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Introduction

Americans want the benefits of a more efficient and open economy—lower prices, more competition, better-paying jobs, and more profitable investments. Americans also want to promote higher environmental standards and better working conditions at home and abroad. Are those two values in conflict? Such is the premise of people who insist that future trade agreements require countries to meet certain environmental and labor standards.

The question of labor and environmental standards will be at the heart of any congressional debate about future trade agreements, including trade promotion authority (also known as fast-track authority), which allows presidents to submit trade agreements to Congress for up or down votes without amendment. Trade promotion authority has been allowed to lapse since 1994, largely because of disagreements over how to address labor and environmental issues. Republican leaders in Congress have rejected the use of sanctions in future agreements, and key Democrats have warned that major trade agreements will not pass if they do not contain labor (“blue,” as in blue collar) and environmental (“green”) standards enforceable through trade sanctions.

In June Republicans introduced “clean” trade promotion authority legislation that appears to rule out provisions not directly related to trade. The Bush administration has embraced higher global standards as a goal of U.S. trade policy, proposing a “tool box” of measures that could be used to promote them, but trade sanctions were not in the box. In contrast, Sen. Max Baucus (D-Mont.), the new chairman of the Finance Committee, has declared, “Without meaningfully addressing labor and environment—preferably in the agreement—I cannot imagine a new free trade agreement winning congressional approval.”¹ David Bonior, Democratic whip in the House, has dismissed any language that does not include trade restrictions as a means of enforcement, arguing, “What good is a ‘tool box’ if it doesn’t contain a hammer to enforce labor and environmental protections with tough trade sanctions?”²

The stakes are high in the debate on whether and how to address social standards within trade agreements. If trade promotion authority stalls in Congress because of a lack of labor and environmental language, Americans could be denied the benefits of trade agreements that would expand the opportunity to trade. But if the U.S. government insists on inserting those conditions into international trade agreements, other nations, especially less-developed countries, are adamant that they will not sign them. Either way, international negotiations to lower trade barriers would be paralyzed. The threat of sanctions against countries because of their labor and environmental standards would chill, and probably kill, a new round of negotiations in the World Trade Organization, whose membership is now predominantly made up of less-developed countries. Regional negotiations for a free-trade area of the Americas and most bilateral negotiations would also be put on hold by trading partners who would rightly resent such a heavy-handed and potentially protectionist attempt to influence their domestic social policies.

By insisting on blue and green standards enforceable through trade sanctions, advocates of “linkage” are taking U.S. trade policy down a new and dangerous road. Although references to labor and environmental standards have been part of U.S. trade legislation since the 1970s, no major trade agreement has ever authorized the use of trade sanctions to punish nations that fail to meet those standards, however defined. Of the 130 free-trade agreements and 1,800 bilateral investment treaties that have been negotiated around the world to date, only 3—the North American Free Trade Agreement, the Canada-Chile FTA, and the proposed U.S.-Jordan FTA—address environmental and labor issues in a comprehensive way.³ No trade agreement already enacted, by the United States or any other country, relies on punitive sanctions as a tool for enforcing labor and environmental standards. Grafting labor and environmental sanctions onto new trade legislation will create new barriers to both existing trade and future trade expansion.

Before makers of trade policy decide whether to go down that road, they should

examine the real impact of international trade and investment on labor and environmental standards, the practical difficulties of defining and “enforcing” those standards in other countries, and the inherent dangers—to ourselves, our trading partners, and the global trading system—of wielding the hammer of sanctions as a tool of enforcement.

The Mythical “Race to the Bottom”

Much of the case for linking labor and environmental standards to trade is built on the assumption that, without enforceable standards, economically advanced nations with high social standards will find themselves at a competitive disadvantage vis-à-vis less-developed nations with low standards. Low standards supposedly give producers in poor countries a significant cost advantage, allowing them to take market share from rich-country producers burdened with the cost of higher standards. Footloose producers in the rich countries will then be forced to transfer productive capital to low-standard countries to remain competitive, prompting rich-country governments to lower their standards to keep jobs and production at home, resulting in a regulatory “race to the bottom.” Those concerns were reflected in a “Dear Colleague” letter, signed in June by 97 Democratic House members, warning that future trade agreements must “prohibit the unfair advantage gained through violation of fundamental labor and environmental protections.”⁴

The assumption that low standards confer an “unfair advantage” finds little support either in theory or in practice. Labor and environmental regulations do not appear to be significant factors in determining the competitiveness and profitability of multinational companies in the world today. The costs of complying with environmental regulations, for example, typically account for less than 1 percent (they range up to 2 percent for more pollution-intensive industries) of production costs for industries in Western countries.⁵ Far more important in

determining where companies locate are such factors as political stability; the education and productivity of the local workforce; the state of the country’s communications and transportation infrastructure; the rule of law; proximity to markets; and the ability to import, export, and repatriate profits freely.

Low Standards and “Competitiveness”

Low standards do not confer a competitive advantage on poor countries, nor do high standards impose a disadvantage on rich countries. Maintaining low standards may benefit particular industries in a poor country at the expense of other sectors of its economy, and imposing more restrictive environmental standards may change the composition of a rich country’s domestic industry but not necessarily its overall output. For example, anti-pollution regulations may cause pollution-intensive industries to shrink relative to cleaner industries. But, as trade economists Jagdish Bhagwati and T. N. Srinivasan have pointed out, that would be just as true in a closed economy as in one open to global competition.⁶ In fact, if reducing domestic pollution is the goal of such regulations, then openness to trade and investment can help accelerate the transition to cleaner production.

Similarly, imposing more restrictive labor regulations may alter the mix of compensation that employees receive without necessarily reducing overall employment or output. In a competitive market, employers will tend to pay workers according to their productivity. If a government attempts to suppress the overall compensation level to gain a competitive advantage, employers will tend to bid against each other to attract workers, raising the general wage level until it matches productivity. Systematically suppressing “labor rights” may benefit certain industries and sectors, but it does not appear to gain any overall advantage for a nation’s economy.

Consider collective bargaining and discrimination. In practice, unionization can have ambiguous effects on economic efficiency. If collective bargaining drives up wages beyond the productivity of workers, it can cause the

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Nations with low environmental standards tend to attract far less FDI than do those with high standards.

affected industries to lose market share in a competitive market. But if collective bargaining offsets the power of a dominant employer to keep wages below levels of productivity, unions can enhance economic efficiency. Systematic discrimination in the labor market unambiguously reduces efficiency by discouraging certain groups of workers from fully participating in economic activity. That reduces national output, including exports if the workers being discriminated against are concentrated in export production (for example, women in the textile and clothing industries). As a World Bank study concluded, "The effect of discrimination is clearly not to create competitive advantage in exports, rather it has the opposite effect."⁷

Differences in labor standards do not drive global trade and investment flows. In a 1996 study of trade and labor standards, the Organization for Economic Cooperation and Development compared export performance with enforcement of labor rights, in particular freedom of association. The study concluded, "There is no evidence that low-standards countries enjoy a better global export performance than high-standards countries."⁸ The study went on to explain:

Core labor standards do not play a significant role in shaping trade performance. The view which argues that low-standards countries will enjoy gains in export market shares to the detriment of high-standards countries appears to lack solid empirical support. Countries can succeed in repressing real wages and working conditions only for a limited period of time. Thereafter, market forces will be such that wages will catch up, thus wiping out previous competitiveness gains.⁹

Investing in High Standards

If the race-to-the-bottom theory were true, we would expect to see at least one of two developments: either capital would be flowing massively from rich, high-standard countries to

