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Globalization: Why and How It Should Continue

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Has globalization gone as far as it can go? Does the rise in international trade pose a threat to Americans' quality of life? Would a Seattle-style backlash be justified in reasserting national sovereignty against the intrusions of the WTO, thereby helping protect such values as a clean environment? Has the day passed when environmental and social issues can be shunted off to the side in multilateral trade negotiations?

No. No. No. And yes.

YOU AIN'T SEEN NOTHING YET

It is easy to get the impression that globalization is almost complete, that distance no longer matters, borders are irrelevant, nation states are inconsequential. It is easy to imagine that Americans trade with buyers or sellers on the other side of the globe as easily as the other side of town. But this is not the reality.

Globalization of trade and finance still has a lot further to go. Although trade as a share of the economy (for example) has tripled over the last half-century, the increase is less impressive viewed either by the standard of 100 years ago, or by the hypothetical standard of complete global integration. The trade share (exports plus imports as a fraction of GDP) did not re-attain pre-WWI levels until the 1970s. Even today it has gone less than one-sixth of the way toward complete global integration, defined as the hypothetical condition that would hold if Americans were truly no more likely to buy from, and sell to, each other than to trade with residents of other economies. Similar statistics hold for other countries, even those that are smaller and naturally more open. [*See Chart*.] We are still far from the day when we buy from across the globe as easily as across the country.

At any point in history there are many powerful forces working to drive countries apart, at the same time as there are other powerful forces working to shrink the world. It is true that the shrinking forces have dominated over the last 50 years, but there is nothing inevitable about that. From 1914 to 1944 the fragmenting forces dominated, and it could happen again.

It is not difficult to identify some of the remaining impediments to international economic integration. Statistically, when two firms are located on opposite sides of a national border, trade between them falls by an estimated 2/3 -- to 1/3 of what it would otherwise be. This estimate assumes that the two countries officially have free trade between them, speak the same language, and use the same currency. If the two countries use different currencies, trade again falls by 2/3, even if they fix the exchange rate between them. In addition, exchange rate variability at the level of the average pair of currencies reduces trade, via risk and transactions costs, by a further 13 percent. Such factors together probably explain why Canadians are far more likely to trade with other Canadians than with Americans, despite the physical and cultural proximity of the two countries. National borders still matter.

For most pairs of countries, the impediments to trade are much higher. If the two countries do not belong to a free trade area, but have tariffs and other trade barriers between them that are average in level, trade again falls by roughly 2/3. (It falls by even more if the trade barriers are at levels typically found in poor countries.). If the two share no common historical or cultural links, the impediments are greater still; if they speak different languages, for example, trade falls by half.

Finally, notwithstanding the long-term historical decline in physical shipping costs, geography still matters. If two countries are not adjacent to each other, trade falls by half. In addition, for every one percent increase in the distance between them, trade falls by another one percent. [These estimates, based on the so-called gravity model of bilateral trade, are from Frankel (1997), Rose (2000) and Frankel and Rose (2000)]. Small wonder, then, that US purchases from and sales to the EU, for example, are less than 3% the level of purchases and sales within the United States, even though EU output and spending are as large as the US economy.

The three-fold increase in the last 50 years that the US has experienced in trade as a share of the economy can be attributed in large part to declining trade barriers and declining transport costs. But neither of these sources of friction is yet close to zero. Differences in currencies and languages and the other factors mentioned above have diminished little. Globalization, though not still in its infancy, has not yet reached full maturity. Unless we do something to screw it up, trade barriers and transport costs are likely to continue to fall during the 21st century. It follows that there are still large gains to be reaped from further reductions in trade barriers, provided integration is viewed beneficial -- the question to which we now turn.

WHY GLOBALIZATION SHOULD BE ALLOWED TO CONTINUE

Many, however, react to the prospect of further globalization with alarm. They are not convinced that the integration that has already taken place has been a good thing, let alone that they want more of it.

