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Interests and Institutions in the Global Economy

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Chapter 16

Globalization: Consequences and Controversies

The last fifteen years have seen the emergence of a political backlash against globalization. This opposition has been most visible in a series of large protests, mostly peaceful but sometimes violent, staged at annual meetings of the World Trade Organization (WTO), the Group of Eight (GE), the International Monetary Fund (IMF) and World Bank, and the World Economic Forum. Behind the drama of public protest, however, the antiglobalization movement has articulated a number of criticisms of the global economy. The critique is multifaceted, ranging from the claim that globalization is widening global income inequality to the assertion that it is contributing to the degradation of the natural environment. What binds the many nongovernmental organizations (NGO) and individuals that constitute the antiglobalization movement is opposition to a global economy that they believe prioritizes corporate and commercial interests over other concerns. As one scholar has written, "There is . . . an overarching umbrella uniting the backlash: opposition to corporate control of the global economy" (Broad 2002, 3). What binds the many reforms that the movement has proposed is the desire to shift this perceived balance so that other concerns are placed on equal footing with corporate interests.

Defenders of globalization dispute all of these assertions and question the logic of the reforms the antiglobalization movement proposes. On the one hand, the defenders of globalization dispute most of the criticisms that are advanced. Globalization is the solution to the problems of income inequality and poverty, not their cause. Although working conditions in many developing countries are not up to Western standards, in most instances, these factories offer the best opportunities that a worker in the developing world has ever had. Finally, the defenders of globalization recognize that economic activity has an impact on the natural environment, but claim that this impact can be positive as well as negative. On the other hand, the defenders question the rationale for the reforms proposed by the antiglobalization movement. Because they don't agree with the antiglobalization movement's criticisms, they see little need for reform. And even when they do see problems, they doubt that restricting trade is the most effective solution. Instead, they see such reforms as an effort to reconstruct protectionist practices into the global economy that will reverse the gains that have been achieved.

Is there a right answer to this debate? At present, I don't think there is. What we do have, however, is an accumulating body of evidence that suggests that during the last twenty years the world has seen progress on every dimension that is at the center of the debate. The number of people living in poverty has fallen; global income inequality has ceased rising and has begun to fall. Over time this should limit any negative impact that globalization has on the environment. At the same time, however, this progress is slow; millions of people remain in poverty, and even those who have climbed out face a daily struggle. What is less clear, and where I think this debate is increasingly headed, is whether changes in the rules governing the global economy will hasten this progress or whether instead they will merely slow what is already too-slow improvement.

We examine this debate in this final chapter. We begin by defining globalization, discussing when it emerged, examining how it is reshaping national economies, and considering how far it has progressed. We then turn our attention to the controversies surrounding its consequences. We look first at the impact of globalization on the distribution of global income and global poverty. We then turn our attention to the sweatshop problem. Our attention then shifts to the impact of globalization on the environment. Throughout, I attempt to present the most recent scholarly consensus on each issue, and at the same time suggest that how we frame the issue plays an important role in shaping the conclusion we draw about the severity of the problem and the need for reforms. We conclude by attempting to draw some broader conclusions from this discussion and consider whether, and if so what kind of, reforms to the global economy are required.

The Globalizing World Economy

As we have seen, governments have progressively eliminated policy barriers to trade during the last fifty years. The elimination of these political barriers to international exchange has been accompanied by a dramatic decrease in the cost of transportation and telecommunications (World Bank 1995). The cost of shipping goods by sea and by air has been cut in half since 1950. The cost of long-distance phone calls has fallen even more sharply. Whereas it cost about $250 to make a three-minute call from New York to London in 1930, such a call now costs less than a dollar. Falling transport and telecommunications costs facilitate the creation of a global division of labor by making it cheaper to import and export intermediate inputs and to organize and manage production on a global scale. As political and technological barriers to international exchange have fallen, global economic activity has increased rapidly.

World trade has grown at historically unprecedented rates. Between 1950 and 2002 world trade grew at an average rate of 6 percent per year (Figure 16.1). What is perhaps more impressive than the simple growth of world trade, however, is the fact that international trade has consistently grown more rapidly than total world economic production. Figure 16.2 charts the annual growth rate of world exports and the annual rate of world economic growth. Looking at the two trends together indicates that in almost every year since 1950, world trade has grown at a faster rate than world economic output. Thus, year after year a larger share of the world's economic output enters into international trade—each year more of the world's total economic production is

