional integration agreements with side agreements on these issues (as with NAFTA).

Hence some engagement in the debate by the WTO may be wise. At the very least, that could involve reminding the world of some of the non-trade measures and actions available. One is to encourage private actions by firms and consumers (eco- and social labelling, consumer boycotts, corporate codes of conduct).15 Another is for nations to

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13 The suggestion has been made, for example, that the WTO become active in monitoring and enforcing agreed minimum social standards. That presumably would involve environmental and labor standards being reviewed as part of the WTO’s Trade Policy Review Mechanism. Since that mechanism is already stretched to its limit in covering even the major trade policies of contracting parties, such an addition to its workload would require a substantial boost to its resources—not to mention the extra burden on those employed in national capitals when the reviews are under way. An even greater potential increase in workload would result for the WTO’s dispute settlement mechanism.

14 Williamson (1996) warns of this possibility after examining the growth in wage inequality following the globalization of the latter nineteenth century.

15 Such codes have been suggested by multilateral institutions, such as the ILO in 1977 in its Declaration of Principles Concerning Multinational Enterprise and Social Policy, and more recently the OECD in its Code on Multinational Enterprises.
use unilateral aid as a carrot (greater GSP preferences, more development assistance in return for enforcing higher social standards). Multilateral aid and World Bank structural adjustment loans also could be geared to reward developing countries that raise their standards. The WTO also could participate in studies aimed at showing the extent to which trade and investment liberalization is accompanied or followed by a rise in social standards (i.e., that reform is part of the solution, not the problem). Studies identifying more-appropriate measures for addressing these issues also would be helpful.

How “green” are the GATT’s rules at present, how have they been adapted over time, and should they be altered further? From the outset it could be claimed that the GATT has been a conservationist institution in the sense that its purpose is to reduce trade barriers and thereby the inefficiency in the use of the world’s resources. The heart of the GATT, agreed to by twenty-three original contracting parties in 1947 and since then by another hundred or so countries, is the nondiscrimination requirements of Articles I and III. These articles obligate parties to treat imports from any GATT contracting party/WTO member no less favorably than other imports (the most favored nation requirement) and no less favorably, after border taxes are paid, than similar domestic products (the national treatment requirement). That is, they preclude any country using trade measures as sticks to penalize other countries for having, for example, lower environmental or labor standards.

Article XX provides exceptions to these general rules, however, including provisions for some environmental and labor regulations. Specifically, parts (b), (e) and (g) of Article XX allow trade restrictions “necessary to protect human, animal, or plant life or health”, “relating to the products of prison labour”, and “relating to the conservation of exhaustible natural resources if such measures are made effective in conjunction with restrictions on domestic production or consumption,” subject to the requirement that such restrictions “are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade.” The environmental parts of this article have been interpreted to mean that the measure must be primarily for a conservation purpose (rather than for a mixture of motives) and must be necessary in the sense of being the least GATT-inconsistent measure available. These provisos have ensured that the article has been rather narrowly interpreted, which is partly why some environmental groups have felt that further greening of the GATT is required (Charnovitz 1991, Esty 1994). But there is nothing in the GATT that prevents a country from adopting the most efficient measures to offset environmental externalities, which

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16 Woolcock (1996) notes that the European Union decided in 1995 that it will consider in 1998 ways to offer additional GSP preferences to those developing countries that meet the requirements of ILO conventions on forced labor, freedom of association and collective bargaining, and the minimum working age. He also notes that the US 1984 Trade and Tariff Act provides for GSP preferences to be withdrawn (a stick rather than carrot approach) if similar labor standards are not met. Likewise, benefits are to be withdrawn (a) under the Caribbean Basin Initiative if the US deems a country is not complying with those minimum labor standards, and (b) under Section 301 of teh 1974 and 1988 trade acts. The threat of withdrawal of benefits has in most cases been sufficient to induce changes satisfying the US without it resorting to actual trade sanctions. Nonetheless, a carrot rather than stick approach would be more WTO-consistent.
typically are associated with production, consumption, or disposal activities. Nor is a
country precluded from using a trade measure so long as it is prepared to compensate any
trading partner harmed by that measure. But since trade itself is almost never claimed to
be the root cause of an environmental problem, GATT supporters traditionally have seen
little need to consider trade measures as part of the solution to environmental problems
not involving international spillovers.

Trade policy actions are more likely to occur—and to be more difficult to dismiss
as inappropriate—when there are international spillovers though. Consider, for example,
the U.S.-Mexico dispute over the use of dolphin-unfriendly nets for tuna fishing. In that
case the GATT dispute panel ruled against the U.S. ban on imports of tuna from Mexico,
partly because the ban did not discriminate according to which type of net was used. That
kind of discrimination is difficult to achieve efficiently because what is considered
objectionable is an aspect of the production process rather than the final traded product
itself. Had the GATT panel ruled in favor of the tuna import ban by the United States, it
would have set a major precedent. It would have opened a potentially huge loophole in
the GATT for any country unilaterally to apply trade restrictions as a means of imposing
its environmental standards on other countries. Such a loophole would work against the
main objective of the multilateral trading system, which is to provide stable and
predictable nondiscriminatory market access opportunities through agreed rules and
disciplines and bound tariffs on imports. This is why calls to amend Article XX of the
GATT to include environmental protection as an acceptable exception to the
nondiscrimination principles of Articles I and III should be resisted.