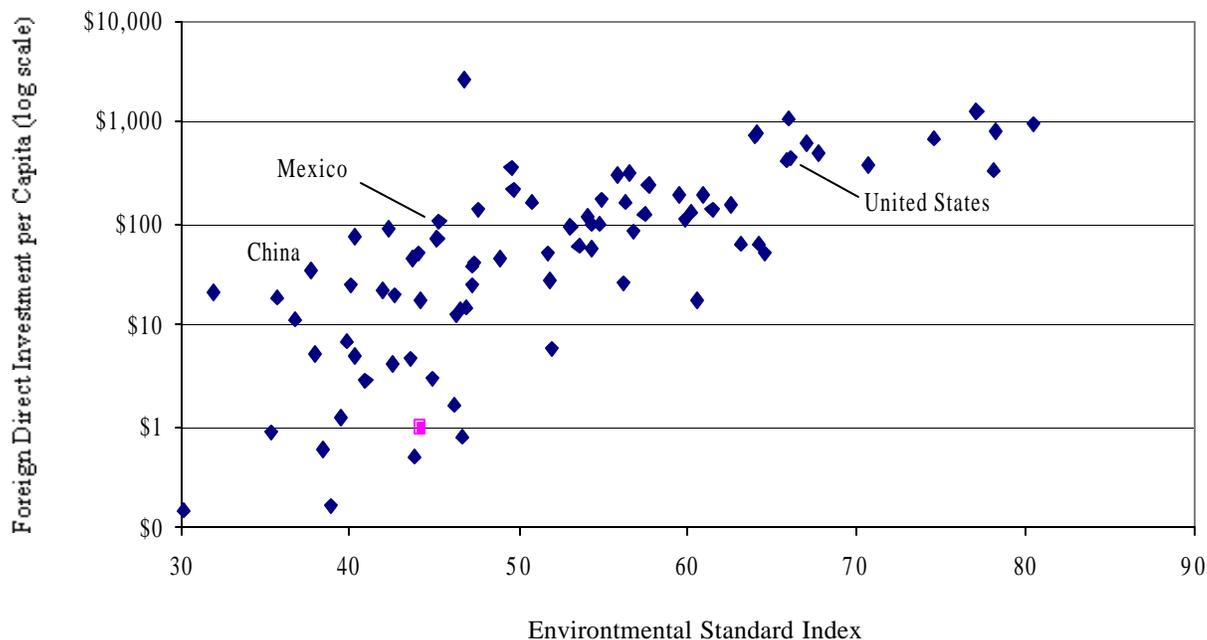
poor, low-standard countries or rich countries would be lowering their standards to keep productive capital and jobs from fleeing. In fact, neither is happening.¹⁰

The low labor and environmental standards endemic to less-developed countries do not seem to confer any observable advantage in attracting foreign direct investment (FDI). The overwhelming majority of FDI comes from and flows to developed countries with similarly high labor and environmental standards. According to the UN Conference on Trade and Development, of the \$1.1 trillion in global FDI flows in 2000, more than 80 percent went to developed countries. Only 17 percent of FDI was directed to developing countries, down from about 40 percent in the mid-1990s.¹¹ As the OECD concluded, "Aggregate FDI data suggest that core labor standards are not primary factors in the majority of investment decisions of OECD companies."¹²

Nor do low environmental standards appear to confer any advantage in attracting investment. In fact, nations with low environmental standards tend to attract far less FDI than do those with high standards. Figure 1 shows that nations with the highest environmental standards, as measured by the World Economic Forum's "2001 Environmental Sustainability Index,"¹³ also attracted the most FDI per capita.¹⁴ If the race to the bottom were actually happening, countries with low standards would tend to attract more FDI than those with higher standards. But Figure 1 demonstrates that just the opposite is happening: higher environmental standards are invariably associated with higher flows of FDI. (See Appendix for complete cross-country data.)

American direct investment abroad shows the same bias in favor of high standards. In the three-year period 1997–99, American manufacturing companies directly invested twice as much in the high-wage, high-standard economies of the European Union as in all of Latin America, Africa, the Middle East, India, and China combined. During that period, more U.S. manufacturing FDI flowed into Germany and the Netherlands, where the level of social regulation generally exceeds that in

Figure 1
Environmental Standards and Foreign Direct Investment



Sources: World Economic Forum, “2001 Environmental Sustainability Index,” Geneva, January 2001; and World Bank, *World Development Report 2000/2001* (Washington: World Bank, 2001).

the United States, than into Mexico and mainland China combined.¹⁵

Low wages are no more of a magnet for foreign investment than are low standards. According to a recent study on global manufacturing investment by the consulting firm Deloitte and Touche, other high-wage countries attracted 87 percent of total U.S. manufacturing FDI outflows in 1999, up from 75 percent in 1998 and 69 percent in 1997. The study explained, “Since only a relatively small percentage of a firm’s costs are in wages, factors such as local market size, skill and education levels of the host country workforce, and political and economic stability become much more important for U.S. firms when making investment decisions.”¹⁶

If low standards and low wages were the dominant factors driving investment flows, as the race-to-the-bottom thesis assumes, then we would expect poor countries to be capturing most FDI from developed countries. That is

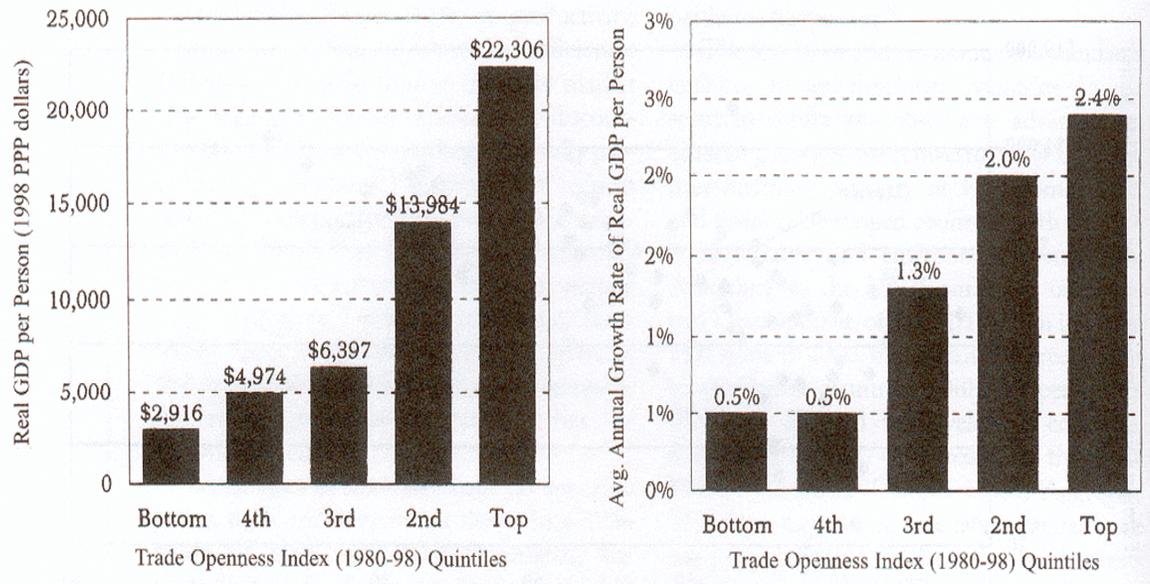
clearly not happening. The only other explanation consistent with a race to the bottom would be that rich countries are busy lowering their own wages and standards to compete for capital, but that argument finds equally little support in the real world.

The Real Race toward the Top

Around the world a fundamental dynamic appears to be at work: nations that are open to trade tend to grow faster and achieve higher incomes than do less-open nations, and those with higher incomes tend to maintain higher labor and environmental standards. Through this powerful channel, globalization encourages a race, not to the bottom, but toward the top.

The link between openness to trade and investment and economic growth has been well documented. Numerous cross-country studies have found that nations relatively open

Figure 2
Openness to Trade, Income, and Growth



Source: James Gwartney and Robert Lawson, *Economic Freedom of the World: Annual Report 2001* (Vancouver, B.C.: Fraser Institute, 2001), p. 78.

Note: PPP = purchasing power parity.

to the global economy grow faster than those that are relatively closed.¹⁷ Furthermore, poor nations that are open tend to close the income gap with developed nations, while those that are closed tend to fall further behind. The connection between trade and growth was confirmed by economists James Gwartney and Robert Lawson in their recent study, *Economic Freedom of the World: Annual Report 2001*. Of the 90 countries surveyed, they found that those in the top quintile of trade openness during the years 1980-98 averaged \$22,306 in per capita gross domestic product compared to \$2,916 for those in the bottom quintile. The most open countries averaged 2.4 percent annual growth during the period compared to 0.5 percent average growth among the least open countries (Figure 2).¹⁸

The reasons for the link are rooted in economic reality. Openness to trade helps to shift resources to sectors that enjoy a comparative cost advantage over other domestic sectors. It stimulates competi-

tion in the domestic economy, lowering prices for consumers and import-using industries, breaking the power of protected domestic monopolies, and spurring innovation and efficiency among domestic producers. It provides new markets for exporters, allowing economies of scale and opening up new opportunities for domestic production. Foreign trade and investment bless less-developed countries with capital, productive machinery, and new technology.