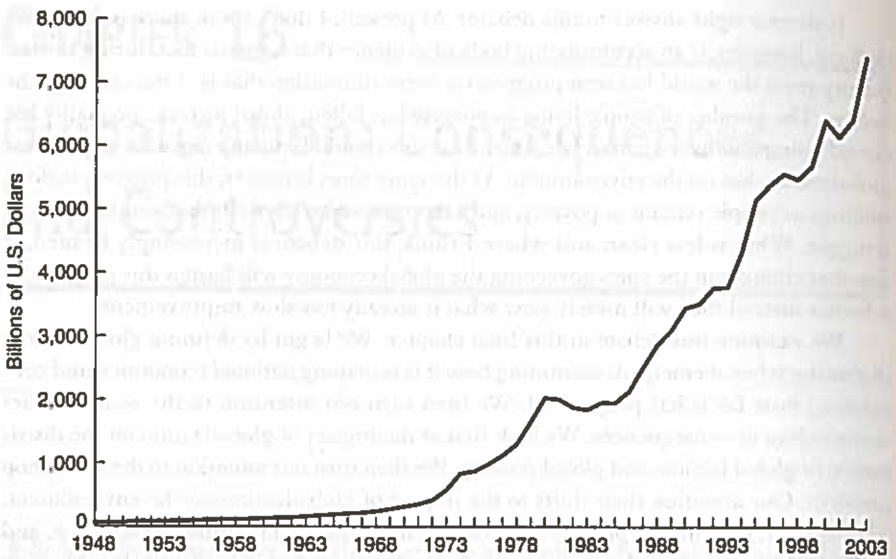

Figure 16.1 World Trade, 1948–2003.
Source: World Trade Organization, *http://www.wto.org/English/res_e/statis_e/its2005_esection2_e/ii01.xls.*

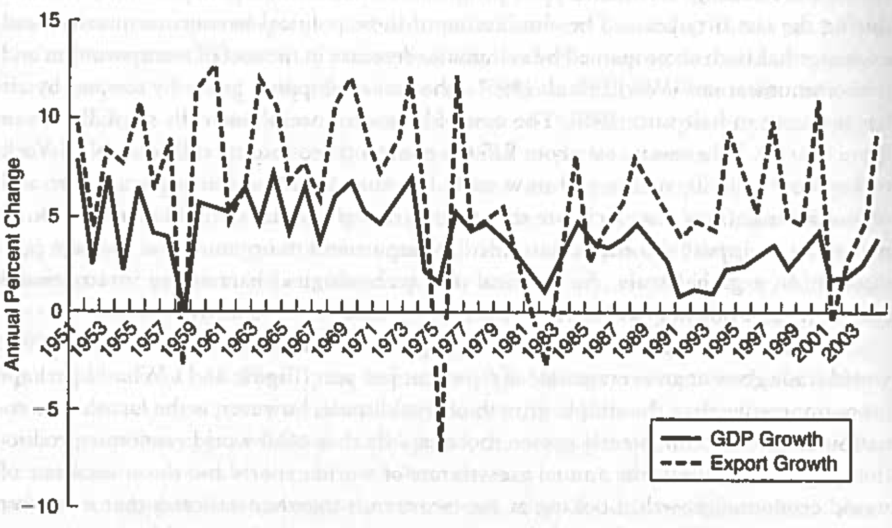

Figure 16.2 Growth of World Output and Trade.
Source: World Trade Organization, "International Trade Statistics 2005," *http://www.wto.org/English/res_e/statis_e/its2005_esection2_e/ii01.xls.*

produced in one country but consumed in another. We saw that the number of Multinational Corporations (MNCs) operating in the global economy also increased sharply since 1980, and we saw in our discussion of the international financial system how the last twenty years have also brought dramatic growth of international financial flows.

The rapid growth of global economic exchange during the last twenty years has restructured the global economy. Trade theory tells us that countries open to international trade will specialize in goods that make intensive use of their abundant factors of production. In a fully open international economy, therefore, a **global division of labor** should emerge in which each country produces goods for which it has a comparative advantage and sheds industries in which it has a comparative disadvantage. Such a division of labor is emerging in the global economy. Though this division is far from complete, it is possible to identify four emerging tiers.

1. The advanced industrialized countries hold a comparative advantage in capital- and human capital–intensive goods. Producers in the advanced industrialized countries lead the world in the production of knowledge-intensive products such as pharmaceuticals, computers and software, telecommunications equipment, commercial aircraft, and other research- and high technology–intensive products.
2. The Asian Newly Industrialized Countries (NICs), especially South Korea, Taiwan, Hong Kong, and Singapore, hold a comparative advantage in mature and relatively standardized capital-intensive goods such as semiconductors and other computer components, automobiles, and steel. These countries have not yet become an important source of product or process innovation.
3. The second wave of NICs, including Indonesia, Malaysia, Thailand, Mexico, and Argentina, hold a comparative advantage in labor-intensive goods such as apparel, footwear, and the assembly of finished goods from components. These countries have not yet emerged as important international producers of capital-intensive goods, but are likely to make that transition relatively soon.
4. Other developing countries hold comparative advantages in land-intensive primary commodities such as fuel, minerals, and agricultural products.

This global division of labor emerges as firms begin, end, or relocate production in response to pressures exerted by international competition. An entrepreneur in Pakistan, for example, might recognize the opportunity to make a profit in the labor-abundant apparel industry and start a business to realize these profits. Conversely, an apparel producer in North Carolina might recognize that he cannot compete against apparel produced in developing countries like Pakistan and might stop producing clothes in North Carolina. These independent decisions cause apparel production to shift out of the United States and into Pakistan.