The events in Seattle in 1999 raise important issues of environment and social standards that need to be discussed. Like it or not, these issues will probably dominate trade policy over the coming decades. The power exerted by the demonstrators, so far, is nowhere enough to turn the tide on globalization. But it may have slowed down a new round of WTO negotiations. More importantly, it marked a new phase of public debate. And it certainly showed that many Americans have yet to be persuaded of the benefits of increased international trade and investment.

Why do economists consider free trade so important? What exactly are the benefits?

The theoretical case for trade

Classical economic theory tells us that there are national gains from trade, associated with the concept of comparative advantage. Over the last two decades, scholars have developed a New Trade Theory; it suggests the existence of additional benefits from trade, which are termed dynamic. Consider each theory in turn.

The classical theory goes back to Adam Smith and David Ricardo. Adam Smith argued that specialization--the division of labor--enhances productivity. David Ricardo extended this concept to trade between countries. The notion is that trade allows each country to specialize in what it does best, thus maximizing the value of its output. If a government restricts trade, resources are wasted in the production of goods that could be imported more cheaply than they can be produced domestically.

What if one country is better than others at producing *every* good? The argument in favor of free trade still works. All that is required is for a country to be *relatively* less skilled than another in the production of some good in order for it to benefit from trade. This is the doctrine of comparative advantage--the fundamental (if perhaps counterintuitive) principle that underlies the theory of international trade. It makes sense for Tiger Woods to pay someone else to mow his lawn, even if Woods could do it better himself, because he has a comparative advantage at golf over lawnmowing. Similarly, it makes sense for the United States to pay to import certain goods that can be produced with relatively greater efficiency abroad (apparel, shoes, tropical agriculture, and consumer electronics), because we have a comparative advantage in other goods (aircraft, financial services, wheat and computer software).

This is the classical view of the benefits of free trade in a nutshell. Two key attributes of the classical theory are worth highlighting. First, it assumes perfect competition, constant returns to scale, and fixed technology, assumptions that are not very realistic. Second, the gains from trade are primarily static in nature--that is, they affect the *level* of real income. The elimination of trade barriers raises income, but this is essentially a one-time increase, rather than a permanent rise in the rate of growth.

What of the "New Trade Theory?" It is more realistic than the classical theory, in that it takes into account imperfect competition, increasing returns to scale, and changing technology. It ultimately provides equally strong, or stronger, support for the sort of free-trade policies that the United States has followed throughout the post-war period, that is, multilateral and bilateral negotiations to reduce trade barriers, than did the classical theory.

Much has been made of the result from these theories that, under certain very special conditions, one country can get ahead by interventions (e.g., subsidies to strategic sectors), provided the government gets it exactly right, and provided other countries don't retaliate or emulate. But these theories also suggest that a world in which everyone is subsidizing at once is a world in which everyone is worse off -- a classic "prisoner's dilemma" -- and that we are all better off if we can agree to limit subsidies or other interventions.

Bilateral or multilateral agreements where other sides grant concessions in favor of US products, in return for whatever concessions we make, are almost the only sorts of trade agreements we have made. Indeed, most recent trade agreements (like NAFTA or the agreement to give China permanent Normalized Trade Relations) have featured much larger reductions in import barriers on the part of our trading partners than we are required to make ourselves. The explanation for this is that their barriers were higher than ours to start with. But the natural implication is that such agreements raise foreign demand for our products by more than they raise our demand for imports. Hence we are likely to benefit from a positive "terms of trade effect." This just adds a bonus on top of the usual benefits of increased efficiency of production and gains to consumers from international trade.

[Furthermore, even when a government does not fear retaliation from abroad for trade barriers, intervention in practice is usually based on inadequate knowledge and is corrupted by interest groups. Special interests waste money lobbying to get the government to raise the price of whatever they are selling or lower the price of whatever they are buying. Ruling out all sector-specific intervention is the most effective way of discouraging such "rent-seeking" behavior. Globalization increases the number of competitors operating in the economy. Not only does this work to reduce distortionary monopoly power in the marketplace (which corporations exercise by raising prices); it can also reduce distortionary corporate power in the political arena (which they exercise by lobbying).]