Higher incomes, in turn, spur higher standards. As incomes rise above subsistence level, people can afford to spend more on pollution control. They can more easily afford to send children to school rather than to work to supplement household income. A rising standard of living also creates a more educated and politically aware population that expects higher standards, increasing political pressure on the government to institute reforms. That process appears to be working to raise both labor and environmental standards in countries open to globalization.

Trade and Labor Standards

Openness to trade and investment leads to faster growth, which leads to higher wages and labor standards, including so-called core worker rights. That is why the world's most developed economies, which account for most of the world's trade and attract most of its FDI, also pay the highest wages and maintain the highest labor standards covering freedom of association, discrimination, forced labor, and child labor.

For less-developed countries as well, engagement in the global economy lifts real wages and labor standards. Jobs in export industries and foreign-owned affiliates generally pay significantly higher wages than do jobs in non-trade-related industries. Foreign-owned affiliates in less-developed countries typically pay wages and salaries that are about eight times higher than per capita GDP in those countries.¹⁹ According to a study by the U.S. International Trade Commission, wages, salaries, and labor standards are higher in export-oriented sectors than in those that produce nontraded goods.²⁰

When Western multinational firms invest in less-developed countries, they typically bring higher standards, not lower standards. For reasons of internal efficiency as well as public perceptions, multinational companies impose more or less uniform standards on their affiliates, whether operating in less-developed or advanced economies. Multinational companies tend to require their overseas production plants to meet higher standards than do domestically owned and operated companies, thus raising average standards in the host country.

For all those reasons, globalization, development, and labor standards tend to rise together. The 1996 OECD study on trade and labor standards found both “a weak positive association between the degree of enforcement of [freedom-of-association] rights and the level of economic development” and “a trend towards better compliance in low-standards countries.”²¹ That progress, in turn, can be linked to globalization and increased openness: “The strongest finding is that there is a positive association over time between successfully sustained trade reforms and improvement in core [labor] standards.”²²

That improvement includes the most emotional of labor standards—child labor. Child labor of the worst kind is a fact of life in the world's poorest countries. According to the International Labor Organization, an estimated 250 million children between the ages of 5 and 14 work in less-developed countries, nearly half of them full-time and to the exclusion of school.²³ Children who are deprived of an elementary education are likely to be condemned to perpetual poverty. Society as a whole is deprived of the benefits of the human capital and potential of an educated population. Yet for many Third World families living on the edge of subsistence, the alternative to child labor is starvation.

As is the case for labor standards in general, trade and globalization are not part of the problem of child labor but are in fact a necessary part of its alleviation. The overwhelming majority of child laborers toiling in poor countries work in sectors far removed from the global economy. More than 80 percent work without pay, usually for their parents or other family members and typically in subsistence farming.²⁴ Most other child laborers work for small-scale domestic enterprises, typically nontraded services such as shoe shining, newspaper delivery, and domestic service.²⁵ A report by the U.S. Department of Labor found: “Only a very small percentage of all child workers, probably less than five percent, are employed in export industries in manufacturing and mining. And they are not commonly found in large enterprises; but rather in small and medium-sized firms and in neighborhood and home settings.”²⁶

Openness to trade and the growth it brings have a positive impact on the welfare of children. As household incomes rise, especially wages paid to adult females, fewer families face the economic necessity of sending their children to work. Studies confirm that labor force participation rates by children aged 10 to 14 decline significantly with rising GNP per capita.²⁷ Child labor rates also fall as a nation's population shifts from rural agricultural areas, where child labor rates are relatively high, to urban centers. The most objectionable forms of child labor are most commonly found in rural areas of poor countries, areas that

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—OECD

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are the farthest removed from the reach of global trade and investment. As trade expands and incomes rise, more parents can afford to send their children to school rather than to work.

Working conditions in less-developed countries can strike Western observers as unacceptable if not appalling. But two points need to be considered: First, wages and working conditions are likely to be even worse in non-trade-oriented sectors, such as services and subsistence agriculture, that have been largely untouched by globalization. Second, poor working conditions in those countries are not a new phenomenon but have always been a chronic fact of life. Abysmal working conditions persist today not because of globalization, a relatively new phenomenon, but because of previous decades of protectionism, inflation, economic mismanagement, hostility to foreign investment, and lack of legally defined property rights. Globalization is not the cause of bad working conditions but the best hope for improving them.

One of countless examples of the beneficial effect of international trade on working conditions can be seen in the Charter clothing factory in San Salvador, El Salvador. A recent *New York Times* story described conditions in the locally owned operation, which produces clothing on contract for a major American retailer: "Inside, rows of sewing machines face blackboards on which supervisors have written the daily quotas for shirts and trousers, roughly 2,000 a day for each line of 36 machines. The pace is relentless, but *by local standards it is a pleasant place to work*. There are lockers, tiled bathrooms, a medical clinic and an outdoor cafeteria. Large fans and high ceilings keep temperatures down."²⁸ Such conditions might strike many Americans as those of an intolerable "sweatshop," but to local workers they represent real progress.

Trade and Environmental Standards

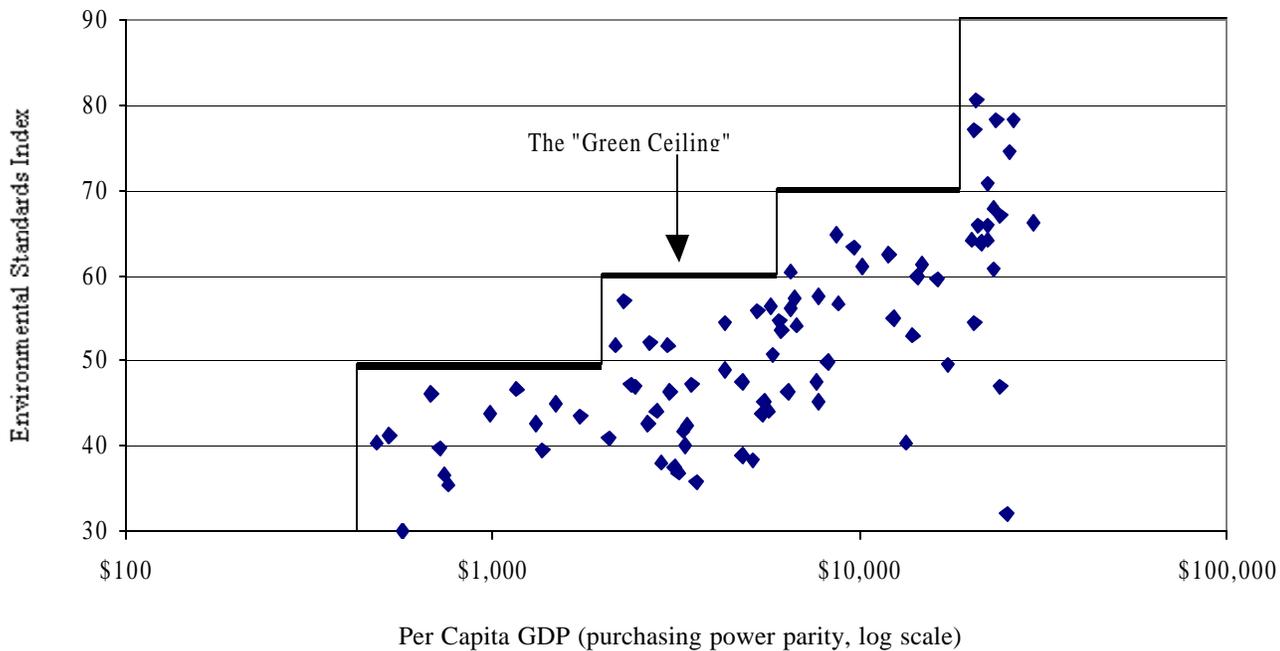
Expanding trade is not merely compatible with high standards of environmental quality but can lead directly to their improvement. As a country sees its standard of living rise through economic liberalization and trade expansion, its industry can more readily afford to control emissions. Its citizens have more to spend, above

what they need for subsistence, on the "luxury good" of improved environmental quality. And as economic growth creates an expanding, better-educated middle class, the political demand rises for pollution abatement. That explains why the most stringent environmental laws in the world today are found in developed countries that are relatively open to trade.

