The Global Age: From a Sceptical South to a Fearful North

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1. INTRODUCTION: PREBISCH AND UNCTAD

IT is an honour and a pleasure to give the Raul Prebisch Lecture. The honour comes from recalling an exceptional man. Prebisch was an eminent scholar and a prominent actor on the policy stage. The honour is the greater because of where the lecture is given. The emergence of the new South Africa under President Mandela, wedded to the rule of law and a commitment to producing racial and ethnic harmony in a world pulling in more dissonant and destructive directions, has been a ray of hope for all of mankind. But it is not geography alone that lends added honour to my lecture. History does as well. Put within the UNCTAD IX programme, it inevitably recalls the glory of UNCTAD under the able leadership of Raul Prebisch at the creation.

My honour goes also with pleasure. The pleasure is immediate and personal. For, as it happens, my very first policy experience on the international stage was at UNCTAD over three decades ago, when Raul Prebisch was the first Secretary General, and I was invited, a young Professor of International Trade in Delhi, at the tender age of 29 to serve on an Expert Group preparing a report on trade liberalisation by and among developing countries. I recall this also because it has many aspects that bear on Raul Prebisch and on UNCTAD itself. The Expert Group, or what we would today call an Eminent Persons' Group in our age of vanity, was chosen by UNCTAD, not nominated by governments, so it had the independence to chase ideas unconstrained by governmental directives. As a result, Raul Prebisch, and UNCTAD under him, were characterised by intellectual curiosity and by a willingness to examine, cross-examine and reject all and even Prebisch's own views. The institution was ahead of the curve: seizing leadership on issues and pronouncing on them with the best intellectual resources then available.

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In fact, let me recall that issues such as the international migration of skilled manpower and its economic implications for the rights and obligations of migrants, and of the countries of origin and destination, the questions raised by intellectual property protection in a world with growing importance of technology, and trade issues such as tariff escalation and value added protection (now known as effective protection) were first recognised and discussed within UNCTAD and became matters for further analytical contribution in the academe. A personal reminiscence again illustrates the point I am making: it concerns the fact that UNCTAD raised the question of services in world trade long before it got on to the GATT. When, some years ago, I was invited to give the annual Geneva Lecture of the International Insurance Association, I chose the topic of GATT and Trade in Services. Dr Giavini, Secretary of the Association, told me later that when he had told the Chairman of his Council, a leader in Britain's insurance industry and member of the House of Lords, about my subject, he had asked: 'Hmmm; GATT; What is it? Some kind of UNCTAD?'

This is hard to appreciate as the memory of this institution and of Prebisch has faded in the OECD countries, and it has become commonplace in some influential quarters to think of UNCTAD as if it was instead UNWASHED and UNKEMPT. The irony is that, just as this unfortunate view has gained ground, the academic evaluation of the role of more respected agencies, such as the World Bank, as the fountainhead of new ideas has become sceptical. Thus, a much-cited recent study, co-authored by the macroeconomist Michael Gavin, now the principal economist with the Inter-American Development Bank, and one of today's most distinguished young developmental economists Dani Rodrik (who, I might add, started out his career at UNCTAD), has argued that the social rate of return in terms of innovative ideas on the World Bank's massive expenditure to date on research has been negligible.¹

Nonetheless, there is no smoke without fire. UNCTAD did indeed allow the early openness and stress on expertise to lapse progressively. It also increasingly made the mistake of assuming that intellectually weak argumentation by radical economists on the fringe, just because it was outside the mainstream, was therefore also the appropriate way to think about the developing countries: a *non sequitur* which would be fatal to its health. Instead, UNCTAD should have exploited the enormous diversity of views within the mainstream itself, drawing on a range of

¹ See Gavin and Rodrik (1995). These authors do say, however, that the World Bank has done a good job of disseminating (as against creating) good ideas, an area where UNCTAD took the back seat over time. In accounting for the latter, the willingness of the World Bank to draw on mainstream economists and their increasing neglect over the years by UNCTAD (as stated below in the text) must be considered the chief culprit. (Of course, I am describing only the central thrust of each institution's merits and demerits in regard to using and disseminating good ideas. There are important exceptions, especially in regard to UNCTAD's recent work, particularly on so-called 'trade and' issues, such as the interface of trade and the environment.)

reputed economists as Prebisch did, to advance the intellectual debate in ways that could have complemented by counterpoint the orthodoxies prevailing in other agencies with agendas defined by their own composition and interests.

The era that lies ahead under Mr Ricupero's leadership is now poised to return UNCTAD to that ambitious role and creative mode that characterised the Prebisch era, as many of us 'friends of UNCTAD' fondly recall it. But the definition of that role cannot be that UNCTAD would reflect a particularistic and unique 'developing country viewpoint' as often in the past. Paradoxically, that approach, if it ever made any sense earlier, certainly makes no sense today, for two contrasting but complementary reasons.

The developing countries are now too *diverse* in their economic and political circumstance and context to make generally possible a unified viewpoint as 'theirs' (i.e. that of the 'South'). This changed reality surely played a principal role in the rapid demise in the 1970s of the Global Negotiations that were predicated on the premise of North-South confrontation.²

At the same time, the earlier notion that the developing countries are divided from the developed countries (the 'North') in terms of their economics, justifying Special and Differential Treatment at the GATT etc., has yielded to the view that economics is *universal*, and that ideas and policies such as trade protection, extensive regulation by a bureaucratised state, generic restraints on inward foreign investment and the stifling of markets generally are bad for everyone, whether developing or developed.

In fact, the universalism extends to politics as well, and not just to economics today. Thus, the notion that democracy is fine for the developed countries, but that development requires authoritarian structures of governance, is no longer considered plausible.³ Since we meet in South Africa, which is a meritorious example of a functioning democracy today as India has been in the postwar decades, let me dwell on this important issue a trifle longer.

I suspect that the defunct claims in support of authoritarianism for the developing countries were a result of the prevalent style of economic thinking when the postwar period of planning began. It was argued, following the influential model of Harrod and Domar, that the rate of growth depends on what you invest and what you get out of it by way of increased income. It thus depends on the savings (and investment) rate as well as on the investment (i.e. 'marginal capital') to output ratio. If one treated the marginal capital-output ratio as more or less a technological parameter, then all policy action was concentrated on

² So did the recognition that 'commodity power', based on an extension of OPEC's success to several other commodities, was an illusion, even though it had been embraced as a new phenomenon redefining the relationship between developing and developed countries by shrewd politicians such as Henry Kissinger, and by policy intellectuals such as Fred Bergsten, prior to the Nairobi UNCTAD. For a fuller analysis, see Bhagwati and Ruggie (1984, Ch. 2).