Most importantly, new trade theory offers a possible reason to believe that openness can have a permanent effect on a country's rate of growth, not just the level of real GDP. Openness allows firms to keep in touch with global markets. A high rate of economic interaction with the rest of the world speeds the absorption of frontier technologies and global management best practices, spurs innovation and cost cutting, and competes away monopoly.

These dynamic gains come from a number of sources. They include the benefits of greater market size and enhanced competition. Other sources include technological improvements through increased contact with foreigners and their alternative production styles. Such contact can come, for example, from direct investment by foreign firms with proprietary knowledge, or by the exposure to imported goods that embody technologies developed abroad. Each of these elements of trade and other international interactions has the effect of promoting growth in the domestic economy. If trade can affect a country's growth rate--as opposed to affecting the level of its GDP in a "one-shot" fashion—it makes the case for globalization even more compelling.

The empirical case for trade

Citing theory is not a complete answer to the question, "How do we know that trade is good?" We need empirical evidence. Fortunately, economists have undertaken statistical tests of the determinants of countries' growth rates. Investment in physical capital and education are the two factors that emerge the most strongly. But other determinants matter as well. There is a correlation of growth with openness, measured for example as the sum of exports and imports as a share of GDP. David Romer and I [in a 1999 article] looked at a cross-section of 100 countries during the period since 1960. We sought to address a major concern regarding simultaneous causality between growth and trade: Does openness lead to growth, or does growth lead to openness? We removed the complication of simultaneous causality by zeroing in on variation in trade patterns that could be clearly attributed to geographical influences such as distance, borders, language, and so forth. We found that the effect of openness on growth is even stronger when we correct for the simultaneity, as compared to standard estimates.

The estimate of the effect of openness on income per capita varies, but is in on the order of 0.3 over the span of 30 years (and perhaps four times that in the truly long run). That estimate means that when trade increases by one percentage point of GDP, income increases by about 0.3 percent over 30 years. By way of illustration, the increase in U.S. openness since the 1950s has been 12 percentage points. The numbers imply that increased integration has had an effect of about 4 percent on U.S. income. More dramatically, compare a stylized Burma, with a trade ratio close to zero, versus a stylized Singapore, with a ratio close to 200%. Our ballpark estimate, the coefficient of 0.3, implies that as a result of its openness Singapore's income is 60% higher than Burma's over a 30-year period, or 120 per cent higher in the very long run.

One possible response is that this approach demonstrates only the growth benefits from geographically induced trade, and need not necessarily extend to the effects of policy-induced trade. It is not obvious why the benefits of one impetus to trade should be so different from those of another. In any case, popular critics of globalization seem to think that increased international trade is the problem, regardless of whether it comes from technological progress or market-opening negotiations. If the question is the broad-brush phenomenon of globalization, the answer seems to be clearly that the effect on incomes is positive.

Trade has been a major component of the growth that has lifted East Asia out of poverty over the last 40 years. The rest of the world now wants the same. Poor countries don't want to be protected from "exploitation" – the exploitation of having the opportunity to sell their products abroad to willing buyers and thereby to raise their incomes.

"WE MUST LABOR TO IMPROVE THE ENVIRONMENT" FOR FREE TRADE

What about non-economic goals, such as the promotion of labor rights and protection of the environment? The most important lesson from the Seattle demonstrations is that these issues will increasingly dominate public debate regarding globalization and multilateral institutions. They cannot simply be shunted off to the side, with pure trade issues occupying alone the center stage of international negotiations.

International trade and investment have implications, in such areas as income distribution or environmental quality, that are in some cases unfavorable and sometimes favorable. Facile generalizations are likely to be wrong. In particular, it is misleading to talk as if the partners in US trade or investment are generally countries that have lower wages, labor standards, and environmental standards, than does the United States, and that will thus inevitably pull down American standards. In more than half of US trade and direct investment, the partners are high-wage countries, who often have "higher standards" than the United States does. From the viewpoint of Europe, *the United States* is the low-wage low-regulation country. A case in point is European resistance to genetically modified organisms crossing the Atlantic. In fact there is as yet no scientific evidence that GMOs are harmful. But if consumers want to avoid buying foods that have had the benefit of such technology, under the "precautionary principle ("better safe than sorry"), that should be their right, so long as their governments avoid discriminatory trade policies.