Development by itself can have a mixed impact on the environment. All else being equal, an economy that produces more of exactly the same goods and services in exactly the same way will produce more pollution. But development changes not only the size of an economy but also its composition and its level of technology. More sophisticated technology can mean cleaner production processes and more affordable and effective pollution abatement. And as nations progress to higher stages of development, they tend to move away from more resource-intensive activities such as mining, agriculture, and heavy industry and into light manufacturing, information technology, and services. A study by the OECD on globalization and the environment found: "There is some evidence that, once a country begins to industrialize, trade liberalization helps to make the structure of its economy less pollution-intensive than in those countries whose economies remain relatively closed. In particular, freer trade seems to promote the transition from heavy resource-processing sectors to light manufacturing ones (at least at middle income levels)."²⁹

That helps explain the so-called environmental Kuznets curve, according to which environmental quality in a developing nation initially deteriorates as the economy begins to industrialize but then improves as the economy reaches a higher level of development. Research by Gene Grossman and Alan Krueger indicates that the turning point occurs at about \$5,000 per capita GDP: "We find no evidence that environmental quality deteriorates steadily with economic growth. Rather, for most indicators, economic growth brings an initial phase of deterioration followed by a subsequent phase of improvement."³⁰ Not all categories of pollutants fit that pattern, but as a general rule environmental quality appears to improve as incomes rise.

Figure 3
Wealth and Environmental Standards



Sources: World Economic Forum, “2001 Environmental Sustainability Index,” Geneva, January 2001; and United Nations Development Program, *Human Development Report 2000* (New York: United Nations, 2000).

The long-run positive impact of development on the environment is confirmed by a cross-country comparison of environmental standards and per capita GDP. Figure 3 illustrates how environmental standards and quality, again as measured by the World Economic Forum’s “2001 Environmental Sustainability Index,”³¹ generally rise along with per capita GDP³² in the 83 countries measured. Higher per capita income appears to be a necessary although not sufficient condition for improved environmental quality. In other words, while some countries have managed to achieve high per capita incomes without high environmental standards, no country has achieved high standards without high incomes.

In fact, a closer look at the cross-country data reveals a kind of “green ceiling” that must be raised for nations to achieve higher environmental standards. According to the data, no nation has achieved an environmental sustainability index rating of 50 or more without a per capita

GDP of at least \$2,142; no nation has achieved a rating of 60 or more without a per capita GDP of at least \$6,436; and no nation has achieved a rating of 70 or more without a per capita GDP of at least \$20,659. If the goal of U.S. policy is to encourage higher environmental standards abroad, we must help less-developed countries achieve higher incomes—and trade liberalization, at home and abroad, must be an integral part of any pro-development policy.

Mexico is frequently cited as an example of how increasing trade can cause environmental degradation. But Mexico’s reputation for lax standards predates its trade reforms and entry into NAFTA. Although the expansion of Mexican industry has made pollution control more challenging, economic growth and new technology have provided the means for raising standards. Meanwhile, a more competitive, multiparty political system has spurred the government to be more responsive to domestic demands for environmental protection.

The growing globalization of the U.S. economy has been accompanied by ever-rising environmental standards.

One result is that Mexico City's notoriously dirty air has been getting noticeably cleaner. Levels of lead, carbon dioxide, and sulfur dioxide are down significantly, and the city was free of smog alerts during all of 2000. Efforts to clear the air seemed to turn a corner in 1995 with the introduction of cleaner gasoline and more widespread installation of catalytic converters. Industries that ring Mexico City have either cut their pollution emissions or dispersed to other regions of the country. Today the air in Mexico City is cleaner than the air in Los Angeles was 30 years ago.³³

The United States itself is a classic example of the benign effect of open trade and growth on the environment. It simultaneously has one of the world's most open economies and one of the world's cleanest environments. In the past decade, the United States has continued to open its economy further, signing NAFTA and the Uruguay Round Agreement, which lowered tariffs worldwide and created the World Trade Organization. Meanwhile, America's two-way trade and foreign investment continue to climb in relation to U.S. GDP. The growing globalization of the U.S. economy has been accompanied by ever-rising environmental standards. According to the Council on Environmental Quality, mean ambient concentrations of sulfur dioxide and carbon monoxide in the atmosphere of the United States both dropped by nearly 40 percent between 1988 and 1997.³⁴ During the same period, the annual number of "bad air days" in major U.S. cities dropped by two-thirds.³⁵ The direct discharge of toxic water pollutants went down dramatically as well.³⁶ Since the early 1970s, real spending by government and business on the environment and natural resource protection has doubled.³⁷

The environmental progress evident in the United States, Mexico, and elsewhere was not the result of threatened trade sanctions or other external pressure but a consequence of domestic pollution control efforts made possible by economic growth and new technology, which in turn are spurred by increasing flows of trade and foreign investment.

Of course, open trade and economic growth alone do not lead inevitably to higher environ-

mental and labor standards. Absent clearly defined property rights, government regulation is usually necessary to protect common air and water resources from pollution that can endanger public health. Government action may also be necessary to eliminate forced labor, the exploitation of children, and market distortions caused by anti-competitive practices, whether on the part of industry or labor unions. But the evidence is clear that economically sound regulations are perfectly compatible with an open economy.

There is no inherent conflict between high labor and environmental standards in the domestic economy and success in the global economy. In fact, the evidence points strongly to a positive correlation between high standards, high national incomes, and economic openness. Nations that have opened themselves to the global economy tend to grow faster, achieve higher per capita incomes, and maintain higher labor and environmental standards. The belief that higher standards can be promoted only through tough language in trade agreements is built on a myth.

Whose Standards and What Standards?

Another major problem with enforcing labor and environmental standards through trade agreements is the lack of clear definition of what those standards should be, how compliance should be measured, and who should determine whether they have been violated.

On labor standards, a consensus of sorts exists that countries should live up to a short list of "core labor rights." The 175 member states of the International Labor Organization³⁸ agreed in their 1998 "ILO Declaration on Fundamental Principles and Rights at Work" to promote a set of "fundamental" labor rights. The four generally accepted core labor rights are

- a ban on forced or compulsory labor (ILO Conventions nos. 29 and 105),
- freedom of association (ILO Convention no. 87) and the right to organize and bargain collectively (ILO Convention no. 98),

- nondiscrimination (ILO Convention no. 111) and equal remuneration (ILO Convention no. 100) in employment, and
- a minimum age for employment of children (ILO Convention no. 138) and a ban on the worst forms of child labor (ILO Convention no. 182).

While those core conventions are praised in principle, they are not universally embraced in practice. Only 45 of the ILO's 175 member countries have ratified all eight core conventions. Another 79 countries, almost half of the ILO's membership, have left two or more of the conventions unratified. The U.S. government, which has pushed aggressively for the recognition of core worker rights in international trade talks, has ratified only two of the core ILO conventions (nos. 105 and 182). Only nine other ILO member countries, including Laos, Myanmar, and the People's Republic of China, have ratified as few conventions as the United States.³⁹ Among the countries negotiating with the United States toward a free-trade area of the Americas, 25 have ratified at least five of the core conventions.

Of course, ratification of an ILO convention does not necessarily mean the ratifying country has actually implemented the convention through its national laws, just as failure to ratify does not necessarily mean a failure to implement. But the reluctance of the United States and many other countries to ratify a number of core ILO conventions does cast doubt on those conventions as a universal standard to be "enforced" by global trade rules.

ILO Conventions Are Problematic

Although core labor standards enjoy almost universal support as broad policy objectives, how they apply specifically to individual countries is open to interpretation and debate. The least problematic of the core conventions are the prohibitions against forced or compulsory labor (Conventions nos. 29 and 105). U.S. trade law already prohibits the importation of goods made by forced or slave labor, and such prohibitions are consistent with rules the United States has agreed upon in the WTO. Article XX(e) of the General Agreement on

Tariffs and the Trade, the charter underlying the WTO, states that "nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures . . . relating to the products of prison labour."⁴⁰ In effect, the United States already possesses the legal power to impose sanctions directly against imports made by forced or compulsory labor. No new language would be needed in future trade agreements to retain that power.

Several of the other core conventions pose major problems of enforcement. Conventions nos. 87 and 98, if implemented, could enhance or restrict the power of unions in the United States in ways that conflict with existing U.S. law. They could require unions to admit all applicants, even those with past connections to the Communist Party or Ku Klux Klan, or permit rival unions where U.S. law currently allows exclusive bargaining rights.