³ I have considered this question in depth in Bhagwati (1995).

raising the average savings rate to increase investment, and hence the growth rate. Moreover, if public sector saving was considered to be the principal agent for raising the savings ratio, as it was at the time, then it was evident that the authoritarian states would be at an advantage over democracies. But, of course, the reality turned out to be otherwise. The variations in growth performance across countries have tended to reflect not just differences in rates of investment, but also dramatic differences in the marginal capital-output ratio. The latter, in turn, reflects the policy framework and its effects on the efficient use of resources.⁴ Again, I would argue that the policy framework relevant here includes incentives and democratic processes that both enable and motivate effective participation by the citizenry in the growing economy. And recent arguments further suggest that the combination of economic markets and political democracy is unbeatable as a prescription for sustained, long-run growth.

So, confronted by this new universalism, the intellectual niche that UNCTAD can occupy with success must be embedded within it, instead of being built on the exceptionalism of the developing countries. Within this broad universalism, UNCTAD can nonetheless advance perspectives, informed by scholarly research, that better reflect the *interests* of the developing countries than other institutions are unlikely to offer if past experience and present realities are a guide.⁵

UNCTAD can make its unique contribution to 'trade and development', its original terms of reference and its rationale at the creation in several ways, such as the tasks that Mr Ricupero has been outlining recently: for example, the provision of technical assistance in trade matters to developing countries that lack the capabilities to operate in the increasingly complex trading regime today.⁶ But it can do so also by examining these fears of the developed countries, seeking to lay them to rest where they are exaggerated and unwarranted, while also probing the rationale and the wisdom of the measures (such as the proposed Social Clause in the WTO) that these fears have prompted, exposing them to unbiased, scholarly and apolitical scrutiny.

⁴ We should not forget that the policy framework affects the rate of investment as well. In fact, this played a central role in my view in accounting for East Asia's phenomenal growth in the postwar period, as argued in Bhagwati (1996).

⁵ One example might illustrate, lest you might think that I am putting up a straw man. When the question of intellectual property protection (IPP) was being extensively debated at the GATT, the overwhelming view in the scholarly community was that the IPP being demanded in Geneva was being pushed by lobbies in the developed countries to the point where it was far too high. But, to my knowledge, this predominant scholarly view was not forcefully adopted and disseminated by the leading international agencies, whether the OECD or the World Bank. It is doubtful that Prebisch's UNCTAD would have remained so indifferent, abandoning both good economics and the interests of the developing countries, if it had been confronting the IPP question instead. Indeed, the GATT must be complimented for having permitted its staff to pursue precisely the sceptical research, even if in a very small way, that others were unable or unwilling to provide.

⁶ The requirements here are enormous, especially as legal fine print has invaded everything concerning trade to a degree where even large and highly-skilled developing countries such as India are handicapped by their lack of trade-legal expertise in looking out for their interests.

UNCTAD's history and mission, as an institution focused on the developing countries' problems, should ensure that its perspectives will *complement* those of the OECD, whose history and mission focus its research and agenda so as to reflect more closely the political concerns and the economic interests of the developed countries that constitute its membership.⁷ Both should serve to inform and assist, in friendly cooperation, the WTO as it prepares, under Mr Ruggiero's leadership, to extend and strengthen the world trading regime to meet the challenges of the Global Age as we enter the 21st century.⁸

So, I turn to the theme of this lecture: the Global Age and its consequences. I will begin with my central observation and the organising principle of my analysis: the irony of the role reversal that has occurred between the developing and the developed economies on fears of integration into the global economy. I will highlight the fact that these fears of the developed countries are heavily, and destructively, focused on integration with the developing countries, just as the fears of the developing countries in the postwar decades were focused symmetrically on the imagined dangers of integrating with the developed countries.

I will then argue that these fears are, at best, exaggerated and, at worst, ill-informed. In addition, I will suggest that the current, fear-fed demands in the major developed countries for changes in the rules and regimes that govern the world economy are much too often ill-designed. It is time for the leaders of the developed world to defuse these fears and, where the fears have some basis, to act less like politicians lazily compromising with lobbies to accept whatever demands they make, and then forcing the international adoption of their proposed harmful changes in the world economy, and instead to act more like statesmen who recognise these pressures but deflect them into more creative proposals that strengthen, rather than weaken, the architecture of the world economic regime.

⁷ This view contrasts, I suspect, with that of some OECD governments, chiefly the United States, which would rather emasculate the research capabilities of UNCTAD (and, for that matter, of the WTO) and concentrate them exclusively in the two Bretton Woods institutions, the IMF and the World Bank. The research leadership of these two institutions, one might observe without caricature, has been jealously guarded by the leading developed countries.

⁸ Indeed, the redefinition of the UNCTAD role also implies a close working relationship between it and the WTO, putting behind the two institutions the indifference, even hostility at times, that marred their relationship in the early days when the GATT was considered to be the playground of the wealthier nations and UNCTAD the champion of the poorer ones. (The witticism went that the UNCTAD Secretariat was deliberately sited so as to obscure the GATT's view of the lake from its earlier location, in an ultimate act of defiance!)

As the WTO, with the developing countries active players within its own new universalism, now seeks to enlarge its miniscule institutional research capability to support its creative efforts on behalf of the multilateral trading system (in which efforts we can only support), it can also reach out for research cooperation with agencies such as UNCTAD on issues of common concern. Again, under the leadership of Mr Ricopero and Mr Ruggiero, signs of such cooperation can already be found.

2. THE GLOBAL AGE: THE IRONIC ROLE REVERSAL

The dominant feature of the world economy is its increasing globalisation and the growing fear of its consequences in the developed countries. The latter, a consequence of *actual* globalisation or integration into the world economy on several dimensions, is in sharp contrast to the warm embrace of the Global Age by the policy makers in a large number of the developing countries.

It also represents a marked reversal of attitudes in the two sets of countries from the time of Prebisch. At that time, in the early postwar decades, the developing countries were sceptical, even afraid, of *potential* globalisation, shying away from such international integration, while the developed countries were into the Liberal International Economic Order, tearing down trade barriers in successive GATT Rounds, liberalising direct investment flows (despite the occasional protests such as that of Mr Servan-Schreiber of France on *The American Challenge*) and forging ahead on securing currency convertibility.

The developing countries' fear of global integration is best evoked by a celebrated Latin American formulation of the time: 'integration into the world economy leads to disintegration of the national economy'. In place of the agreeable conclusion of conventional economics that international trade, investment, etc. were mutual gain, *benign-impact* phenomena, constituting an opportunity rather than a peril, the developing country intellectuals and policy makers, for the most part, subscribed to a zero-sum view of the integration process which involved what Prebisch called the Centre and the Periphery. Thus, they either had a *malign-impact* view of globalisation, or they believed in *malign-intent* paradigms, where trade and aid were regarded as instruments of neocolonialism.