Even when the partner country is at income levels below the US level, the feared undercutting of US standards is less in evidence than one might think. When American multinationals locate in developing countries, for example, they tend to raise labor and environmental standards relative to local employers. Once the technology and management practices have become well established in the world's biggest market, the same techniques spread to trading partners. The major effect, in practice, is upward pressure on the poor-country standards, rather than downward pressure on rich-country standards.

There is no question that the early stages of industrialization bring environmental damage. On the other hand, a clean environment is a "superior good" – something that societies wish to purchase more of, even though at some cost to aggregate income, as they grow rich enough to be able to afford to do so. If this effect is strong enough, then trade can be expected eventually to improve the environment, once the country gets past a certain level of per capita income. Grossman and Krueger (1995) popularized what is called the environmental Kuznets curve: growth is bad for air and water pollution at the initial stages of industrialization, but later on reduces some forms of pollution, as countries become rich enough to pay to clean up their environments. A substantial literature has followed.

The idea that trade can be good for environment is surprising to many. The pollution-haven hypothesis instead holds that trade and investment encourage firms to locate production of highly polluting sectors in low-regulation countries, in order to stay competitive. But research suggests that environmental regulation is not a major determinant of firms' ability to compete internationally. [In a model that combines various effects of trade, including via the scale and composition of output, Antweiler, Copeland and Taylor (1998) estimate that if openness raises GDP by 1 percent, then it reduces sulphur dioxide concentrations by 1 per cent. The implication is that, because trade is good for growth, it is also generally good for the environment.]

It is important to note that government intervention is the most evident channel whereby people enact their desire for a cleaner environment as they grow richer. There is no reason to think that the market can take care of it by itself.

Most of the econometric studies of effects of trade and growth on the environment are limited, in that they examine only a few specific measures of pollution. There is a need to look at other environmental criteria as well. It is difficult to imagine, for example, that trade is anything but bad for the survival of tropical hardwood forests, absent substantial international efforts by governments to protect them.

The argument that richer countries will take steps to clean up their environments is likely to hold only for issues where the effects are felt domestically -- where the primary "bads," such as smog or water pollution, are external to the firm or household, but internal to the country. Global environmental externalities are increasingly important, however. Greenhouse gas emissions, ozone depletion, and endangered species are three examples. A ton of carbon dioxide has the same global warming effect regardless where in the world it is emitted. In these cases, individual nations can do little to improve the environment on their own, no matter how concerned are their populations or how effective their governments. For each of the three examples, governments have negotiated international treaties in an attempt to deal with the problem. Of the three, however, only the attempt to address ozone depletion, the Montreal Protocol, can be said as yet to have met with much success. The Kyoto Protocol on Global Climate Change faces political hurdles that approach the insurmountable.

Is the popular impression then correct, that international trade exacerbates global environmental externalities? Yes, but only in the sense that trade promotes economic growth. Clearly if mankind were still a population of a few million people living in pre-industrial poverty, greenhouse gas emissions would not be a big issue. Industrialization initially leads to environmental degradation, and trade is part of industrialization. But virtually everyone wants industrialization, at least for themselves. Deliberate self-impoverishment is not a promising option. Once this point is recognized, there is nothing special about trade, as compared to the other sources of economic growth, such as capital accumulation, rural-urban migration, and technological progress.