The relocation of production is also sometimes a consequence of MNCs' production decisions. Ford Motor Company, for example, may recognize that it needs to reduce its production costs in order to compete against Japanese producers in the American market. To do so, Ford may build an auto assembly plant—a labor-intensive aspect of auto production—in Mexico, where labor is abundant and relatively cheap. Ford's decision may therefore cause some aspects of auto production to shift out of the United States to Mexico. The emerging global division of labor is the result of hundreds of thousands of such decisions taken by individuals and firms in response to the competitive challenges of the international economy.

In some respects the emerging division of labor is not a new phenomenon. A division of labor also characterized the nineteenth-century international economy. European countries specialized in manufactured goods, and what we now call the developing world specialized in raw materials. However, the contemporary division of labor differs from the late nineteenth-century division of labor in two important ways. The contemporary division is on the one hand more diverse than that of the nineteenth century. To the basic nineteenth-century division between manufacturing and raw materials the contemporary system adds divisions within manufacturing activity. Today we see countries specializing in human capital–intensive manufacturing, other countries specializing in capital-intensive manufacturing, and still others specializing in labor-intensive manufacturing.

Today's division is also more international than that of the nineteenth century. During the nineteenth-century, production "was primarily organized within national economies . . . production, plant, and firm were essentially national phenomena" (Hobsbawm 1989, 313). Today, production is increasingly an international phenomenon; the production of individual goods is being broken down and allocated to different regions of the globe. The personal computer (PC) is one example. The typical PC contains a microprocessor designed in the United States by Intel, Motorola, or Advanced Micro Devices (AMD). It contains a hard drive and memory chips that were likely produced in Taiwan or South Korea. The multiple components were likely assembled into a working PC in yet another location, perhaps in Malaysia or Mexico. Thus, a personal computer, and many of the other products that we use daily, is no longer produced in a national economy. Instead, the production of many individual goods is organized globally.

National economies have thus become increasingly internationalized, and these international activities have in turn become increasingly woven into a deeply integrated web of trade and production relations. This is globalization. More concretely, globalization can be defined as an outcome and a process. As an outcome, globalization is a world economy in which government policies pose few barriers to, and in which technology enables, cross-border economic transactions. As a process, globalization is the flow of goods, services, people, capital, and technology that arises within this single world economy and the transformations of national economies that this flow produces.

How far has globalization progressed? There is disagreement among those who study the world economy. Some argue that globalization has fundamentally transformed the world economy as a whole and national economies individually. Robert Reich (1992, 3) argues that "[w]e are living through a transformation that will rearrange the politics and economics of the coming century. There will be no national products or technologies, no national corporations, no national industries. There will no longer be national economies, at least as we have come to understand that concept." Others suggest that this transformation has already occurred. Business consultant and author Peter Drucker argues that "the talk today is of the 'changing world economy.' . . . The world economy is not 'changing'; it has already changed—in its foundations and in its structure—and in all probability the change is irreversible" (1986, 768).

Others are more skeptical. Robert Gilpin claims that "globalization is much more limited than many realize" (2000, 363). Skeptics point to the nineteenth-century global economy to buttress their counterarguments. In this first global economy, Gilpin argues, countries were more open to trade than they are today. And "although trade has grown enormously during the past half century, trade still accounts for a relatively small portion of most economies . . . [and] is still confined to a limited number of economic sectors. The principal competitors for most firms (with important exceptions in such areas as motor vehicles and electronics) are other national firms" (Gilpin 2000, 365). And even where globalization has progressed the furthest, in the "Triad" composed of Pacific Asia, the United States, and the European Union, national barriers continue to impose substantial obstacles to the international flow of goods and services (Gilpin 2000, 295).

It may be useful to look for middle ground in this debate. Economic processes are fundamentally changing the world economy. At the same time, however, it is important to recognize that globalization is limited in geographic scope, involving primarily the countries of the Triad. Globalization is limited in industrial scope as well, with some industries, such as electronics, being much more globalized than other industries, such as steel. As Peter Dicken (1998, 5) observes, "although there are global*izing* forces at work we do not have a fully global*ized* world economy. Globalization forces can be at work without this resulting in the all-encompassing end-state—the globalized economy—in which all unevenness and difference are ironed out, market forces are rampant and uncontrollable, and the nation-state merely passive and supine." In short, although it is premature to proclaim a fully globalized world economy, and although nothing that is created by human activity is ever irreversible, it is also misleading to claim that nothing has changed.

This structural transformation of the world economy, and the dynamics that characterize its operation, has generated a political debate about the economic, social, and political consequences of globalization. Does the global economy provide opportunities and rising incomes for the world's poor, or are the benefits captured solely by MNCs? Is globalization destroying the environment, and do global trade rules limit governments' capacity to use national regulations to prevent this damage? Does a global economy require global governance, and if so, what should these rules look like? More broadly, is globalization a good thing that should be supported, or is globalization something that should be resisted and reformed?