Today, those attitudes have yielded to the benign-impact views, as developing countries, one after another, have changed their policies to seek fuller integration into the global economy. Three examples should suffice to illustrate. President Cardoso, the dependencia theorist of yesteryear, is today's mastermind of Brazil's economic reforms that take her ever more into the global economy. President Salinas led Mexico into NAFTA, turning on its head former President Porfirio Diaz's famous dictum: 'Poor Mexico: how far from God and how near the United States!' Finally, even India, mired in inward-oriented policies for over a quarter of a century, has begun a deliberate and systemic change of gear to move its economy into the Global Age.⁹

⁹The reasons why the developing countries have moved to reforms are the subject of extensive analysis by economists today. Among these reasons, the value of example (i.e. the success of other nations following different policies) and of failure (of one's own policies) is certainly an important factor. In addition, we must reckon with the effect of pro-reform aid conditionality, although the impact of one's policy failures will play a role in turn since such failures are what drive countries into the Bretton Woods institutions that enforce such conditionality.

But, as globalisation has proceeded apace on virtually every dimension of international interaction, whether trade or direct investment, or capital flows or migration, the developed countries have witnessed growing alarm from their citizens over its implications for a variety of issues: real wages of workers, economic security, political autonomy and democracy, the ability to maintain high labour standards, etc.

That globalisation has accelerated is hard to dispute. Thus, in both world trade and investment there are greater transactions and flows, often even when adjusted for increased national incomes, suggesting that the economic activities of nations are increasingly in the global arena. But even this index misleads, at least for the implications of globalisation of trade and investment: these averages tell us little about the 'margin' and about what global competition offers in terms of both opportunity and 'vulnerability' to producers.

Let me begin by detailing the changing realities on *trade* flows, as some of the principal fears of the developed countries today and their unfortunate demands follow precisely from this phenomenon. Trade in both goods and services has continued to grow faster relative to national incomes throughout the postwar period, despite the OPEC-induced macro crisis in the 1970s and the deflation during the early 1980s. The successive rounds of reciprocal tariff and NTB reductions under GATT auspices have been a major contributory factor that the Uruguay Round will strengthen as it brings freer markets to new sectors, while opening the doors wider in the old sectors.

But more can be said. In some respects, the rise in the share of trade to GNP has mostly restored world trade to its prewar situation. Thus, for the United States, the share of merchandise trade in national income was 6.1 per cent in 1913 and 7 per cent in 1990: the difference is not compelling. But the shares were 3.6 per cent in 1950 and 3.8 per cent in 1960, so the perceptions today have been defined undoubtedly by the postwar rise, not by the fact that this rise is more or less back to 'normal' levels interrupted by the period between the Great Depression and the end of the Second World War.¹⁰

More pertinently, this share hides the important reality that the share of trade within the (hugely tradeable) merchandise and primary goods sectors has grown perceptibly compared to both the prewar and the immediate postwar levels. In fact, by the 1980s there was a vast increase in the exposure of tradeable industries to international competition: a situation that was more true of primary industries in the prewar period now characterises most manufactures today. It is not true that these shares continue to increase explosively; in fact, research suggests that they may have stabilised in the last decade. But the reality of substantial exposure to international competition, the fact that few industries today can pretend that they are proof from international competition, and consciousness thereof in defining

¹⁰ See Irwin (1996).

issues and demands for governmental action, are major factors that we ignore at our peril.

Indeed, the increased integration of the world's financial markets and the increased transnationalisation of production by multinationals, both phenomena of globalisation that have run a parallel as well as a supportive course, have combined with the convergence in technological ability and know-how among the OECD countries to make competition among firms across nations fairly fierce. Firms in different countries can access similar technologies, borrow at similar interest rates and produce where it pays a little more to do so in a manner which was still difficult a decade ago. The margins of competitive advantage have therefore become thinner: a small shift in costs somewhere can now be deadly to your competitiveness.¹¹ In the old days, we used to call such industries 'footloose': the ability to hold on to them was fragile, as the 'buffer' or margin of competitive advantage was not substantial. But few considered such industries to be the norm. Today, because of the factors I have mentioned, they are. I have called this the phenomenon of *kaleidoscopic comparative advantage*, a concept that gives meaning to the notion that globalisation of the world economy has led to fierce competition: slight shifts in costs can now lead to shifting comparative advantage, which is therefore increasingly volatile.

This argument has the advantage of contributing to the explanation, in a unified way, of three important phenomena that are in evidence today as the source of the fears of the Global Age in the developed countries.

(i) The vulnerability of one's competitiveness that has so arisen, reflecting the newly volatile, kaleidoscopic comparative advantage means that firms are increasingly tempted to look over their foreign rivals' shoulders to see if differences in their domestic policies and institutions are giving them that fatal extra edge in competition which then amounts to *unfair trade*. The proliferation of 'fair trade' demands in the developed countries to harmonise domestic institutions and policies as prerequisites for free trade among trading nations reflects, among other lesser reasons, this growing perception of kaleidoscopic comparative advantage.¹²

(ii) The globalisation-led kaleidoscopic comparative advantage also reinforces, albeit in a small way, the substantial sense of *economic insecurity*

¹¹ Economists call this a 'knife-edge' phenomenon, as in the case of Ricardian comparative advantage, where a small shift in comparative advantage can lead to a substantial shift in production.

¹² These other reasons include moral ones, as represented by human rights NGOs which seek to stamp out domestic differences in conformity to universal human rights notions. I have discussed the different philosophical, economic, structural and political factors variously underlying the many demands for harmonisation that are breaking out today in Bhagwati and Hudec (1996, Ch. 1), resulting from a research project under the auspices of the American Society of International Law.

now overtaking the citizens of the developed countries: for it must add to the labour turnover that reflects the increased rate of job displacements and a distinct (though small) reduction in the permanence of jobs that now afflicts even the white-collar workers.

(iii) In the same fashion, it likely contributes in some small way to the *decline in real wages* of the unskilled. For increased labour turnover must mean that workers stay less on average on the job so that they acquire less on-the-job training, and employers also give them less of it as they expect the workers to move on, thus flattening their lifetime earnings curve: just as a rolling stone gathers no moss, a moving worker gains few skills and earns less increments in wages.¹³

Of course, this rise of fierce competition and the attendant sense of economic vulnerability relate to the *globalisation* itself, and are not focused on integration with the *developing countries* as the source of the difficulties in the developed countries. But this is not true if I were to complete the sketch of the developed countries' fears of the Global Age by noting that they have been accentuated by the fact that international capital and labour flows, *vis-à-vis* the developing countries in particular, are also seen as increasingly compounding the problems posed by the expanded trade shares. Let me just outline the principal themes.

Direct foreign investment (DFI) has expanded greatly, with North–North DFI during the 1980s becoming as important as North–South DFI, a phenomenon noticeable in the case of Japan, especially as her DFI partially replaced her exports to the EU and the US in response to protectionist threats in specific sectors such as automobiles, and then later in response to the rising yen. While the Servan-Schreiber variety of anguish at DFI inflows did surface in the United States when Japanese investments began to rise in the late 1980s, the main agitation has arisen from the labour unions, who have always seen the developing countries as their principal foes in the game of economic competition. Long opposed to 'losing jobs' to the developing countries because multinationals move production abroad, unions in the United States have increasingly focused their attacks on the DFI going from the North to the South as a major problem posed by the Global Age.