The popular impression is that trade is somehow different. US congressional opponents of the Kyoto Protocol fear that if the industrialized countries agreed to limit emissions of carbon dioxide and other greenhouse gases, there would be an adverse effect on American trade competitiveness vis-à-vis the developing countries, who are not yet covered by the treaty. This is partially true: those US sectors that are highly carbon-intensive, such as aluminum smelting, would indeed suffer adversely. But other US sectors would be *favorably* affected by trade with non-participating countries. The real issue -- the true reason why we need the developing countries to participate in a global climate change agreement -- is that the industrialized countries would otherwise have very little effect on aggregate global emissions over the coming decades, even if they were willing to cooperate to achieve the emission targets of the Kyoto Protocol and to bear moderately high costs involved in restructuring their domestic energy economies. But this point has nothing to do with trade. It would be the same in a world where industrialization took place without globalization. Trade actually offers a way of bringing down the economic cost of attaining any given reduction in global emissions, or a way of obtaining deeper cuts in emissions for any given economic cost. Indeed, elimination of such distortions as subsidies to agriculture, forestry, and coal, can be pro-environment and pro-free-trade at the same time.

RECAP

The world has become increasingly integrated with respect to trade and finance since the end of World War II, due to declining transportation costs, a revolution in communication technology, and a concerted negotiated removal of government barriers to trade and investment. The globalization phenomenon is neither new nor complete, however. We still have a long way to go. Contrary to popular impressions, national borders and geography still impede trade and investment substantially. A simple calculation suggests that the ratio of trade to output would have to increase another six-fold, and more, before it would be true that Americans trade across the globe as readily as across the country. Such barriers as differences in currencies, languages, political systems, each have their own trade-impeding influences, in addition to the remaining significant effects of distance, borders, and other geographical and trade-policy variables.

Both theory and empirical evidence support the proposition that trade has a positive effect on real incomes. This is why economists believe it is important that the process of international integration be allowed to continue, especially for the sake of those countries that are still poor.

While the effects of trade on aggregate incomes are relatively clear, effects on environmental and other social values can be either positive or negative, depending on the details, and the statistical evidence does not always give clear-cut answers regarding the bottom line. There appears to be a pattern whereby pollution gets worse in the early stages of industrialization, but then start to get better at higher levels of income. [The same principle may extend to non-economic values such as physical safety, human rights and democracy. Societies that become rich in terms of market-measured output choose to improve their quality of life in other ways as well. In short, there is reason to hope that, aside from the various more direct effects of trade on non-economic values, there is a general indirect beneficial effect that comes via the positive effect of trade on income.] But the mere fact that people desire a cleaner environment as they grow richer does not necessarily mean that they will get it. Domestic environmental externalities call for action through the government. Global environmental externalities call for action through multilateral cooperation among governments. This leads to the subject of international governance, and the multilateral institutions such as the UN, WTO, and so forth.

THE WTO: DEMONIZED DEMOCRATS VS. UNDEMOCRATIC DEMONSTRATORS

One hears that the WTO is an undemocratic supranational body that prevents the US from attaining environmental and social goals by overruling US laws. In fact, however, the much-demonized multilateral institutions/treaties/organizations are the only possible means toward comprehensive progress on many global environmental and social issues. The main obstacle to such agreements is not globalization, but rather the understandable reluctance by every country, including the United States, to cede even small amounts of political and regulatory sovereignty. Progress in this area is difficult because it would require countries to give up some sovereignty. This is very different from the widely heard belief that economic globalization is the foe of global environmental and social goals because it infringes on sovereignty. In short, *sovereignty is more the obstacle to global protection of environmental and social standards than it is the means to it*. The Seattle demonstrators had it backwards.

Time for a confession from the author. Readers may have wondered why the Clinton Administration decided to host the 3rd Ministerial Meeting of the WTO to the United States in December 1999, at a time of rising hostility in some quarters. In 1998, the author was one of a sub-cabinet group ("international deputies") in the Administration that advised the President to invite delegations of WTO members to the United States. Speaking for myself, I considered the invitation to be part of a plan to raise the public visibility of trade issues, and thereby allow the American people to hear the case for multilateral trade negotiations. We thought that it would be desirable to focus more attention on the issue. The refusal by Congress over the preceding year to give President Clinton authority to conduct trade negotiations on a fast-track basis, an authority that every president since Gerald Ford had had, was one manifestation that the public needed to hear the case for trade. It also needed to learn about the WTO, a tiny organization that was relatively unknown at the time.