Each dimension of this debate raises complex issues that do not have simple answers. This inherent complexity grows when we attempt to look at all of the various strands of the debate together. How should we balance environmental damage against higher standards of living, for example? Yet, evidence and theory do shed light on the central issues of the debate and help us clarify the costs and benefits in a way that may suggest certain conclusions but that will at least help us understand where problems lie and why disagreement about the consequences of globalization are likely to persist.

Globalization and Income: Rising Poverty, Widening Inequality?

We start with a big, perhaps the biggest, question: How has globalization affected standards of living throughout the world? Is the recent period of intensified globalization associated with rising incomes and falling poverty, or has it instead been associated with widening global income inequality and rising poverty? Critics of globalization typically argue that globalization has brought rising inequality and poverty. For example, as Jay Mazur (president emeritus of the Union of Needletrades, Industrial and Textile Employees) wrote in *Foreign Affairs*, "Globalization has dramatically increased inequality between and within nations" (Mazur 2000). Mazur's perspective is hardly unique, and in fact his assertion provides the foundation on which most opposition to globalization is based. Is it an accurate characterization of the world over the last twenty years?

For the world as a whole, it is clear that globalization has been associated with rising incomes. The world economy grew by about 3.5 percent per year between 1960 and 2000, compared to only 1 percent per year in the mid-nineteenth century. As a consequence, total world income has risen much more rapidly during the last forty years than it did during the nineteenth and first half of the twentieth centuries. Faster growth has in turn brought large gains in per capita incomes that rose, in constant 1990 dollars, from $667 in 1820 to $5,709 in 1998 (Maddison 2001, 264). Moreover, focusing only on the growth of income understates the gain, for it ignores the huge improvements in the quality of the goods we consume today. Contrast long-distance travel today with long-distance travel in the mid-nineteenth century. Today's trip to Europe is more comfortable, it with less, and takes much less time. Globalization, therefore, has been associated with an unprecedented increase in world income.

Of course, this much higher global income is not evenly distributed across individuals. Some societies enjoy vastly higher incomes than others, and some individuals within each society enjoy vastly higher incomes than others. So, even though globalization has raised global income, it may also have caused global income to be so unequally distributed that only a very small fraction of the world's more than 6 billion people benefit. On one measure, globalization has been associated with precisely this effect. If we track the ratio of average income in the world's richest country to the average income in the world's poorest country over the last 200 years, we see a dramatic widening of the gap between the richest and the poorest (see Figure 16.3). This seems to support the claim that the benefits of globalization are unevenly distributed.

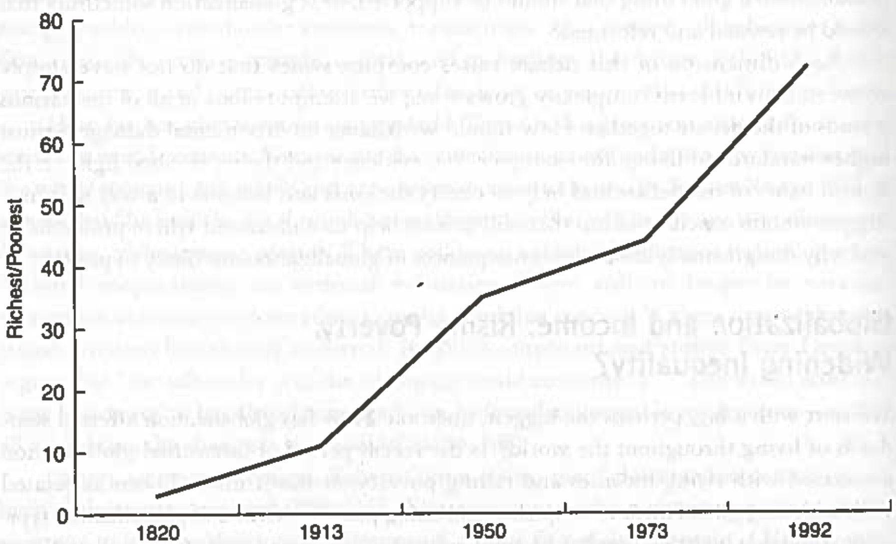

Figure 16.3 Ratio of Richest to Poorest Countries.
Source: United Nations, *Human Development Report* (New York: United Nations, 2004).