Convention no. 100 requires ratifying countries to "ensure the application to all workers of the principle of equal remuneration for men and women workers for work of equal value." That could easily be interpreted as requiring a "comparable worth" regime under which the government dictates pay scales for female-dominated occupations deemed to be of "equal value" to better-paying, male-dominated occupations. The United States could be forced to choose between massive intervention in the labor market and sanctions from other countries for our failure to ensure equal pay for work of "equal value."

Convention no. 111 requires ratifying countries to prohibit "any distinction, exclusion or preference made on the basis of race, color, sex, religion, political opinion, national extraction or social origin, which has the effect of nullifying or impairing equality of opportunity or treatment in employment or occupation." That prohibition appears compatible with existing U.S. laws against employment discrimination, but it could become a blank check for imposing sanctions against a broad swath of less-developed or culturally dissimilar countries whose employment practices do not meet Western standards of nondiscrimination. A number of countries in

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Latin America, Africa, the Middle East, and Asia, including Japan, could be challenged for de facto or de jure discrimination against women in the workplace.

Convention no. 138 obligates ratifying members to "ensure the effective abolition of child labor and to raise progressively the minimum age for admission to employment or work to a level consistent with the fullest physical and mental development of young persons." The minimum age "shall not be less than the age of completion of compulsory schooling and, in any case, shall not be less than 15 years." Although the ban specifically excludes child labor on family farms that produce for local consumption, it could be interpreted as prohibiting child labor necessary for the economic survival of families on the edge of subsistence. As a consequence, the minimum age of 15 would be a much more difficult standard for poor countries to meet than for rich countries.

Convention no. 182 commits ratifying countries to eliminate "the worst forms of child labor," which the convention defines as prostitution, drug trafficking, and other illicit activities; all forms of slavery, including debt bondage; and work that, by its nature, "is likely to harm the health, safety or morals of children." If any ILO convention should enjoy universal support, it is this one, but even this convention raises problems of interpretation and international enforcement.

Elusive Environmental Standards

Environmental standards are even more open to interpretation. No single universally acknowledged code comparable to the ILO's core conventions exists for environmental standards. Instead, global environmental standards have evolved through a patchwork of multilateral environmental agreements (MEAs) each aimed at a specific problem. In all, about 200 MEAs have been negotiated; the major agreements regulate ozone-damaging fluorocarbons, transboundary shipments of hazardous waste, and international trade of endangered species.

Existing MEAs deal with environmental issues of a global nature, in which pollution or the impacts of pollution cross national bound-

aries. MEAs have not sought to regulate pollution of a strictly local nature, such as municipal air or rural water quality. When advocates of linkage speak of "enforcing environmental standards," it is unclear whether they mean existing MEAs, which already contain their own monitoring and enforcement procedures, or national or local environmental quality standards.

If the target were pollution that transcends international boundaries, the best approach would be to negotiate MEAs that deal directly with the particular type of pollution that needs to be curbed. But if the target is purely domestic environmental standards, then the question arises of why the United States, or any international body, should be enforcing standards that, by their nature, would be applicable only within the boundaries of other sovereign nations. National and subnational governments are in the best position to determine the tradeoffs appropriate for their economies' level of development. It would be inefficient and a violation of sovereignty for the United States to determine and enforce other countries' domestic environmental standards through trade agreements.

A backdoor approach to enforceable environmental standards would be to create within global trading rules new loopholes that would allow a broad range of trade barriers and sanctions. WTO rules could be rewritten to allow trade restrictions based not on any inherent characteristic of the product itself, as the rules now permit, but on the "production and processing methods" used to produce it. Other proposed carve-outs would allow sanctions to be applied through MEAs, even if they conflicted with WTO rules, and allow products to be banned on the basis of the "precautionary principle," even when no valid scientific evidence exists to warrant such an action. Each of those exceptions, if added to existing global trade rules, would invite protectionist misuse and undermine development.

A Ban on Regulatory Flexibility

Absent any agreed-upon objective standards, another approach is to require all participants in a trade agreement to fully enforce their existing domestic labor and environmen-

tal laws and to not weaken those laws in a bid to attract foreign investment or spur exports. That is the approach incorporated in the side agreements to NAFTA, which the United States signed with Canada and Mexico in 1993, and in the main text of the free-trade agreement (FTA) with Jordan, signed in October 2000 and now pending in Congress. Specifically, Article 5, section 3(a) of the U.S.-Jordan FTA states, "A Party shall not fail to effectively enforce its environmental laws, through sustained or recurring course of action or inaction, in a manner affecting trade between the Parties, after the date of entry into force of this Agreement." Article 6, section 4(a) imposes the same requirement regarding domestic labor laws.⁴¹

The U.S.-Jordan FTA defines environmental laws as those written to protect human, animal, and plant life through pollution abatement, control of environmentally hazardous or toxic materials, and conservation of wild flora and fauna, including endangered species. It defines labor laws as those written to protect the core list of "internationally recognized labor rights," including the right of association, the right to organize and bargain collectively, prohibition of forced or compulsory labor, a minimum age for employment of children, and "acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health."⁴²

Merely insisting that other countries enforce labor and environmental laws already on the books creates its own set of problems. Such a requirement reinforces the myth that trade expansion encourages a race to the bottom—that without outside pressure, countries will be tempted to lower labor and environmental standards to gain some illusionary "competitive advantage." The preponderance of evidence shows that no such pressure exists. In fact, expanding trade and rising productivity create conditions for higher standards.

Moreover, insisting that countries enforce their labor and environmental laws could prevent necessary and rational adjustments to the way those laws are written and implemented. Laws in place when a trade agreement is signed could be overly restrictive and econom-

ically damaging if strictly enforced. For example, it is widely understood that labor laws in India are too inflexible, preventing needed labor market adjustments and forcing millions of workers into the informal sector. If a less-developed country with similarly burdensome rules were to seek to make its labor laws more flexible and economically rational, it could be accused of violating international trade rules by trying to lower its standards "in a manner affecting trade." The result could be a perverse incentive for countries to keep their labor and environmental laws locked at an inefficient and economically damaging level, or at a lower level where enforcement is easier and less prone to challenge.

Overloading the WTO

A final hurdle would be deciding who would determine compliance. Many advocates of enforceable standards want them to become part of WTO rules so they can be enforced by trade sanctions, but the WTO is poorly suited to arbitrate disputes over domestic social standards.

The WTO's dispute settlement mechanism is already overburdened with hundreds of ongoing cases directly related to trade and market access. The experts appointed to WTO panels understand international trade law and the organization's guiding principles. Adding labor and environmental standards to the list of enforceable requirements would thrust those panels into new and unrelated areas of dispute settlement. WTO panels would need to immerse themselves in the minutiae of pollution control and domestic labor regulation. Like a grand international Equal Opportunity Employment Commission, the WTO would be called upon to judge whether discrimination exists in Japanese automobile plants or Chinese textile factories. The WTO would be converted into the World Standards Organization.

If labor and environmental enforcement were foisted on the WTO, its dispute settlement system could easily be overwhelmed to the point of breakdown by the sheer number and complexity of nontrade cases brought before it. A system that has so far worked well to arbitrate trade-related disputes would be

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incapable of arbitrating disputes of the number and nature that “enforceable” social standards would produce.⁴³

The Trouble with Sanctions

Even if one accepts, against the weight of evidence, that the race to the bottom is real, and that enforceable labor and environmental standards can be determined and arbitrated, that still leaves the question of whether trade sanctions would be the right way to enforce those standards. Judging from experience and the importance of trade to development, sanctions would be ineffectual and counterproductive.

As a general rule, unilateral trade sanctions have been a poor enforcement tool for U.S. foreign policy goals in general. Trade sanctions often miss their intended targets, inflicting economic pain on workers and industries in the target country but not on government officials responsible for the policies that prompted the sanctions. Countries that are most likely to face sanctions—those that are undemocratic and economically underdeveloped—are also the least likely to be swayed by sanctions because their economies are less integrated with the global economy and their rulers more insulated from the economic pain of citizens.

In practice, U.S. sanctions have failed to bring democracy and human rights to such targets as Cuba, Iraq, North Korea, Libya, and Myanmar. In fact, sanctions have failed to achieve their goals in the large majority of cases in which they have been applied by the United States since World War I.⁴⁴ There is no reason to believe they will be any more effective in prompting poor countries to protect labor rights and the environment and much reason to believe they will inflict economic damage at home and abroad.