At the time of the Seattle meeting, it turned out that the WTO and globalization received as much popular attention and media coverage as one could want. We knew that labor, environmental, and other groups opposed to globalization would come out in force in Seattle. But it never occurred to me in advance of the event that the public debate would be so superficial -- that so little care would be taken to find out the basic facts, such as how the WTO operates [which is: at the direction of the member governments, not international bureaucrats], or the views of the developing countries [which are:

generally favorable to globalization, and wary of internationally-imposed labor and environmental standards], or the nature of the rulings of the WTO panels. Reporters and NGOs alike seemed to obtain their information regarding the WTO by making guesses and then confirming each other's guesses. [The internet played an important role.] Clearly, and in retrospect, given the amount of misinformation and confusion at Seattle, it would have been better if the event had never been scheduled.

The major categories of Seattle demonstrators had little in common, beyond their opposition to the WTO. Environmentalists, labor activists, and some who claim to speak for the poor all have conflicting agendas [let alone the anarchists, who should logically be opposed to government regulation of the environment or labor practices]. Even where they thought they shared common ground, they were confused on four scores.

(1) Environmental and social issues increasingly cut across national boundaries, in part because people care increasingly care about what goes on in other countries. These issues are of the sort that are impossible to address if each country goes its own way. A genuinely difficult question, on which reasonable people differ, is whether the category legitimately includes aspects of production *processes*, such as child labor, which have no effect on the importing country other than offending moral sensibilities.) Global agreements to address these issues, for which countries voluntarily sign up, should be the ultimate objective. But this will not be easy, because of the sovereignty issue. Bottom line: *Globalization need not be the enemy of the environment, and national sovereignty need not be its friend. Indeed, given the globalization of environmental concerns, national sovereignty will more likely be the enemy of efforts to protect the environment, because those efforts must increasingly be pursued through global agreements.*

(2) The other reason why global agreements will not be easily achieved is because there is wide disagreement even within a given country such as the United States on goals and priorities regarding, for example, environmental protection. The strongest opponents of the Kyoto Protocol on Global Climate Change, for example, are US labor unions. [They fear a loss in US competitiveness.] The US has also been slow to ratify some ILO agreements, toothless as they are, because of states' rights issues and domestic disagreement. It is profoundly mistaken to blame such fundamental disagreements within the country on external factors -- globalization or multilateral institutions.

(3) Popular descriptions of recent environmentally related rulings by panels of the WTO (or its predecessor, the GATT) have been inaccurate with regard to the details. This is true both of those cases that have gone against the US (shrimp-turtle, tuna-dolphin, Venezuelan gasoline) and those that have gone in favor of the US (hormone-fed beef). These cases are not generally of the race-to-the-bottom pollution-haven type. In most of the cases, the panel has pointed out ways a country's regulations discriminate against one or more foreign producers – flaws that are usually easily fixed -- rather than raising roadblocks to environmental objectives per se, as so many casual observers assume. Where a regulation

adopted by a country in the name of protecting health, safety or the environment, might have features that adversely affect particular foreign producers, and yet bear no rational relation to risk assessment, it is reasonable to infer discrimination. It is good that countries have agreed to rules to limit such discriminatory behavior. Indeed, the United States led the way on negotiations regarding Sanitary-PhytoSanitary regulations and Technical Barriers to Trade. It is certainly appropriate for a WTO panel to apply those rules, rather than some extraneous set of beliefs, when a victim brings a complaint. The panel rulings should not be reversed merely because the collective public debate is too murky and clumsy to recognize the possibility of non-discriminatory environmental regulation. To the contrary, the rulings should be better enforced than they are.

As an aside, the original discriminatory effect of the regulation in question need not necessarily be, as free-traders are so quick to assume, deliberate protectionism. Inadvertent protectionism is equally a problem. Where economic costs of a particular environmental measure are especially high, the domestic firms that are most impacted will point this out in the normal interplay of the national political process, and will receive some weight in the policy balance that comes out. But foreign firms do not have a seat at the domestic policy table, so that economic costs that fall directly on them are less likely to be taken into account (even though they fall indirectly on domestic consumers). Thus the outcome can be discriminatory even when the intent is not. But it is good that such discrimination is addressed by international trade rules nonetheless.