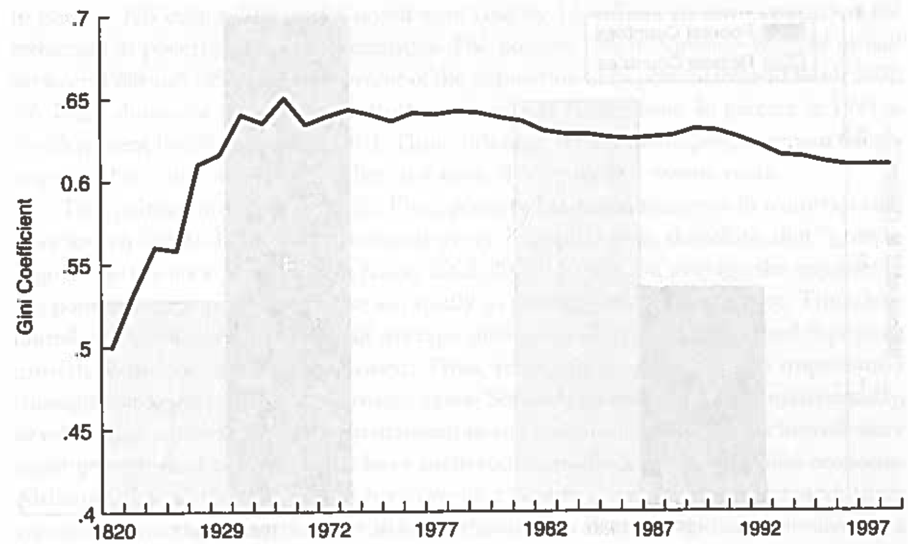

Figure 16.4 Global Income Inequality, 1820–1998.
Sources: 1820–1970 from Bourguignon and Morrisson 2002; 1971–1998 from Sala-I-Martin 2002.

Yet, this is not the only way to measure the global distribution of income. In fact, a growing body of recent scholarship suggests that it is not an accurate way to measure the global distribution of income (see, e.g., Firebaugh 2003; Dollar 2004; Bhalla 2002; Bourguignon and Morrisson 2002; Chen and Ravaillon 2001). Ideally, we should gather data on incomes for every individual in the world. This data would allow us to calculate the distribution of income across these 6 billion people. A growing body of research has begun to measure the distribution of global income using this approach. Because it is impossible to get income data for every person in the world, researchers rely on surveys conducted on representative samples in each country. Enough such surveys have been conducted over a long enough period of time to enable scholars to begin to produce a pretty clear picture of trends in global income inequality over time.

Researchers have pieced together data on global income inequality for the last 200 years. Figure 16.4 illustrates this trend by plotting the most common measure of income inequality, the Gini coefficient, for the period spanning 1820 and 1998. The **Gini coefficient** measures the concentration of global income. It ranges from a score of 0 to 1. A coefficient of 0 implies complete equality of income; every person has the same income. A coefficient of 1 implies complete inequality of income; one person has all income and everyone else has no income. Thus, the closer we get to 1, the more unequally distributed is global income. Tracing these Gini coefficients across the last 200 hundred years indicates two clear trends. First, global income inequality increased steadily between 1820 and 1970. Second, something changed rather dramatically during the 1970s. This change caused the long-term trend of growing inequality to stop and then begin to reverse itself. As a consequence, during the last thirty years global income inequality has begun to decrease. Global income remains very unequally distributed; in fact, global

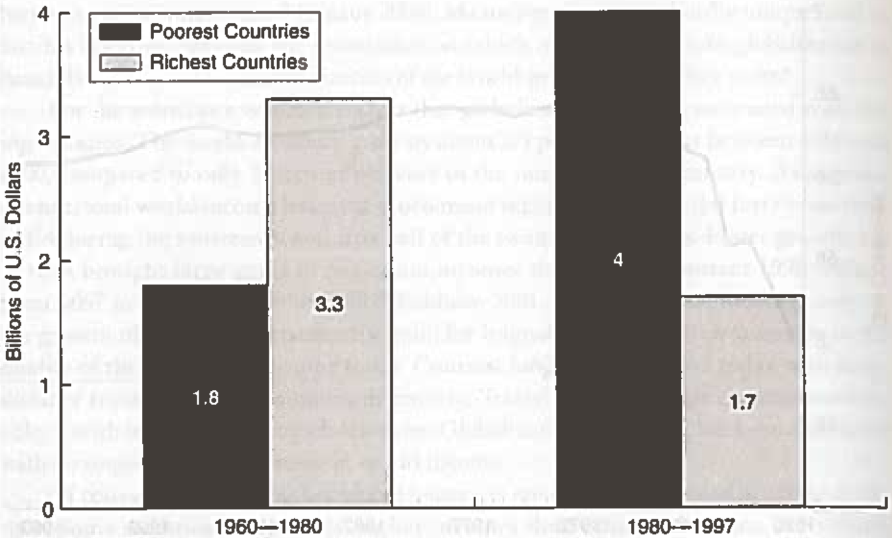

Figure 16.5 Growth Rates of Poorest and Richest Countries (weighted by population).
Source: Dollar 2004, 15.

inequality is much greater than domestic income inequality in even the most unequal countries. Yet, the trend over the last thirty years is encouraging. Thus, intensified globalization during the last twenty years has not been associated with widening inequality, but has instead brought a moderate reduction of global income inequality.

This conclusion probably surprises you greatly. It becomes less surprising, I think, when you consider which countries have grown most rapidly during the last twenty-five years. As Figure 16.5 illustrates, between 1960 and 1980 the world's richest societies grew faster than the poorest. Since 1980, however, the world's poorest societies have grown faster than the richest—more than twice as fast. China has been the fastest-growing economy in the world since the late 1970s, and India also has enjoyed rapid growth over the last fifteen years. Thus, incomes in China and India have been catching up to incomes in the advanced industrialized world. China and India are home to one-third of the world's total population and account for a large percentage of the world's poorest individuals. Thus, as incomes in China and India converge toward incomes in the advanced industrialized world, global income inequality falls. Thus, some of the biggest beneficiaries of globalization over the last twenty years have been the world's poorest individuals.