Targeting Poor Workers

If used to enforce labor and environmental standards, trade sanctions would have the perverse effect of undermining trade expansion, one of the most powerful forces in the world today for raising standards. By discouraging trade and foreign investment, sanctions would

retard economic growth, making it more difficult for poor countries to raise environmental, labor, and overall living standards.

On a microeconomic level, sanctions would tend to punish the very export-oriented industries that pay the highest wages and maintain the highest standards in the targeted country. The best employers in the targeted country would be indiscriminately punished for the sins of the worst employers. The effect of sanctions would be to shrink the more globally integrated sectors that are pulling standards upward, forcing workers into informal, domestic sectors where wages, working conditions, and labor-rights protections are much lower.

Sanctions would harm the most vulnerable members of society in the targeted country. By inhibiting growth, sanctions would depress family incomes, making it more difficult for parents to afford to send their children to school and thus increasing the number of children in the workforce. Sanctions targeted specifically at industries that employ children could force them into occupations that are more dangerous and pay even less. The most likely alternative for a 13 year old working in a garment factory may not be school but prostitution or heavy manual labor. In 1993 an exposé of child labor in Bangladesh caused garment factories there to dismiss tens of thousands of child laborers under the age of 14. About 10,000 of them eventually enrolled in special schools set up by UNICEF, but an even larger number, according to a recent story in the *New York Times*, “simply found more dangerous and less lucrative work—breaking rocks, rolling cigarettes, pulling rickshaws.”⁴⁵

Elected leaders in less-developed countries have voiced their understandable objection to sanctions as a tool for promoting higher social standards. In a speech at the Summit of the Americas in Quebec City, Canada, in April, President Fernando Henrique Cardoso of Brazil spoke for most other less-developed countries when he declared: “It would be an obvious mistake—a very serious mistake, indeed—to set given standards of social development as a prior condition for free trade. This would be tantamount to making development a prior condition for development. . . . [It] would be putting the cart before the horse.”⁴⁶

Poisoning Trade Talks

Insistence by the U.S. government that labor and environmental standards be enforceable through sanctions would be unacceptable to the large majority of less-developed countries, virtually foreclosing the prospect of any major multilateral or regional agreements to lower trade barriers.

Sanctions would be a poison pill for a new round of WTO trade negotiations. More than three-quarters of the WTO's members are less-developed countries that would be the likely targets of any sanctions aimed at enforcing social standards. Their governments are wary of the economic damage sanctions would inflict on their economies and rightly suspicious that the motivation behind them would not be the new concern for higher standards but the old desire for protectionism. During a 1996 ministerial meeting in Singapore, WTO members (the United States included) unanimously endorsed the ILO as the "competent body" to deal with labor standards and threw cold water on sanctions as a tool of enforcement. The ministerial joint statement declared:

We renew our commitment to the observance of internationally recognized core labor standards. The International Labor Organization (ILO) is the competent body to set and deal with these standards, and we affirm our support for its work in promoting them. We believe that economic growth and development fostered by increased trade and further trade liberalization contribute to the promotion of these standards. We reject the use of labor standards for protectionist purposes, and agree that the comparative advantage of countries, particularly low-wage developing countries, must in no way be put into question.⁴⁷

Widespread opposition to sanctions in the WTO has not softened since then. At the WTO ministerial meeting in Seattle in December 1999, representatives from poor countries reacted with dismay when President

Clinton, in a media interview during the meeting, endorsed sanctions as a tool of enforcement. The president's ill-timed statement has been blamed as one of the reasons the meeting failed to launch a new WTO round of negotiations. In a speech in Berlin in April, WTO director Gen. Mike Moore confirmed the opposition to sanctions: "From what I have seen, WTO members will never agree to use trade sanctions to enforce labor standards. It is a line in the sand that developing countries will not cross."⁴⁸

Widespread opposition to sanctions among our trading partners would foreclose opportunities to lower trade barriers abroad through new trade negotiations. The United States would not be able to negotiate seriously to lower barriers worldwide on agricultural goods, services, and manufactured products. Foreign tariffs and nontariff barriers would remain against a number of major U.S. exports. Global barriers against agricultural imports, for example, average 40 percent, and barriers against U.S. service exports remain especially high in less-developed countries. Reducing those barriers will be difficult if not impossible if global or regional trade negotiations are stymied by American intransigence on sanctions.

Other Dangers

Another danger posed by sanctions is that they would be vulnerable to capture by domestic interests seeking protection. Industries and their labor unions that want to hobble their competition in less-developed countries could pursue sanctions behind the cloak of high-minded rhetoric about protecting the environment and workers' rights. Sanctions would provide a tempting tool to use against those countries and foreign industries that are the most competitive against import-competing industries in the United States. The AFL-CIO has only fueled suspicions of a protectionist agenda by flatly rejecting any enforcement mechanism other than sanctions, despite their proven ineffectiveness.⁴⁹ If compliance, not the stifling of trade, were the objective, then other enforcement tools would be more attractive. For people ideologically opposed to trade liber-

Widespread opposition to sanctions among our trading partners would foreclose opportunities to lower trade barriers abroad through new trade negotiations.

Enforcing social standards through sanctions could invite a backlash against U.S. exporters.

alization, sanctions offer an irresistible twofold: they raise barriers to existing trade and undermine efforts to lower barriers to future trade through negotiations.

Finally, enforcing social standards through sanctions could invite a backlash against U.S. exporters. Other nations with tighter labor and environmental regulations could plausibly challenge the United States for seeking to gain a competitive advantage through its more liberal standards. Other countries could cite the relatively low level of union representation in America's private workforce as circumstantial evidence of a lack of a "right to collective bargaining." America's enforcement of the death penalty, even for juvenile and mentally retarded offenders, could invite sanctions based on "human rights" standards. Any attempt to reform our domestic environmental and labor laws, no matter how economically rational the changes might be, could invite sanctions against U.S. exporters.

Sanctions have drawn bipartisan criticism within the United States. A paper published by the pro-trade Democratic Leadership Council concluded:

Attempts to enforce higher labor standards overseas through trade sanctions have failed in the past and are unlikely to work in the future. Trade sanctions are a very blunt instrument to address the complex range of factors contributing to poor labor standards—such as poverty, corruption and political and regulatory weakness. They are also likely to be counterproductive by retarding the growth and development that poor countries so desperately need.⁵⁰

Federal Reserve Board chairman Alan Greenspan, in response to a question during testimony before the Senate Finance Committee in April, warned that sanctions would be economically destructive and self-defeating: "If we're trying to impose those [higher] standards on economies with low standards of living and, in effect, impose [them] by restricting our markets—that is,

reducing their capacity to export—we're going to lower their incomes even more and make it even more difficult to enhance labor standards and the environment."⁵¹

By any reasonable measure, sanctions have proven to be an ineffective and counterproductive tool for imposing standards on foreign governments. They seldom achieve their stated objective. They often hurt the very people, usually poor workers, whom advocates of sanctions claim they are trying to help and leave untouched the political class responsible for the offending policies. They frustrate the growth and development that are necessary to achieve higher standards. They threaten to derail multilateral and regional trade negotiations, complicating efforts to open markets for U.S. exports. They invite protectionist capture at home and retaliation from abroad. In sum, sanctions are a bad way to enforce difficult to define social standards, all in the name of preventing an illusionary "race to the bottom."

Alternatives to Sanctions

The alternative to sanctions is not to "do nothing" about labor and environmental standards but to reinforce the positive upward pressure already being exerted by expanding trade and development. U.S. citizens and their government can promote higher social standards abroad without sacrificing the beneficial effects of open trade and investment.

One alternative would be to enhance the monitoring ability of the ILO. It could be granted the authority and resources to investigate alleged labor-rights abuses in member countries. It could compile and release annual reports on labor conditions within member countries, exposing systematic violations to public scrutiny. A negative ILO report could expose the offending member to international criticism and potential loss of business.

Another alternative would be voluntary action in civil society. Thanks to the "CNN effect," a global audience is often quickly made aware of gross violations of human and labor rights. Negative publicity can prompt consumer boycotts and make multina-

tional companies wary of producing in the offending country. Less-developed countries and the multinational firms that invest in them both have a market incentive to avoid actions that would tag them as bad global citizens.