(4) Attacks on the WTO as undemocratic are also off the mark. The important decisions are made by the member countries, technically through consensus. In practice, the US as the hegemonic leader has vastly disproportionate power, along with some other major industrialized countries. In this sense one might call the decision-making process undemocratic. But, in that case, making the WTO more democratic would mean giving greater power to other countries, especially populous developing countries like India (which is of course a democracy), and would thereby clearly result in lower activism on environmental and social standards, not more. The explanation is that developing countries do not perceive such multilateral standards as in their interest, and with good reason. The Seattle demonstrators were even more confused on this point – apparently believing that the WTO would be more supportive of environmental and social standards if it were more democratic – than on other issues. Their view would only make sense if democracy were re-defined to mean a system that implements the policy preferences of NGOs and Seattle demonstrators (once they can agree among themselves whether those preferences are in favor of more or less government regulation).

IS THE WTO THE TOOL OF US CORPORATE INTERESTS?

One particular version of the claim that the WTO is undemocratic recognizes that it is dominated disproportionately by the US, but argues that US corporations determine US policy and thereby WTO policy. We are told that the WTO is a tool to implement US corporate interests.

One cannot deny that many a corporation is able to exercise influence, on a particular aspect of national policy of concern to it, that is more than proportionate to the number of stakeholders in the corporation. The same is true of many labor unions, NGOs, single-issue pressure groups, congressional districts, and ethnic groups. [It is also true of consumer groups, once one recognizes that their constituents are not consumers. An explanation is warranted, since we are all consumers and at the same time are all producers. If facilitating consumption were in truth the goal of consumer groups, they would be in favor of imports, since net imports are the difference between national consumption and national production.]

The old Marxist view of political economy, that capital and labor usually line up on opposite sides of a given issue, is wrong in America 2000 more often than it is right. [On trade issues, interest groups are as likely to divide along lines of Main Street vs. Wall Street, heartland vs. coasts, internationally traded sectors vs. non-traded sector, as along the lines of capital vs. labor.] To begin with, corporations are owned by people, and in the United States these people are not just a small class. About 49% of Americans now hold stock in corporations, either directly or through mutual funds and retirement accounts. Nor are shareholders the only corporate stakeholders. When it comes to trade policy, workers often take similar positions as their employers. Both laborers and capitalists tend to favor open markets, if they happen to be located in a competitive exporting industry like aircraft or software, and both tend to favor trade protection if they are in an uncompetitive import-competing sector, such as large parts of the apparel or steel industries. [If the steel industry had no power beyond the votes of its owners and managers, as in the people's democracy that the Seattle demonstrators claimed to want, 200 million American consumers might today be enjoying cheaper steel-made products.]

[Parenthetically, one example where US corporations have indeed succeeded in getting an issue of importance to them placed high on the agenda of multilateral trade negotiations is Intellectual Property Rights. One result was the Agreement on Trade-Related Intellectual Property, in the Uruguay Round negotiations. Some say that symmetry with IPR requires that labor and environmental standards be given equal priority within the WTO. But this is a bad analogy. If the definition of free trade is going to be expanded beyond exports of goods, to include exports by rich countries of their "human capital," then the proper analogue might be to expand the definition also to include exports by poor countries of their "unskilled labor," e.g., allowing their construction workers to come to the U.S. on a temporary basis to help alleviate the shortage of labor. This is not going to happen, because of opposition from US labor if for no other reason. But it would be a more logical "turnabout is fairplay" then the current notion that if corporations are able to beat up poor countries over IPR, then it is only fair that labor groups and environmentalists should be able to beat them up as well.]