As a consequence, the number of people living in poverty has fallen during the last twenty years. Recent research suggests that the absolute number of people living in poverty throughout the world fell by about 375 million between 1980 and 2000 (Bourguignon and Morrisson 2002; Chen and Ravallion 2001, 2008; Dollar 2004). As World Bank economist David Dollar (2004, 18) notes, this reduction in the number of people living in poverty is unprecedented. Previously, the percentage of the world's population living in poverty had fallen, but because population was growing so fast, the absolute number of people living in poverty rose. During the last twenty years, however, the absolute number of people living

in poverty fell even while world population rose by 1.6 billion. In some countries, the reduction of poverty rates was substantial. The poverty rate in Vietnam was cut in half between 1988 and 1998, from 75 percent of the population to 37 percent (World Bank 2002, 50). India shows the same trend, with the poverty rate falling from 36 percent in 1993 to 26–28 percent by 2000 (Deaton 2002). Thus, although far too many people remain deeply impoverished, their number has fallen, not risen, during the last twenty years.

Two points remain to be made. First, poverty has fallen the most in countries that have grown fastest during the last twenty years. It is quite clear, therefore, that "growth is good for the poor" (Dollar and Kraay 2002, 2004). In fact, on average the incomes of the poorest segment of society rise as rapidly as average incomes in society. Thus, sustained 4-percent annual growth of average incomes will generate sustained 4-percent growth of the incomes of the poorest. Thus, reducing poverty depends importantly (though not solely) on raising growth rates. Second, and a bit more controversially, developing countries that have participated in the global economy have achieved more rapid growth than countries that have sheltered themselves from the global economy. Although the causal relationship between participation and growth is debated, there are no instances of countries that isolated themselves from the global economy have outperformed countries that integrated into the global economy. Thus, there is some evidence to suggest that the recent improvements in global income inequality and global poverty are a result of (were caused by) globalization.

Thus, rather than globalization giving rise to widening inequalities and increasing poverty, current research suggests the opposite conclusion: Globalization has raised growth rates in the world's poorest societies, faster growth has reduced poverty, and poverty reduction has decreased global inequality. One need not accept the strongly optimistic version of this conclusion. One might instead conclude that emerging evidence indicates that global income remains very unequally distributed, but the trend of greater inequality has stabilized and poverty has begun to fall during the last twenty years. The evidence does not, however, seem to support the strongly pessimistic conclusion about the impact of globalization on global incomes and poverty. The evidence provides little support for the view that the intensification of globalization during the 1980s and 1990s, or the widespread economic reforms that developing societies implemented in this period, widened income inequality and caused a sustained rise in global poverty.

Globalization and "Sweatshops"

As millions of people pour into factories located in China, India, Bangladesh, and other developing societies to produce manufactured goods for consumers in the advanced industrialized countries, controversy has arisen around the conditions within which this work takes place. A large and increasingly powerful NGO–led movement dedicated to ending "sweatshops" in the developing world argues that these working conditions represent cold exploitation of developing-world workers by global capital. They advocate enforceable global labor standards to improve conditions in these factories. After all, they say, we have global rules to protect capital and intellectual property, why shouldn't we also have global rules to protect workers? Defenders of globalization dispute the basic premise and question the need for global labor standards.

Table 16.1 Annual Compensation by Multinational Corporation Affiliates (Thousands of U.S. Dollars)

	High-Income Countries	Middle-Income Countries	Low-Income Countries
Manufacturing	45.0	14.1	4.9
Petroleum	72.8	30.7	25.4
Food	45.6	13.8	5.9
Primary and Fabricated Metals	38.6	18.0	13.8
Electronic and Electric Equipment	32.0	8.8	3.6

Source: Graham 2000, 92.

Are factories in the developing world sweatshops, and will global labor standards improve conditions in these facilities? Although the term *sweatshop* has no single definition, most definitions are a variation of the one advanced by Sweatshop Watch: "extreme exploitation, including the absence of a living wage or benefits, poor working conditions and arbitrary discipline" (Sweatshop Watch 2005). The claim that factories in the developing world are sweatshops seems simple and compelling. The wage discrepancy between developing countries and the advanced industrialized world is very large. Table 16.1 illustrates this wage gap for a few industries. In all manufacturing industries, a typical worker employed by an MNC affiliate in an advanced industrialized country earns almost ten times as much as a typical worker employed by an MNC affiliate in a low-income country. This disparity is also apparent within specific manufacturing industries. In the food-processing industry, for example, a worker employed by an MNC in the United States or Europe will earn just over $45,000 per year, whereas a worker employed by an MNC affiliate in a low-income country will earn slightly less than $6,000 per year.