Environmental and labor groups perceive trade policy as useful not only as a
means of raising national environmental or labor standards at home and abroad but also
of inducing countries to become signatories to and abide by international environmental
and labor agreements where free-rider problems arise. One of the more obvious and
possibly more cost-effective ways to reduce the free-rider problem is to write trade
provisions into the agreements, as was done in the 1987 Montreal Protocol on reducing
the use of CFCs and halons to slow ozone depletion. To date no GATT contracting party
has formally objected to that use of trade policy. Nor have they objected to the bans on
trade in ivory and rhino horn and tiger products that are part of the Convention on
International Trade in Endangered Species, or to the trade provisions in the Basel
Convention on trade in hazardous wastes. Conflicts may well arise in the future,
however, if trade provisions are drafted into more contentious multilateral agreements
(say, an attempt to impose a global carbon tax or higher labor standards).

In assessing the appropriate role for trade policy in multilateral environmental or
labor agreements, it is helpful to recall that supporters of trade liberalization and of
environmental or labor standards share a common goal: to improve social welfare. They
also share a common problem: the need to foster multilateral cooperation to fully achieve
that objective, because in each sphere (the economy, the environment and, indirectly, the
labor market) there is considerable and increasing interdependence among countries. But
the groups differ in the important respect that supporters of liberal world trade have
understood its virtues for two centuries and have been active for more than fifty years in
building institutions such as the GATT and the WTO to help achieve their goal. Widespread
concerns about the environment, on the other hand, are relatively new, and
supporters of environmental protection only recently became significant players in international policy arenas.

Understandably, supporters of liberal trade and the WTO resent the encroachment of these special-interest groups onto what they perceive as their hard-won territory, especially when they believe that reducing trade barriers is likely to be environmentally friendly and consistent with sustainable development and improved labor outcomes in the long run because it allows the world to use its resources more efficiently. But advocates of greater environmental protection are equally frustrated that international agreements as important as those resulting from the Uruguay Round can be implemented without being subject to environmental impact assessments or environmental safeguards.

Clearly there is scope for greater understanding and altered strategies on both sides. More than that, there is the distinct possibility that, by working together, all groups' objectives will be further enhanced -- a win-win outcome. Some observers believe that it may ultimately require a world environment organization to set rules, incorporate existing international environmental agreements and negotiate new ones, monitor compliance, and settle disputes over environmental policies -- in the same way that the GATT has presided over trade rules and policies for the past five decades (Esty 1994). And just as the GATT/WTO strengthens the capacity of governments to resist the demands of domestic vested interest groups seeking higher import taxes, so a world environment organization may help governments resist interest group demands to set low environmental standards (Deardorff 1995).

The advantage of a world environment organization for liberal traders, Esty argues, is that such an organization could redirect environmentalists' attention away from the use of trade measures and toward ensuring the implementation of more appropriate policy instruments for achieving environmental objectives, allowing both sets of policies to more effectively contribute, in mutually supportive ways, to the common goals of sustainable development and improvement in the quality of life.

However, a world environment organization is unlikely to be created in the near future, partly because governments in many countries are under pressure to downsize and some have a growing mistrust and even hostility toward international bureaucracies. In any case a world environment organization, like the International Labour Organization and other standards-setting international organizations, would lack the teeth to ensure enforcement of agreements. Moreover, the issue of whether the rulings of the WTO or a world environment organization would have precedence would need to be resolved. We know from theory that where the objectives of the two groups are in conflict, achieving the optimal welfare-maximizing outcome requires both to compromise somewhat (Corden 1995), but managing that tension would be difficult.

Thus the trade policy community needs to be involved in the negotiating of multilateral environmental agreements that are likely to include trade provisions, and to develop criteria by which WTO members can assess in advance the extent to which trade restrictions within such agreements are acceptable. The relevant criteria, some of which were enunciated clearly at the United Nations Conference on Environment and

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17 The ILO has been operating for more than 75 years, but has had little success in dealing with disputes (Charnovitz 1987; Woolcock 1996).
Development in Brazil, include the following. First, it is important to ensure that trade provisions are strictly necessary, in the sense that there are no alternative, more effective instruments than trade restrictions, and they need to be effective in achieving the environmental objectives involved. Second, where trade instruments are required in the absence of less costly policy measures, they should be used only in proportion to the size of the associated environmental problem. Finally, the measures ought to be transparent and not protectionist in impact, and where possible be consistent with both the GATT principles of nondiscrimination (most favored nation and national treatment) and key environmental principles such as the polluter pays and the precautionary principles. If those conditions are met, WTO members would be unlikely to object to the use of trade measures in multilateral environment agreements. Hence even the possible need to use trade provisions in multilateral environmental agreements does not provide sufficient reason to amend GATT Article XX to allow in the list of exceptions the use of trade measures for environmental protection.