A matching fear for jobs and wages has arisen from the increased flows of refugee and illegal immigrants from the developing to the developed countries. In a world increasingly of 'borders beyond control', if I might exaggerate for effect, most developed countries are now unable to fully regulate their immigration inflows: illegal immigration (heavily biased in composition towards the

¹³ I have developed this theory in several recent articles, including Bhagwati and Dehejia (1992). Note that this theory relates to globalisation, not to the allegedly deleterious effect of trade with poor countries which vaguely reflects the conventional Factor Price Equalisation argument.

unskilled, and hence the more resented for its feared economic impact on the real wages of the natives) has been for some time an issue in the United States and other countries.¹⁴

What is remarkable about these fears of the developed countries is that they mirror so well the fears of the developing countries almost half a century ago. At that time, the countries on the periphery feared the centre. Global integration of countries with unequal power, in that instance integration with the developed countries of greater strength, would lead to predation rather than mutual gain: skilled nationals would leave, multinationals would earn more than they would contribute, free trade would bring about perpetuation of backwardness and destroy nascent industrialisation, income distribution would grow worse, and loss of autonomy and a situation of *dependencia* would follow. Today, the critics of the Global Age equally maintain that continued integration of countries with unequal power, in this instance integration with the developing countries of lesser strength, would cause predation: unskilled migrants would arrive, multinationals would leave to create jobs elsewhere, free trade with countries with lower labour and environmental standards would lead to deindustrialisation and loss of one's own standards, income distribution would worsen, and loss of autonomy to external forces beyond one's control and to institutions such as the WTO, where the Third World has an equal vote, God forbid, would threaten one's sovereignty. Indeed, the world has come full circle!

3. PHANTOMS MORE THAN REALITY: REAL WAGES AND JOBS

But, just as the developing countries have surmounted their fears and learnt that global integration with the developed countries promises more than it threatens, the developed countries need to do the same today in regard to their own global integration with the developing countries. In fact, let me remind you that I plan to argue that these fears are not merely exaggerated, but also do not justify some of the proposed measures to deal with them at the international level. Let me argue this by concentrating on the question of declining wages and rising unemployment.¹⁵

¹⁴ So has the explosion of refugees, some of them leading in turn to an overload on asylum claims in the developed countries even as the fear has arisen that illegal immigration seeks to misuse the asylum route to immigration. The refugee crisis today, as it must be called for it is no less, has been splendidly handled by Madame Ogata as the UNHCR chief, an appointment for which Japan can properly take credit.

¹⁵ Unfortunately, there is not time here to analyse other claims such as the loss of autonomy, the growing sense of alienation, etc. which are also on the Northern scene, and which I equally regard as largely exaggerated and fearful.

(i) *The facts:* Consider, for instance, the argument that the decline in real wages of the unskilled in the United States, and alternatively the rise in unemployment in Europe in the 1970s and 1980s, continuing into the 1990s, is a consequence of trading with the South. The demand for protection that follows, then, is not the old and defunct 'pauper-labour' argument which asserted falsely that trade between the South and the North could not be beneficial. Rather, it is the theoretically more defensible income-distributional argument that trade with countries with paupers will produce paupers in one's midst, that trade with the poor countries will produce more poor at home.

It is indeed true that the real wages of the unskilled have fallen significantly in the United States during the previous two decades. In 1973:

real hourly earnings of non-supervisory workers measured in 1982 dollars ... were \$8.55. By 1992 they had actually *declined* to \$7.43 — a level that had been achieved in the late 1960s. Had earnings increased at their earlier pace, they would have risen by 40 percent to over \$12.¹⁶

The experience in Europe has generally been similar in spirit, with the more 'inflexible' labour markets implying that the adverse impact has been on jobs rather than on real wages.

But the key question is whether the cause of this phenomenon is trade with the South, as unions and many politicians feel, or rapid modern information-based technical change that is increasingly substituting unskilled labour with computers that need skilled rather than unskilled labour. As always, there is debate among economists about the evidence; but the consensus today among the trade experts is that the evidence for linking trade with the South to the observed distress among the unskilled to date is hard to find. In fact, if real wages were to fall for unskilled labour due to trade with the South, a necessary condition is that the goods prices of the unskilled labour-intensive goods would have to have fallen; and subsequent examination of US (and recently of German and Japanese) data on prices of goods shows that the opposite happened to be true in the critical period of the 1980s.¹⁷

Alongside this is the fear that multinationals will move out to take advantage of cheaper labour in the poor countries as trade becomes freer, thus adding to the pressure which that trade alone, with each nation's capital at home, brings on the real wages of the unskilled. Of course, this is also an unsubstantiated fear: but it has even greater political salience since the loss of jobs to trade is less easily focused on specific competing countries and their characteristics than when a factory shuts down and opens in a foreign country instead. As it happens, I

¹⁶ See the many empirical writings of Robert Lawrence on the subject.

¹⁷ This has been widely conceded now by those who were sceptical, including Ed Leamer of UCLA. The only dissident is Jeffrey Sachs whose claim to have overturned this finding is based on debatable adjustments which, even then, produce results which, while cited by the unsuspecting media, are statistically unacceptable. For an evaluation of this question, see my contribution to the forthcoming volume, edited by Susan Collins, for the Brookings Institution, a think-tank in Washington DC.

suspect that, at least in the United States, the flow of capital is also in the wrong direction from the viewpoint of those who are gripped by such fear; because, during the 1980s, the United States received more DFI than it sent out elsewhere, both absolutely and relative to the 1950s and 1960s. Besides, if foreign savings are considered instead, the 1980s saw an influx, corresponding to the current account deficit that has bedevilled US–Japan trade relations.

But regardless of the true realities which make it difficult to assign a significant, if indeed any, role in the present predicament of the Northern unskilled workers to trade and investment in this Global Age with the developing countries, the general feeling persists in many influential quarters that trade with the developing countries is a problem and that the resulting demands on policy change have more political salience than one would care to have but would be foolish to ignore.

(ii) *The demands: isolationism and intrusionism*: These demands take two contrasting forms. *First*, there is the traditional protectionist response. Here there are those who would raise trade barriers against the developing countries: a battle cry of the erstwhile presidential candidate Pat Buchanan in the United States, who wanted an across-the-board 20 per cent tariff on imports from China and an unravelling of NAFTA. Then there are the ‘moderates’, who would only stop liberalising trade further with the developing countries: here we must count (Sir James Goldsmith among them, I believe) the proponents in the North of free trade areas among ‘like-wage’ countries as against free trade generally, as the latter would include lower-wage countries.

These protectionist pressures are not that hard for the leaders of the developed countries to resist: the advantages offered by free trade, and the ideological triumph (at least for now) of the open markets alchemy for efficiency and growth in a highly competitive world economy, make it virtually impossible for responsible leadership to embrace such *isolationist* ideas and attendant protectionist pseudo-solutions. But unfortunately, that is not true of the alternative response, no more desirable, than we observe on the part of some of the leading governments in the North.