The case seems even more compelling when one reads the litany of abuses that observers have cataloged. Researchers have documented numerous examples of four objectionable workplace practices during the last fifteen years (Graham 2000, 99–104). First, many firms require their workers to work excessively long hours. In one Indonesian factory that produces shoes for Nike, for example, workers reported working eleven hours per day, seven days a week (Connor 2002, 20). Often, such overtime is not compensated at a higher rate of pay. Second, workers are often forced to work in abusive environments that include exposure to toxic chemicals and other health and safety hazards, physical punishment for violation of workplace rules, and sexual harassment. Workers in a Chinese toy factory, for example, reported constant chemical odors and paint dust in the air, which they suggested caused persistent headaches, dizziness, stomach aches, and nausea (The National Labor Committee 2002, 17). Third, firms sometimes engage in bonded labor schemes under which a person "pledges his or her labor for a specified period of time in return for a loan" (Graham 2000, 103). Finally, many developing-country firms employ children. According to the International Labor Organization, more than 250 million children under the age of fourteen are currently working.

Defenders of globalization argue that the comparison between wages paid to workers in the advanced industrialized world and wages paid in the developing world is misleading. On the one hand, workers in the advanced industrialized countries are more productive, on average, than workers in the developing world. Consequently, they should be paid more. On the other hand, it makes little sense to compare the wage earned by a worker in Vietnam with the wage earned by a worker in the United States. The Vietnamese worker has no opportunity to get the job in America. This comparison, therefore, doesn't accurately reflect the relative merits of the opportunities that workers in the developing world have. The appropriate comparison, defenders argue, is between the wages a Vietnamese worker is paid in a local factory that exports to the global economy with the income he or she could earn in the other economic opportunities available to him or her.

Table 16.2 Compensation by Multinational Corporations (MNCs) and Local Firms

	High-Income Countries	Middle-Income Countries	Low-Income Countries
Average Compensation Paid by MNC Affiliate	32.4	9.5	3.4
Average Compensation Paid by Local Manufacturing Firm	22.6	5.4	1.7
Ratio	1.4	1.8	2.0

Source: Graham 2000, 94.

One way to make this comparison is by contrasting the wages MNC affiliates pay workers in developing countries with the wages paid to these same workers by locally owned firms. Such a comparison is presented in Table 16.2. The data focus only on manufacturing industries, because as we saw in Table 16.1, the wage gap is greatest here. If we divide the average wage paid by MNC affiliates by the average wage paid by local manufacturing firms, we obtain a ratio. When this ratio is greater than one, MNC affiliates pay more than local firms; when it is less than one, MNC affiliates pay less than local firms. The bottom row of Table 16.2 clearly indicates that workers are paid more by MNC affiliates than they are by locally owned firms. Moreover, this premium rises as we move from high-income to low-income countries. A worker in a low-income country makes twice as much working for a foreign firm as he or she does working in a locally owned firm. Thus, even though wages paid in export-oriented jobs in the developing world are far below wages paid in the West, these jobs pay more than other opportunities available to workers in developing countries.

This conclusion is confirmed by a growing volume of survey and field research. The International Labor Organization (ILO) surveyed workers in developing countries and found that wages paid to workers in plants based in export-processing zones are higher than the wages available in the villages from which workers are typically recruited (ILO 1998). Again, jobs in export industries pay better than other alternatives. The ILO survey is in turn confirmed by field research conducted by a large number of scholars in a large number of countries (see Table 16.3). The general point is quite clear: Given the alternatives developing-country workers have to choose from, a job in a factory engaged in production for export is typically the highest paying option.

Table 16.3 Pay in Export Jobs versus Pay from Other Opportunities

- In Vietnam, workers in foreign-owned and subcontracting apparel and footwear factories rank in the top 20 percent of the population by household expenditure (Glewwe 2000).
- In Vietnam, Nike subcontractor factories paid annual wages of $670 compared with an average minimum wage of $134 (Lim 2000).
- In Indonesia, Nike subcontractor factories paid annual wages of $720 compared with an average annual minimum of $241 (Lim 2000).
- In Bangladesh, legal minimum wages in export-processing zones are 40 percent higher than the national minimum for unskilled workers, 15 percent higher than for semiskilled workers working outside the export-processing zone, and 50 percent higher than for skilled workers working outside the zone (Panos 1999).
- In Bangladesh, garment workers earn 25 percent more than the country's average per capita income (Bhattacharya 1998).
- In Mexico, firms that exported 40 and 80 percent of their total sales paid wages that were at least 11 percent higher than the wages of nonexport-oriented firms; companies that exported above 80 percent of their sales paid wages between 58 and 67 percent higher (Lukacs 2000).
- In the Philippines, workers reported themselves to be better off after finding employment in the export-processing zone during the 1990s. Forty-seven percent earned enough to have some savings, compared with 9 percent before employment in the zone (World Bank 1999, Appendix C).
- Footwear and apparel manufacturers in the countries that produce most such products for U.S. import pay higher wages and offer better working conditions than those available in local agriculture (United States Department of Labor 2000).
- The U.S. Chamber of Commerce found that in Shanghai, China, the 48 American companies surveyed paid an average hourly wage of $5.25, excluding benefits and bonuses (about $10,900 per year; Lukacs 2000).