Since the entwining of environmental and labor issues with trade and investment policy is more likely to tighten than to disentangle in the foreseeable future, the question arises as to how developing countries ought to respond. One response is to point out that industrial countries had lower standards at earlier stages of their development and still have sweatshops operating illegally. Another is that, since developing countries have contributed a disproportionately small amount per capita to global environmental problems such as the greenhouse effect, they should be compensated for contributing to their solutions rather than have that contribution demanded of them under threats of trade sanctions. Compensation would be even more justified in cases where industrial countries are demanding responses by other countries to reduce the emotional/humanitarian concerns mentioned earlier. As Srinivasan (1995) notes, those in rich countries genuinely concerned about low labor standards in developing countries can always transfer income to such groups or lobby to allow such workers to migrate to the more-advanced economies.

Another response by developing countries could be to disseminate more widely the sound arguments for not using trade-restrictive measures to achieve environmental and labor objectives and hence for not amending Article XX of the GATT to allow trade discrimination for those purposes. Those arguments are that:

- differences in standards are a legitimate source of comparative advantage insofar as they reflect differences in resource endowments and societies’ preferences and ability to afford the good things in life;
- standards rise with per capita income and liberal trade promotes income growth;
- theory and empirical evidence provide little reason to expect that the raising of standards in industrial countries will contribute significantly to costs of production and hence to trade and investment patterns, nor that downward harmonization of standards (a ‘race to the bottom’) is occurring;
- if freer trade were to worsen welfare because of inappropriate environmental or labor policies in some countries, nontrade measures such as eco-labeling and income transfers would be more cost-effective than trade policies because they allow consumers to exercise their preferences through the market;
• the GATT rules-based multilateral trading system is threatened by the risk of environmental and worker-rights groups being captured by traditional protectionist groups in countries with high standards, and will be at further risk if GATT Article XX is amended to allow in its list of exceptions the use of unilateral trade measures for environmental or labor purposes; and
  . if such an amendment were made for environmental and labor standards, there would be pressure to add ever-more domestic policy items to the list of exceptions, including health, education, and taxation.

  More empirical analyses to support some of these arguments are sorely needed. The experiences of the Uruguay Round and of the Intergovernmental Panel on Climate Change made clear that empirical studies are far more powerful than abstract arguments in focusing attention on the need for policy reform and the shape it should take. Those quantitative exercises have provided the world with a suite of multisector, multicountry models that are capable of being modified to also estimate the linkages between trade, labor standards, resource depletion, and environmental degradation. Modelling efforts are now being made in that direction, but there is great scope for further, high-payoff research in this area.

  Such forward-looking modeling requires the inclusion of endogenous behavioral relationships not only for private households and firms but also for governments, so as to capture not just the demographic transition but also the transitions in trade, labor, and environmental policies that typically accompany per capita income growth. Government behavior needs to be included in the base case not to suggest that policy choices are inevitable but rather to represent what would happen if no further action is taken. Against that base case various alternative cases can be compared, with a view to using the results to convince governments of the wisdom of choosing a more-appropriate set of policies.

  In particular, empirical estimates could be given of the contribution that trade liberalization in industrial countries in farm products, labor-intensive manufactures and coal could make to raising wages and reducing environmental damage at the same time as improving the global economy.

  Helpful though such argumentation and analysis could be, more dialogue and compromise between high-income and developing countries is likely to be needed. One suggestion is the following. If developing countries were to commit themselves to enforcing minimum standards and to raising those standards over time according to a specified schedule, in return for gradual improvements in access to developed-country markets, vocal interest groups in those high-income countries would be less able to deny that improvements in social standards are positively related to income and trade growth. That would be using trade policy as a carrot rather than a stick. Likewise, if developing countries were seen to be enforcing reasonable standards especially effectively on their foreign investors, concerns about capital outflows to ‘pollution havens’ or ‘cheap-labor havens’ and the consequent loss of jobs in high-standard countries would be less justifiable. Alternatively or additionally, developing countries could transfer the onus back to high-standard countries to insist their firms accede to the same high standards when they invest in developing countries as in more-advanced economies. And anxiety over deforestation could be reduced if developing countries were able to demonstrate they can police restrictions on felling and are prepared to do so in return for adequate
compensation in the form of greater access to OECD markets and/or aid (e.g., via the UNDP/UNEP/World Bank Global Environment Facility administered by the World Bank).

To conclude, it is instructive to examine the progress of labor policies in the sub-global arena of the EU. A recent assessment by Sapii (1996) concludes that in Europe there has always been the optimists who believe economic integration breeds greater economic growth and equality of social policies (led by the Ohlin Report to the ILO (1956) at the time of the formation of the EEC), and the pessimists who believe upward harmonization needs to be imposed on lower-standard countries to improve citizens’ conditions there and avoid ‘social dumping’ though trade. In practice, relatively little has been imposed effectively on the poorer member countries of the EU; the most that has been agreed to is the adoption of some minimum standards and mutual recognition. Yet standards have risen rapidly with the acceleration of income growth in the poorer EU countries.
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