This *second* alternative is best understood by an analogy. Faced with the prospect of a typhoon, you may move out of its range, shifting from sunny but typhoon-prone Florida to dreary but safe locales: this is the *isolationist*, withdrawing, protectionist response to the fears (in the developed countries) of the developing countries in the Global Age. But if you have read your Malinowski or Radcliffe Brown, you may also pray to the weather gods and get the typhoons to go elsewhere. This interventionist or *intrusionist* option is one that can be contemplated, as a response to the threats imagined from elsewhere, only by the economically and politically powerful countries, especially hegemons such as the United States: they can aspire to force the developing countries, by

using a variety of punishments and inducements, to adopt domestic institutional and policy changes so that the competitive threat is moderated.

This is how we must interpret the chorus of demands that have spread in the US and Europe for inclusion of Environmental and Labour Standards in the WTO, requiring that either they be moved up in the developing countries or that the developed countries should be allowed to countervail the 'implied subsidy' represented by these lower standards.

Several factors, including moral ones, undoubtedly contribute to the emergence of one or more of these 'fair trade' demands. But a principal one among them is surely the desire to raise, in one way or another, the costs of production of your rivals abroad: and what is more easy to do than to say that they are deriving advantage by having lower environmental and labour standards, and therefore free trade with them amounts to 'unfair trade'? This complaint, and attendant agitation for penalising these foreign firms with import taxes if their countries do not raise their standards towards one's own, then has the advantage that, *either* you will be able to get your rivals' costs up and reduce the pressure of their competition by forcing them to raise their environmental and labour standards, *or*, if they do not do so, you will get protection against them as trade barriers are raised against the continuing unfairness of competition. This agitation therefore offers a foolproof method of meeting your foreign rivals' competition: it therefore also accounts for its popularity.

But let me argue that these demands are being properly resisted by the developing countries and are being inappropriately accommodated by some of the governments in the developed countries, as in the recent pressures emanating from the US, and France in particular, in favour of a Social Clause at the WTO.

4. INTRUSIONISM: ENVIRONMENTAL AND LABOUR STANDARDS

These demands are unwisely recreating the North–South divide. To understand the folly of these to developed countries, and the dangers they pose to the developing countries and to the world trading regime, let me now address in succession the parallel but still contrasting issues of eco-dumping (in subsections *a–c*) and of the Social Clause (in subsection *d*) at the WTO.

a. The legitimacy of Diversity and the Folly of Eco-dumping Demands

If we are dealing with 'global' environmental problems when there are transborder externalities, as with the global warming and ozone layer problems, it is now recognised that we need global solutions which avoid free-rider problems and include punishments for defection. The disagreements among countries that

universally accept the need for such solutions arise only from differences in their views of what is a 'fair' allocation of the burden of pollution avoidance, especially as there is an understandable tendency on the part of the worst offenders, the developed countries, to shift the burden of adjustment on to the developing countries: a tendency clear in the solutions being devised for dealing with the global warming problem.

The eco-dumping allegation, on the other hand, extends plainly to what economists call 'domestic' environmental problems: as when effluents are discharged into a lake or a river that is entirely within a nation's own borders and there are no transborder spillovers into other jurisdictions.

In this latter set of domestic pollution cases, economists would generally expect to find diversity rather than uniformity of environmental standards in the same industry in different countries. I will call these Cross-country Intra-industry (CCII) differences in standards, typically in the shape of pollution tax rates. This diversity of CCII standards will follow from differences in trade-offs between aggregate pollution and income at different levels of income, as when richer Americans prefer to save dolphins from purse-seine nets, whereas poorer Mexicans prefer to put people first and want to raise the productivity of fishing, and hence accelerate the amelioration of Mexican poverty by using such nets. Again, countries will have natural differences in the priorities attached to which kind of pollution to attack, arising from differences of historical and other circumstances: Mexicans will want to worry more about clean water, as dysentery is a greater problem, than Americans who will want to attach greater priority to spending pollution dollars on clean air. Differences in technological know-how and in endowments can also lead to CCII diversity in pollution tax rates.

The notion, therefore, that the diversity of CCII pollution standards/taxes is illegitimate and constitutes 'unfair trade' or 'unfair competition', to be eliminated or countervailed by eco-dumping duties, is itself illegitimate. It is incorrect, indeed illogical, to assert that competing with foreign firms that do not bear equal pollution tax burdens is unfair. I would add three more observations:

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

industry with the *comparatively* higher tax rate will. The noise that each industry makes on the basis of CCII comparisons, aggregated to total noise by all industries, is then likely to exaggerate seriously the effect of different environmental valuations and CCII differences on the competitiveness of industries in higher-standards nations.

- But the legitimacy of the diversity may be suspect if the governments that are making the decisions on pollution tax rates are unrepresentative. Clearly, one cannot attribute such legitimacy to the Soviet bloc governments which, in fact, polluted wantonly and whose citizens had no voice. But fortunately, democracy has broken out almost everywhere: just a few countries, either the stragglers from the communist era (China, North Korea and Cuba) or the non-ideological one-leader or one-party states (Iraq and Syria), now lie wholly outside the democratic pale.

b. An Unjustified Fear of the 'Race to the Bottom'

One more worry needs to be laid to rest if the demands for upward harmonisation of standards, or eco-dumping duties *in lieu* thereof, are to be effectively dismissed. This is the worry that free trade with countries with lower standards will force down one's higher standards. The most potent of these worries arises from the fear that 'capital and jobs' will move to countries with lower standards, triggering a *race to the bottom* (or, more accurately, a race towards the bottom). So the solution would then lie in coordinating the standard-setting among the nations engaged in freer trade and investment. In turn, this *may* (but is most unlikely to) require harmonisation among countries to the higher standards (though, even then, not necessarily to those in place), or perhaps there might be improvement in welfare from simply setting minimum floors to the standards.

Unlike the argument just rejected that dismisses diversity of standards as illegitimate, and therefore unfair *per se*, this is undoubtedly a theoretically valid argument. The key question for policy, however, is whether the empirical evidence shows, as required by the argument, that: first, capital is in fact responsive to the differences in environmental standards; and second, that different countries/jurisdictions actually play the game of competitive lowering of standards to attract capital. Without both these phenomena holding in a significant fashion in reality, the 'race to the bottom' would be a theoretical curiosity.

As it happens, systematic evidence is available for the former proposition alone, but the finding is that the proposition is not supported by the studies to date: there is very weak evidence, at best, in favour of interjurisdictional mobility in response to CCII differences in environmental standards. There are, in fact,

many ways to explain this lack of responsiveness: differences in standards may not be significant and are outweighed by other factors that affect locational decisions; exploiting differences in standards may not be a good strategy relative to not exploiting them; and lower standards may even paradoxically repel, instead of attracting, DFI.