The hypothesis that WTO panel decisions ultimately serve the interests of the United States over those of our trading partners is consistent with some of the outcomes (in that we have won more cases than anyone else), but inconsistent with others. The same is true with the hypothesis that the WTO panel decisions serve the interests of US corporations. Perhaps the best example to demonstrate that the WTO is not designed systematically to carry out the agenda of US business is the recent case in which a panel upheld the European Union's complaint that US Foreign Sales Corporations constitute a subsidy to exports, in violation of WTO rules. [FSCs are a way of moving export profits offshore, thus avoiding taxes worth $3.5 billion.] Only one hypothesis is consistent with all the panel decisions: Expert panelists do their best to evaluate the facts of a case, and to reach a judgment based on the rules that the member governments have agreed among themselves should govern an open trading system.

HOW TO MOVE FORWARD CONSTRUCTIVELY

Is there a way out of this divisive debate? Here are five constructive proposals, designed in the hope that they might help move us forward:

(i) The WTO should be made more transparent. It could institutionalize channels of ongoing policy dialogue with NGOs, along with business. It should allow NGOs and other private groups to submit "friends of the court" briefs, a reform that is widely practiced in the court systems of advanced industrial countries. Those in the North, however, must understand a concern of developing countries that may not at first be obvious: Poor countries do not have the expertise and resources to compete on equal terms in the expensive American-style system of legal motions and lobbying.

(ii) The ultimate goal should be international agreements voluntarily entered into. There is no alternative, in a world of sovereign countries. An agreement on genetically modified food concluded in Montreal in January 2000, under the 1992 UN Convention on Biological Diversity, is a good model. (US grain exporters, for example, will have to identify shipments that "may contain living modified organisms," in effect allowing those farmers eschewing GMOs to appeal to consumers who prefer "natural" foods and are prepared to pay the cost premium.) This global "Biosafety Protocol" shows that it is in fact possible to marry international progress on health/environmental issues with trade rules that protect producers from arbitrary or discriminatory actions by importing countries. Furthermore, in a move to transparency, environmental NGOs were included in the negotiations, and supported the outcome. The Protocol deserves more attention than it has gotten, as a constructive model for future negotiations in other areas.

(iii) The logical locus for most international agreements is designated multilateral institutions, such as the ILO in the case of labor standards, the UN Framework Convention on Climate Change (UNFCCC) in the case of greenhouse gases, etc. In the meantime, one must recognize, as the NGOs point out, that the WTO is a more credible institutions than the ILO or the UNFCCC, and that this is in part because withholding trade is one of the few powerful weapons countries have, short of military action. The ILO and UNFCCC have no teeth. The United Nations Environment Program (UNEP) is so weak an institution that it should be replaced from scratch. But the reason these institutions lack teeth is because the member countries, so far, want it that way. The failure to agree on binding international standards enforced by sanctions is attributable to the desire for retaining national sovereignty, to disagreements between countries, and *to internal disagreements within each country* on what priority to assign labor rights and the environment. It is the fault neither of globalization nor the international institutions themselves. Agreements should include sanctions if and only if members, acting through their chosen national governments, can agree that they want them to.

(iv) Multilateral institutions can play a major constructive role in the areas of:

- certification -- monitoring multi-national corporations that commit to particular codes of conduct, along the lines of the U.N. Global Compact;
- labeling -- so that consumers can if they choose exercise their right not to consume products that they view as environmentally or socially harmful or objectionable -- for example, dolphin-unfriendly tuna or turtle-unfriendly shrimp; and
- scientific fact-finding and risk-assessment -- to offer an unbiased expert judgment on, for example, the state of scientific knowledge regarding the effects of hormone-treated beef and GMOs, thus refereeing where countries hold vastly different perceptions.

The aim is to facilitate the desired ability of individuals to use their purchasing power as a signal to express their values and beliefs, and as a weapon to pressure corporations and countries to behave in particular ways. [It has worked successfully to persuade Mexican tuna fishermen to protect the dolphins, a process that was not impeded by the WTO panel ruling.] Such signals and weapons should help pressure the system to move in the direction of international agreements of the sort noted in point (ii) above.

(v) But we must establish from the outset that countries cannot make up their own rules for international trade, imposing trade penalties on other democratic countries in an attempt to bully them into changing their environmental or social policies, in violation of WTO rules. Without this assurance, developing countries will assuredly refuse altogether to discuss the whole subject of environmental and labor standards in the context of the WTO.