A related alternative would be voluntary labeling of goods to allow consumers to act on their preferences. Through labeling, importers to the U.S. market could signal that their goods were made without child labor, or by unionized workers, or by environmentally friendly methods. (An example already on the shelves is “Fair Trade” coffee offered by Starbucks.) Such labeling gives consumers a chance to put their money where their stated preferences are. If consumers paid higher prices for the approved goods, it would amount to a voluntary transfer of resources from rich to poor countries by attaching a real monetary value to the preference for higher standards.

Advanced nations could also encourage higher standards by providing direct technical and financial assistance to less-developed countries to help them raise their social standards. Assistance could take the form of providing new pollution control technologies and expertise to domestic industries. Nonprofit organizations could help to underwrite the cost of primary education, making school a more viable alternative to work for children from poor families. Such assistance would deal directly with the problem in a constructive way, rather than seek to punish the country generally through destructive sanctions.

Finally, if the U.S. government is determined to fuse labor and environmental standards into future trade agreements, alternatives exist that would be less economically destructive than sanctions. One idea that has already been adopted on a limited scale is to levy fines on governments that violate their commitments to social standards. The North American Agreement on Labor Cooperation, one of the NAFTA side agreements, authorizes fines against a government that displays a “persistent pattern” of failure to enforce its domestic labor laws. The fines are capped at .007 percent of two-way trade, which means about \$20 million for disputes between the United States and Mexico and \$30 million for those between the United States and Canada. The free-trade agreement between Canada and Chile caps fines at \$10 million.⁵²

The advantage of fines over sanctions is that they do not disrupt beneficial trade relations and thus do not hinder development that leads to higher standards. Fines more directly punish the offending party, the government, rather than specific export sectors that are typically an influence for higher standards. Fines would remove any incentive to pursue complaints as a cover for protectionism.

The major drawback of fines is that they would reinforce the mistaken belief that, without outside pressure, governments will succumb to a regulatory race to the bottom. Fines also raise sticky questions of who would pay—the country’s general taxpayers or specific industries—and how the proceeds of the fines would be used. And if already poor countries are forced to cough up millions of dollars in hard currency to pay those fines, they will presumably have fewer resources to spend on infrastructure improvement, legal reform, regulatory enforcement, and other needed measures.

An improvement on fines would be to require the violating country to offer “compensation” in the form of greater market access. Instead of closing trade, this approach would expand trade by reducing trade barriers. It would create a win-win result economically, with both importing and exporting countries gaining from greater specialization. The punishment would be the political pain imposed on the violating government because of increased competition for its import-competing domestic industries. Like fines, compensation would remove the danger of protectionist capture.⁵³

Whatever the alternative to sanctions, the guiding principle should be, “First, do no harm.” At the very least, any effort to encourage higher standards abroad should be designed so as not to undermine the expanding trade and rising incomes that make higher standards possible.

Conclusion

The effort to enforce global labor and environmental standards through trade sanctions is built on a fundamental misunderstanding of the real impact of trade and development. The weight of evidence indicates that nations are engaged not in a regulatory “race to the bot-

Any effort to encourage higher standards abroad should be designed so as not to undermine the expanding trade and rising incomes that make higher standards possible.

The best policy for promoting economic growth at home and abroad— an economy open to global trade and investment—is also the best policy for promoting higher labor and environmental standards.

tom” but in a race toward the top. Openness to trade and investment encourages faster growth, which leads to rising incomes and higher labor and environmental standards. As a result, those nations with the highest social standards in the world today are also among the most open to the global economy.

Attempts to “enforce” labor and environmental standards through trade sanctions are not only unnecessary but also counterproductive. Sanctions deprive poor countries of the international trade and investment opportunities they need to raise overall living standards. Sanctions tend to strike at the very export industries in less-developed countries that typically pay the highest wages and follow the highest standards, forcing production and employment into less-globalized sectors where wages and standards are almost always lower. The end result of sanctions is the very opposite of what their advocates claim to seek.

Sanctions also damage America’s economic interests by sabotaging regional and multilateral trade negotiations. Less-developed countries correctly understand that trade sanctions cripple their ability to develop through engagement in the global economy and invite protectionism against their most competitive exporters under the cloak of “protecting” the environment and labor rights. If trade negotiations are stymied because of an impasse over trade and social standards, U.S. manufacturing, agricultural, and service exporters will continue to face high foreign trade barriers.

In addition to being unnecessary and counterproductive, enforcing standards through sanctions would prove to be an onerous and subjective task. Even “core labor rights” as

defined by the International Labor Organization would be ambiguous in the application and may conflict with existing U.S. labor law. Environmental standards are even less clearly defined and need to be flexibly applied depending on a country’s level of development. Saddling the WTO with responsibility for settling disputes over social standards would threaten to overburden and overwhelm an organization whose fundamental task is promoting market access.

If the U.S. government wants to encourage higher labor and environmental standards abroad, its most important policy should be to encourage free trade and investment flows so that less-developed nations can develop more rapidly. As a complementary policy, it could seek a more robust ILO that could systematically monitor and report on enforcement of labor rights in member countries. Meanwhile, civil society organizations are free to raise public awareness through campaigns and boycotts, and importers can cater to consumer preferences for higher standards through labeling and other promotions. If the U.S. government insists on some enforcement mechanism within trade agreements, monetary fines or trade-expanding “compensation” would be far less destructive than sanctions.

The demand for trade sanctions as a tool for enforcing environmental and labor standards confronts Americans with a false choice. In reality, the best policy for promoting economic growth at home and abroad—an economy open to global trade and investment—is also the best policy for promoting higher labor and environmental standards.

Appendix: Incomes, Investment, and Environmental Standards

Country	Environmental Index	GDP/Capita 1998 (PPP)	Population 1999 (millions)	Foreign Direct Investment, Inflows (\$ millions)				
				1996	1997	1998	1996-98 avg.	FDI/Capita
Albania	44.2	\$2,804.41	3.4	90	48	45	61	17.94
Algeria	38.9	\$4,792.09	30.5	4	7	5	5	0.17
Argentina	62.5	\$12,013.17	36.6	4,285	6,645	6,150	5,693	155.56
Australia	70.7	\$22,451.68	19.0	6,321	8,737	6,165	7,074	372.33
Austria	67.8	\$23,165.88	8.1	3,826	2,354	6,034	4,071	502.63
Bangladesh	39.5	\$1,361.29	127.7	15	135	308	153	1.20
Bolivia	56.9	\$2,269.22	8.1	527	601	872	667	82.30
Botswana	53.6	\$6,103.04	1.6	N/A	100	95	98	60.94
Brazil	57.4	\$6,624.65	168.1	9,889	19,652	31,913	20,485	121.86
Bulgaria	47.4	\$4,808.88	8.2	115	498	401	338	41.22
Burundi	30.1	\$569.65	6.7	1	1	1	1	0.15
Cameroon	44.9	\$1,474.21	14.7	35	45	50	43	2.95
Canada	78.1	\$23,582.05	30.6	6,398	7,132	16,515	10,015	327.29
Chile	56.6	\$8,786.93	15.0	4,091	5,417	4,638	4,715	314.36
China	37.6	\$3,105.32	1249.7	40,180	44,236	43,751	42,722	34.19
Colombia	54.8	\$6,005.57	41.5	3,322	5,982	3,038	4,114	99.13
Croatia	54.1	\$6,749.13	4.5	349	388	873	537	119.26
Czech Republic	54.9	\$12,362.01	10.3	1,435	1,286	2,554	1,758	170.71
Denmark	67.0	\$24,217.69	5.3	773	2,792	6,373	3,313	625.03
Ecuador	51.8	\$3,003.45	12.4	447	577	831	618	49.87
Egypt	46.5	\$3,040.52	62.4	636	891	1,076	868	13.90
Estonia	57.7	\$7,682.40	1.4	150	266	581	332	237.38
Finland	80.5	\$20,847.28	5.2	1,118	2,128	12,029	5,092	979.17
France	65.8	\$21,174.97	59.1	21,972	23,045	27,998	24,338	411.82
Germany	64.2	\$22,169.01	82.0	-3,183	-344	18,712	5,062	61.73
Greece	53.1	\$13,943.20	10.5	N/A	984	984	984	93.71
Guatemala	47.3	\$3,505.18	11.1	77	90	673	280	25.23
Honduras	46.9	\$2,432.76	6.3	75	122	84	94	14.87
Hungary	61.0	\$10,232.27	10.1	1,982	2,079	1,936	1,999	197.92
India	40.9	\$2,076.85	997.5	2,587	3,351	2,635	2,858	2.86