While we do not have similar evidence on the latter proposition, it is hardly likely that, as a systematic tendency, countries would actually be lowering environmental standards in order to attract capital. As it happens, countries, and even state governments in federal countries (e.g. President Bill Clinton when Governor of Arkansas), typically play the game of attracting capital to their jurisdictions: but this game is almost universally played not by inviting firms to pollute freely, but instead through tax breaks and holidays, land grants at throwaway prices, etc., most likely resulting in a 'race to the bottom' on business tax rates which wind up below their optimal levels! It is therefore not surprising that there is little systematic evidence of governments lowering environmental standards in order to attract scarce capital. Contrary to the fears of the environmental groups, the race to the bottom on environmental standards therefore seems to be an unlikely phenomenon in the real world.

I would conclude, then, that both the 'unfair trade' and the 'race to the bottom' arguments for harmonising CCII standards, or else legalising eco-dumping duties at the WTO, are therefore lacking in rationale: the former is theoretically illogical and the latter is empirically unsupported. In addition, such WTO legalisation of eco-dumping will facilitate protectionism without doubt. Anti-dumping processes have become the favoured tool of protectionists today. Is there any doubt that their extension to eco-dumping (and equally to social dumping), where the 'implied subsidy' through lower standards must inevitably be 'constructed' by national agencies such as the Environmental Protection Agency in the same jurisdiction as the complainant industry, will lead to the same results even more surely?

The 'fixing' of the WTO for environmental issues, therefore, should not proceed along the lines of legitimating eco-dumping. However, the political salience of such demands remains a major problem. One may well then ask: are there any 'second-best' approaches, short of the eco-dumping and CCII harmonisation proposals, that may address some of the political concerns at least economic cost?

c. A Proposal to Extend Domestic Standards in High Standard Countries to their Firms in Low Standard Countries. Unilaterally or Preferably through an OECD Code

The political salience of the harmful demands for eco-dumping duties and CCII harmonisation is greatest when *plants are closed* by one's own multinationals and shifted to other countries. The actual shifting of location,

and the associated loss of jobs in that plant, greatly magnify the fear of the 'race to the bottom' and the 'impossibility' of competing against low standard countries. Similarly, when investment by one's own firms is seen to go to specific countries which happen to have lower standards, the resentment gets to be focused readily against those countries and their standards. However, when jobs are lost simply because of *trade* competition, it is much harder to locate one's resentment and fear on one specific foreign country and its policies as a source of unfair competition. Hence, a second-best proposal could well be to address this particular fear, however unfounded and often illogical, of outmigration of plants and investment by one's firms abroad to low standard countries.

The proposal that I would like to make, most appropriately in Johannesburg, is to adapt the so-called Sullivan Principles approach to the problem at hand. Under Sullivan, US firms in South Africa were urged to adopt US practices, not the South African apartheid ways, in their operations. If this principle that US firms in Mexico be subject to US environmental policies were adopted by US legislation, that would automatically remove whatever incentive there was to move because of environmental burden differences.

This proposal that one's firms abroad behave as if they were at home can either be legislated unilaterally by any high standard country or by a multilateral binding treaty among different high standard countries. Again, it may be reduced to an exhortation, just as the Sullivan Principles were, by single countries in isolation or by several, as through a non-binding but ethos-defining and policy-encouraging OECD Code.

The disadvantage of this proposal, of course, is that it does violate the diversity-is-legitimate rule (whose desirability was argued by me). Investment flows, like investment of one's own funds, and production and trade therefrom, should reflect this diversity. It therefore reduces the efficiency gains from a freer flow of cross-country investments today. But if environmental tax burden differences are not all that different, or do not figure prominently in firms' locational decisions as the empirical literature seems to stress, the efficiency costs of this proposal could also be minimal, while the gains in allaying fears and therefore moderating the demand for bad proposals could be very large indeed.

Yet another objection may focus on intra-OECD differences in high standards. Since there are differences among the OECD countries in CCII environmental tax burdens in specific industries for specific pollution, this proposal would lead to 'horizontal inequity' among the OECD firms in third countries. If the British burden is higher than the French, British firms would face a bigger burden in Mexico than the French firms. But such differences already exist among firms abroad since tax practices among the OECD countries on taxation of those firms are not harmonised in many respects. Interestingly, the problem of horizontal equity has come up also in relation to the demands of the poor countries (that often find it difficult to enforce import restrictions effectively), that the domestic

restrictions on hazardous products be automatically extended to exports by every country. That would put firms in the countries with greater restrictions at an economic disadvantage. But agreement has now been reached to disregard the problem.

Other problems may arise: monitoring of one's firms in a foreign country may be difficult; and the countries with lower standards may object on grounds of 'national sovereignty'. Neither argument seems compelling. It is unlikely that a developing country would object to foreign firms doing better by its citizens in regard to environmental standards. Equally, it would then assist in monitoring the foreign firms.

If I may be cynical, this eminently reasonable proposal, which I made at the time of NAFTA in an article in the *New York Times*, was not received with enthusiasm by the corporate sector, and hence by either the US administration or the Congress, because the well-guarded little secret of the multinationals is that their demands on their governments, and hence on what they want included in the WTO, as with TRIMs and now the more ambitious Multilateral Agreement on Investment, concern the removal of impediments to their expansion, not the imposition of restrictions on their freedom to manoeuvre.

d. The Question of Labour Standards and the Social Clause

The question of labour standards, and making them into prerequisites for market access by introducing a Social Clause in the WTO, has both parallels and contrasts to the environmental questions. The contrast is that labour standards have nothing equivalent to *transborder* environmental externalities. One's labour standards are purely *domestic* in scope; in that regard, the demands for 'social dumping' for lower labour standards that parallel the demands for eco-dumping have the same rationale, and hence must be rejected for the same reasons.

But a different aspect to the whole question results from the fact that labour standards, unlike most environmental standards, are seen in moral terms. Thus, for example, central to much thinking today on the question of the Social Clause is the notion that competitive advantage can sometimes be morally 'illegitimate'. In particular, it is argued that if labour standards elsewhere are different and unacceptable morally, then the resulting competition is morally illegitimate and 'unfair'.

Now when this argument is made about a practice such as slavery, and its other forms such as bonded labour, including the abhorrent practices of mortgaging one's children to *de facto* servitude to employers, and of abusively exploiting prisoners in the labour camps in the *gulag*, there will be nearly universal agreement that if such slavery produces competitive advantage, that advantage is illegitimate and ought to be rejected as posing unfair competition to one's workers in competing industries.

The moral argument, however, may not be merely to consider such slavery-based competition as unfair to our industries and *workers*. It may also be that *we* do not wish to profit from such trade: we will not sup with the devil even though we miss a free meal. Or it may be a consequentialist moral argument that we wish to punish *others* who permit such slavery and, by denying them trade in such slavery-produced goods, we seek to induce them to change such slavery.¹⁸ The insertion of a Social Clause for labour standards in the WTO can then be seen as a way of legitimating a compelling and universally accepted moral exception to the otherwise sensible GATT rule that prohibits the suspension of a contracting party's trading rights concerning a product simply on the ground that another contracting party objects to the process by which that product is produced.

The real problem with the argument, however, is that universally condemned practices such as slavery are indeed rare. The reality is that diversity of labour practices and standards is widespread in practice, and for the most part reflects not necessarily venality and wickedness, but rather diversity of cultural values, economic conditions, and analytical beliefs and theories concerning the economic (and therefore moral) consequences of specific labour standards. The notion that labour standards can be universalised, like human rights such as liberty and *habeas corpus*, simply by calling them 'labour rights', ignores the fact that this easy equation between culture-specific labour standards and universal human rights will have a difficult time surviving deeper scrutiny.

I might illustrate the fundamental difficulties we face by taking the United States (since it is a principal proponent of the Social Clause) and demonstrating immediately that the US logic on the question can lead the US itself into a legitimate demand for a widespread and sustained suspension of its own trading rights if a Social Clause were established.

Thus, for instance, worker participation in decision making on the plant, a measure of true economic democracy for both unionised and non-unionised labour that is surely much more pertinent than the mere unionisation of labour, is far more widespread in Europe than in North America: would we then condemn North America to denial of trading rights by the Europeans? Migrant labour is again ill-treated to the level of brutality and slavery in US agriculture due to grossly inadequate and corrupt enforcement, if investigative shows on US television are a guide; does this mean that other nations should prohibit the import of US agricultural products? Sweatshops exploiting female immigrants with long hours and below minimum wages are endemic in the textile industry, as documented amply by several civil liberties groups and now appreciated widely because of the discovery of an establishment in California that employed virtual slaves, and the subsequent admission by Labour Secretary Reich that monitoring and enforcement were appallingly weak and would remain so because of lack of

¹⁸ I have considered the alternative moral arguments in Bhagwati and Hudec (1996, Ch. 1, Vol. 1).

funds: should the right of the US to export textiles then be suspended by other countries as much as the US seeks a Social Clause to suspend the imports of textiles made by child labour?

Even the right to organise trade unions may be considered inadequate in the US if we go by 'results', as the US favours in judging Japan: only about 12 per cent of the US labour force in the private sector today is unionised. Indeed, it is no secret, except to those who prefer to think that labour standards are inadequate only in developing countries, that unions are actively discouraged in several ways in the United States. Strikes are also circumscribed. Indeed, in essential industries they are restricted: but the definition of such industries also reflects economic structure and political realities, making each country's definition only culture-specific and hence open to objection by others. Should other countries then have suspended US flights because President Reagan had broken the air traffic controllers' strike?

Even the question of child labour is not an easy one. The use of child labour as such is surely not the issue. Few children grow up, even in the US, without working as babysitters or delivering newspapers; many are even paid by parents for housework in the home. The pertinent social question, familiar to anyone with even a nodding acquaintance with Chadwick, Engels and Dickens, and the appalling conditions afflicting children at work in England's factories in the early Industrial Revolution, is rather whether children at work are protected from hazardous and oppressive working conditions.

Whether child labour should be altogether prohibited in a poor country is a matter on which views legitimately differ. Many feel that children's work is unavoidable in the face of poverty and that the alternative to it is starvation, which is a greater calamity; and that eliminating child labour would then be like voting to eliminate abortion without worrying about the needs of the children that are then born.

Then again, insisting on the 'positive rights'-related right to unionise to demand higher wages, for instance, as against the 'negative rights'-related right of freedom to associate for political activity, for example, may also be morally obtuse. In practice, such a right could imply higher wages for the 'insiders' who have jobs, at the expense of the unemployed 'outsiders'. Besides, the unions in developing countries with large populations and much poverty are likely to be in the urban industrial activities, with the industrial proletariat among the better-off sections of the population, whereas the real poverty is among the non-unionised landless labour. Raising the wages of the former will generally hurt, in the opinion of many developing country economists, the prospects of rapid accumulation and growth which alone can pull more of the landless labour eventually into gainful employment. If so, the imposition of the culture-specific developed country union views on poor countries about the rights of unions to push for higher wages will resolve current equity and intergenerational equity problems in ways that are then *morally* unacceptable to these countries.

(i) *The Social Clause — a bad idea:* One is then led to conclude that the idea of the Social Clause in the WTO is generally rooted in an ill-considered rejection of the general legitimacy of diversity of labour standards and practices across countries. The alleged claim for the universality of labour standards is (except for a few rare cases such as slavery, and its close variants such as labour in bondage and in the *gulag*) generally unpersuasive. The developing countries cannot, then, be blamed for worrying that the recent escalation of support for such a clause in the WTO in the United States and France, among the leading OECD countries, derives instead from the desire of labour unions to protect their jobs by protecting the industries that face competition from the poor countries. They fear that moral arguments are produced to justify restrictions on such trade since they are so effective in the public domain. In short, 'blue protectionism' is breaking out, masking behind a moral face.

Indeed, this fearful conclusion is reinforced by the fact that none of the major OECD countries pushing for such a Social Clause expect to be the defendants instead of the plaintiffs in Social Clause-generated trade access cases. On the one hand, the standards (such as prohibition of child labour) to be included in the Social Clause to date are invariably presented as those that the developing countries are guilty of violating, even when some transgressions thereof are to be found in the developed countries themselves. Thus, according to a report in *The Financial Times*, a standard example used by the labour movement to garner support for better safety standards is a disastrous fire in a toy factory in Thailand where many died tragically because exits were shut and unusable. Yet when I read this report, I recalled an example just like this (but far more disconcerting when I noted that the fatalities occurred in the richest country in the world) about a chicken plant in North Carolina where the exits were also closed for the same reason. Yet the focus of international agitation has been on the poor, not the rich, country.

At the same time, I must say that the argument that the Social Clause should contain 'core' standards sounds fine, until you realise that this is also tantamount to a choice of standards for attention and sanctions at the WTO that is also clearly biased against the poor countries, in the sense that none of the problems where many of the developed countries themselves would be more likely to be found in significant violation — such as worker participation in management, union rights, rights of migrants and immigrants — are meant to be included in the Social Clause. Symmetry of obligations simply does not exist in the Social Clause, as contemplated currently, in terms of the coverage of the standards.

This theme may be pursued further. The choice of the WTO as the repository of a Social Clause, stacked against the developing countries, is also a way of reducing the probability of being a defendant. This is because the standing to bring cases at the WTO lies with the member governments not with NGOs as in the public interest litigation in India or in the case of human rights if a nation has

signed (as the United States has not done) the Optional Protocol on the International Covenant of Civil and Political Rights. India and Egypt, for instance, may be expected to be bamboozled by threats and inducements, political and economic, by major powers into not pursuing Social Clause-led cases against them; but the NGOs would not so easily back away from such a scrap. If indeed the demands are being truly inspired by a moral viewpoint that genuinely seeks symmetric universal rights and their enforcement, the choice of the WTO as the institution of choice for sanctions is hardly credible.