continued

Appendix—continued

Country	Environmental Index	GDP/Capita 1998 (PPP)	Population 1999 (millions)	Foreign Direct Investment, Inflows (\$ millions)				
				1996	1997	1998	1996-98 avg.	FDI/Capita
Indonesia	42.6	\$2,651.36	207.0	7,960	4,677	-356	4,094	19.78
Iran	38.4	\$5,120.92	63.0	N/A	50	24	37	0.59
Ireland	64.0	\$21,482.26	3.7	2,456	2,727	2,920	2,701	730.00
Israel	49.5	\$17,301.39	6.1	2,110	2,706	1,850	2,222	364.26
Italy	54.3	\$20,585.04	57.6	3,523	3,700	2,635	3,286	57.05
Jamaica	42.3	\$3,388.88	2.6	175	137	369	227	87.31
Japan	60.6	\$23,257.45	126.6	200	3,200	3,268	2,223	17.56
Jordan	40.1	\$3,347.35	4.7	16	22	310	116	24.68
Kenya	43.9	\$979.65	30.0	13	20	11	15	0.49
Korea	40.3	\$13,477.65	46.8	2,325	2,844	5,415	3,528	75.38
Kuwait	31.9	\$25,314.00	1.9	N/A	20	59	40	20.79
Latvia	56.3	\$5,728.30	2.4	328	521	357	402	167.50
Lithuania	60.3	\$6,435.93	3.7	152	355	926	478	129.10
Madagascar	35.4	\$755.82	15.1	10	14	16	13	0.88
Malawi	41.3	\$523.31	10.8	1	2	1	1	0.12
Malaysia	49.7	\$8,137.43	22.7	4,500	5,106	5,000	4,869	214.48
Mali	46.2	\$681.27	10.9	23	15	17	18	1.68
Mexico	45.3	\$7,703.90	97.4	7,619	12,477	10,238	10,111	103.81
Morocco	41.9	\$3,304.93	28.2	311	1,200	322	611	21.67
Nepal	46.7	\$1,157.13	23.4	19	23	12	18	0.77
Netherlands	66.0	\$22,176.33	15.8	7,824	9,012	33,346	16,727	1,058.69
Nicaragua	51.9	\$2,142.36	4.9	45	173	184	134	27.35
Niger	36.5	\$739.12	10.5	0	2	1	1	0.10
Norway	78.2	\$26,341.91	4.5	3,960	3,545	3,597	3,701	822.37
Pakistan	43.6	\$1,714.80	134.8	690	713	500	634	4.71
Panama	55.9	\$5,249.14	2.8	238	1,030	1,206	825	294.52
Papua	47.3	\$2,359.18	4.7	225	200	110	178	37.94
Paraguay	48.9	\$4,287.62	5.4	220	250	256	242	44.81
Peru	54.3	\$4,281.57	25.2	3,581	2,030	1,930	2,514	99.75
Philippines	35.7	\$3,555.32	76.8	1,408	1,222	1,713	1,448	18.85
Poland	47.6	\$7,619.35	38.7	4,498	4,908	6,365	5,257	135.84
Portugal	61.4	\$14,701.25	10.0	618	1,713	1,783	1,371	137.13
Romania	44.1	\$5,647.78	22.5	263	1,215	2,031	1,170	51.99
Russia	56.2	\$6,459.98	146.5	2,479	6,241	2,764	3,828	26.13
Senegal	42.5	\$1,306.52	9.3	45	30	40	38	4.12

Singapore	46.8	\$24,209.77	3.2	9,440	8,631	7,218	8,430	2,634.27
Slovakia	63.2	\$9,698.56	5.4	281	165	562	336	62.22
Slovenia	59.9	\$14,293.14	2.0	186	321	165	224	112.00
Spain	59.5	\$16,212.28	39.4	6,396	5,556	11,392	7,781	197.50
Sweden	77.1	\$20,659.44	8.9	5,492	9,867	19,413	11,591	1,302.32
Switzerland	74.6	\$25,512.31	7.1	3,512	5,506	5,488	4,835	681.03
Syria	37.9	\$2,891.59	15.7	89	80	80	83	5.29
Tanzania	40.3	\$480.13	32.9	150	158	172	160	4.86
Thailand	45.2	\$5,455.51	61.7	2,336	3,745	6,941	4,341	70.35
Tunisia	43.7	\$5,403.97	9.5	320	316	650	429	45.12
Turkey	46.3	\$6,421.84	64.4	722	805	940	822	12.77
UK	64.1	\$20,336.33	59.1	32,346	37,007	67,481	45,611	771.77
Ukraine	36.8	\$3,194.14	49.9	350	623	743	572	11.46
Uruguay	64.6	\$8,623.01	3.3	169	160	164	164	49.80
USA	66.1	\$29,605.06	272.9	76,955	93,448	193,373	121,259	444.33
Venezuela	50.8	\$5,808.30	23.7	1,833	5,087	4,435	3,785	159.70
Zambia	39.8	\$719.44	9.9	58	70	72	67	6.73
Zimbabwe	52.0	\$2,669.26	11.9	63	70	76	70	5.85

Sources: World Economic Forum, "2001 Environmental Sustainability Index," Geneva, January 2001; United Nations Development Program, *Human Development Report 2000* (New York: United Nations, 2000); and World Bank, *World Development Report 2000/2001* (Washington: World Bank, 2001).

Note: PPP = purchasing power parity.

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43. It is true that the WTO has already been charged with enforcing intellectual property rights, a matter only tangentially connected with its fundamental mission of market access. In theory, the Agreement on Trade-related Aspects of Intellectual Property, or TRIPs, is enforceable through sanctions. But many less-developed countries and many trade economists complain that TRIPs is a deviation from the WTO's central mission of promoting win-win trade liberalization and, in hindsight, should not have been made actionable through the WTO's dispute settlement mechanism. They argue that TRIPs transforms the WTO into an international royalty collection agency, imposing real costs on less-developed countries. Adding labor and environmental standards to the WTO's oversight would draw it further away from its central mission and add to the asymmetrical burdens placed on poor countries. See Jagdish Bhagwati, "Patent Protection Does Not Belong with WTO," Letter to the editor, *Financial Times*, February 20, 2001; and J. Michael Finger, "The WTO's Special Burden on Less Developed Countries," *Cato Journal* 19, no. 3 (Winter 2000): 425–37.
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Senator, let me lay it out the way I think it occurs to an economist, and, obvi-

ously, there are considerable disagreements on this issue.

I don't think anybody questions that labor standards and enhanced environment are important goals, which clearly deserve our attention. But I think it's also important to remember that labor standards and environmental quality [are] directly related to the degree of prosperity in a particular economy. The ability to create significantly enhanced [environmental] and civil labor standards is very considerably spurred by having very high standards of living; in other words, surpluses in the economy of resources which enable, not only labor standards, but environmental standards to be of the highest level.

The problem, unfortunately, is that as incomes fall—that is, standards of living fall—it becomes less and less affordable, in the sense that real resources are required to maintain high labor standards and the environment.

And if trade openings are a factor in rising standards of living, it's pretty evident that what we are dealing with is that countries or economies with low per capita incomes are struggling to feed, clothe and house their population. And for those economies, the resources required to improve the environment and enhance labor standards must come from resources devoted to feeding, clothing and housing the population. It's only a move toward higher standards of living that enable various different economies to afford what [are] essentially luxury goods.

We go back and look at our history in the 19th century. Labor standards were abysmal. People worked unbelievably long hours under very adverse conditions. And as we often talk about the satanic mills in the 19th century, what they were were environmental monsters.

We learned to change that as our economy increased. But if we're trying to impose those standards on economies with low standards of living and, in effect, impose it by restricting our markets—that is, reducing their capacity to export—we're going to lower their incomes even more and make it even more difficult to enhance labor standards and the environment.

So while I'm very strongly in favor of endeavoring to enhance through international negotiation these standards, along with all of the related issues of human rights and rights generally, I think that employing trade sanctions as a means of doing that is most counterproductive, because I think it does precisely the opposite of what we are trying to do.

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