Indeed, both the choice of standards to be included in the Social Clause, and the choice of the institution where the Social Clause will be situated, cannot but leave serious analysts in the developing countries convinced that the movement is a prime example of what I called *Intrusionism*, inspired by the desire to moderate competition from the developing countries by raising their costs of production. This view is further reinforced when the unions allied to these demands are often seen to be those in industries directly threatened by such competition, or when the morality underlying the demands for a Social Clause is couched in terms of a universalist language that asserts transborder moral concerns by groups that equally support immigration controls that deny the universalism they assert.

(ii) If not a Social Clause, what else? If this analysis is correct, then the idea of a Social Clause in the WTO is not appealing; and the developing countries' opposition to its enactment is totally reasonable. We would not be justified, then, in condemning their objections and unwillingness to go along with such demands as depravity and 'rejectionism'.

But if a Social Clause does not make good sense, is everything lost for those in both developed and developing countries who genuinely wish to advance their views of what are 'good' labour standards in a decent society? Evidently not. It is surely open to them to use other instrumentalities such as non-governmental organisation (NGO)-led educational activities to secure a consensus in favour of their positions. In fact, if your ideas are good, they should spread without coercion. The Spanish Inquisition should not be necessary to spread Christianity; indeed, the Pope has no troops. Mahatma Gandhi's splendid idea of non-violent agitation spread and was picked up by Martin Luther King, and finds strong resonance in the practice and precepts of President Mandela, not because he worked on the Indian government to threaten retribution against others; it happened to be just morally compelling.

I would add that one also has the possibility of recourse to private boycotts, available under national and international law; they are an occasionally effective instrument.¹⁹ They constitute a well-recognised method of protest and consensus creation in favour of one's moral positions.

¹⁹ Though, here also, I must add that many NGOs and citizens in the developing countries are rightly concerned by the asymmetric power that can be exerted by private boycotts in countries that are economically more substantial and politically more powerful, thus lending greater weight to the

Where, moreover, a nation has unmarketable and culture-specific moral views²⁰ on the production and import of certain products, and is under domestic political pressure to go along with official suspension of such imports, it is worth stressing that there is nothing in the current international regime to prevent it from doing so. It can simply suspend the trade of another country and 'pay' for it by making trade concessions, or it can put up with matching retaliation by the other country in the form of its own withdrawal of market access to the punishing country. The latter is, in effect, what the EU did over their politically necessary suspension of the hormone-fed beef trade and the subsequent retaliation by Ambassador Carla Hills of the United States.

5. THE GLOBAL AGE: TRANSCENDING FEARS TO CONSTRUCT A NEW ARCHITECTURE

The new international architecture that we must build to secure the gains from the Global Age must not be founded on faulty foundations inspired by exaggerated fears. It must also not be one that begins by creating a North-South divide when we have just managed to put such dissensions behind us in a common vision reflecting the universalism of both economics and politics that I drew your attention to. What vision, then, should we embrace? Or perhaps, if I may recall Raul Prebisch at the end as I did at the beginning, where would he, simultaneously a visionary and a builder, have led us at this historic juncture?

(i) We need to reject the folly of including a Social Clause and eco-dumping varieties of trade and environmental agendas into the world trading regime: the WTO would surely be handicapped, and the developing countries harmed, by such measures.

(ii) Instead, recognition of the important role of NGOs, careful design of labelling approaches, and encouragement of improved environmental and labour practices by appropriate institutions such as UNEP, UNICEF and the ILO, are among the proper ways to bring these great tasks to attention and fruition today.

(iii) Moreover, instead of moving the world into a foolish straitjacket of 'deep integration' — a shallow concept when it comes to the Social Clause,

moral concerns of the citizens of the strong as against those of the weak nations. So the time may well have come to examine whether organised private boycotts should be permitted without restraint when exerted against weaker, foreign nations.

²⁰ Are the American love for dolphins, the Indian respect for cows and the English affection for dogs universalisable by moral suasion? They are rarely grounded in basic beliefs in animal rights, but seem to reflect notions such as 'cuteness' (dolphins look so human, look at their pretty snouts) or 'loyalty' (a dog is man's best friend) which are surely culture-specific.

environmental tax burden harmonisation, etc. — and forcing it on the WTO and the developing countries, to whose disadvantage it must work, it is better to finish the task of creating a world of free trade, an essential component of the Global Age that still remains a job unfinished.

(iv) This task is all the more important as the trading system has now been afflicted by a huge and increasing proliferation of free trade areas which are better called by their true name: Preferential Trading Arrangements (PTAs). These PTAs now criss-cross the world economy, creating a 'spaghetti bowl' phenomenon of trade tariffs and NTBs that depend on where products come from: numerous rates apply in the EU and US alone, depending on source, with 'rules of origin': producing a maze messing up the international division of labour in the Global Age.

These PTAs are politically driven: no politician is happy unless he has put his signature on at least one of them. It gives them a place in the sun and, while going preferential, you can still pretend that you are for free trade since no one in the media understands the distinction. We economists now have a CNN theory of regionalism or PTAs: you can get on to world television through an APEC or a Mercosur summit which you cannot at Geneva at the WTO!

So the only way to kill this growing maze of preferences is not through ingenious changes in Article XXIV at the GATT/WTO which sanctions PTAs, or by prohibiting PTAs which simply cannot be suppressed when the political demand for them is so overwhelming, but through going to worldwide free trade (which effectively kills the preferences since a preference relative to zero is zero).

(v) The nations of the world must unite behind such a vision and such a target: worldwide free trade by, say, the year 2010. Mr Renato Ruggiero and Mr Rubens Ricupero can be natural allies in propagating such a target: for it would galvanise both WTO and UNCTAD. Both institutions are at a critical defining moment in their history, the WTO beginning to create it and UNCTAD struggling to survive it.

Mr Ruggiero's task will be to bring the reluctant United States on board: cajoling it away from its current folly of embracing the Social Clause and rejecting an activist further-freeing-of-trade-role for the WTO in the matter of setting its new agenda.²¹ On the other hand, remembering that the era of exceptionalism is over, Mr Ricupero must unhesitatingly bring the developing countries on board behind such a target.

²¹ Indeed, at the QUAD trade talks in Kobe some time ago, the United States managed to bamboozle Canada and Japan into acquiescence on going to the December 1996 Ministerial of the WTO with the demand that the Social Clause be included on that agenda. When a great power is set on a task, no matter how harmful, it is hard to offer continued resistance. I would predict (and hope), however, that this persistence by the United States will produce a major confrontation in Singapore.

I am afraid that, ironically, Mr Ruggiero's task is likely to be the more difficult since the US, and indeed France, are in the throes of Intrusionism inspired by the phantom fears of the Global Age. By contrast, Mr Ricupero should find his task much easier as the developing countries now find in the Global Age the virtues that they could not see in the earlier years. But it is my fond hope that the two will be able to lead, hand in hand, in shared partnership, the nations of the world into a truly Golden Age with worldwide free trade. Indeed, one could not hope to find better leadership than what they offer. After all, by a remarkable coincidence, the names of both these men can be initialised to RR: a symbol of exceptional quality to us in the former colonies of Great Britain, where RR stood, of course, for Rolls Royce!

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