Sources: Compiled from Moran 2002; Lim 2001; and Brown, Deardorff, and Stern 2003.

Finally, the point is brought home quite starkly by Nicolas Kristof (Kristof 2004). Kristof relates the story of Nhep Chanda, "a 17-year-old girl who is one of hundreds of Cambodians who toil all day, every day, picking through the dump for plastic bags, metal cans and bits of food." She makes 75 cents a day. She's not scavenging through the dump because it's fun; she's doing it because it's her best available option. As Kristoff notes, "For her, the idea of being exploited in a garment factory—working only six days a week, inside instead of in the broiling sun, for up to $2 a day—is a dream. 'I'd like to work in a factory, but I don't have any ID card, and you need one to show that you're old enough,' she said wistfully."

And what is true for wages is also true for the long hours typical of many developing-country factories. Although NGOs place considerable emphasis on the long hours typical of factory work, in many instances these long hours constitute a shorter day than people are accustomed to working. Linda Lim (a professor at the University of Michigan) relates a conversation she had with a worker while in Vietnam studying conditions in Nike factories. This worker told her, "I am used to working sixteen hours a day in our rice paddy, so fourteen hours in the factory is not hard for me. It's just boring. But I don't mind. I always ask for overtime" (Lim 2000, 6). More broadly, Lim argues, workers often seek long hours. "If you ask workers their number one desire, it will almost invariably be for more overtime . . . To put it simply, these workers are usually in the factories for a finite number of years and their number one goal is to maximize income during that time. And a higher wage, in my opinion, would do little to change that desire and motivation" (Lim 2000, 5–6).

Thus, defenders argue that what are unreasonable and intolerable working conditions from the vantage point of wealthy Americans are, from the vantage point of the world's poor, the best opportunity they have ever had to pull themselves out of poverty. Two dollars a day sewing shirts is not much to you and me. For people who would otherwise have to work even harder and even longer for even less money, it's a pretty good job. And though it is objectionable when we examine it up close, it is important to recognize that these factories are the sole reason why global income inequality has decreased and poverty has fallen by 375 million people during the last twenty years.

The antisweatshop movement responds by saying that even if this is all true, it would still be better to establish global rules that improved working conditions and wages in these factories. The antisweatshop movement and labor unions in the advanced industrialized countries have advocated linking developing countries' access to global markets to their adoption and enforcement of global labor standards. Two sets of standards have been proposed, a set of core labor standards and a set of cash standards. **Core labor standards,** which are elaborated in the ILO's 1998 "Declaration on Fundamental Principles and Rights at Work," include freedom of association, the right to collective bargaining, the abolition of forced labor, prevention of discrimination in employment, and a minimum age for employment. Cash standards focus on achieving specific workplace outcomes that affect labor costs. These include rules for maximum working hours, minimum wages, and health and safety conditions in the workplace.

Defenders of globalization argue that the adoption of enforceable global labor standards might improve working conditions in the developing world, but it is more likely that such standards will push people in the developing world back into poverty. Global labor standards could bring meaningful improvements in wages or working conditions, but they will also raise the cost of manufacturing production in developing societies. They might do so by raising labor costs directly through higher wages. They might do so indirectly by requiring more costly production techniques and safety equipment in factories. Higher costs of production will make the developing world a less attractive place to invest. As a result, global standards will yield less investment, less production, and fewer jobs. The overall impact could be better jobs, but many fewer of them (Krugman 1997). If that is the result, then global labor standards will have pushed people in the developing world back into poverty.

Moreover, to enforce global labor standards governments must be able to restrict trade with countries violating these rules. The desire to achieve effective enforcement is the primary impetus behind the effort to bring standards into the WTO (O'Brien et al. 2000, 87–88). In theory, this seems perfectly reasonable; however, in practice it creates another instrument that governments in the advanced industrialized countries can use to keep developing-country imports out of their markets. As we have seen, protection is offered when a government needs to maintain the support of an important domestic industry. It is very hard to believe that enforceable global labor standards won't be subject to this political dynamic, especially as they target foreign industries that compete against the most vulnerable industries in the advanced industrialized world. Protection of this sort would further reduce the incentive to invest in developing countries.

Such concerns are voiced by many economists and also by governments throughout the developing world. Developing countries see the effort to link labor standards to trade within the WTO as a new form of protectionism. As Martin Khor, the director of the Third World Network and a prominent critic of many other aspects of globalization, has argued, "Developing countries fear that the objectives of the northern and the international trade unions, and of the developed country governments that back [the push for core labor standards] are mainly protectionist in nature, that they want to protect jobs in the North by reducing the low-cost incentive that attracts global corporations to the developing countries" (Khor 1999, 43). Developing-country governments argue that the low wages paid to workers in their countries are not "exploitation." Low wages simply reflect the abundance of local low-skill labor in the developing world. Linking trade to core labor standards merely punishes them for capitalizing on this comparative advantage.

Moreover, defenders of globalization argue, standards are unnecessary because working conditions in the developing world will improve over time without them. Wages in all societies are linked to productivity. The wage differences we saw in Table 16.1 and Table 16.2 were not caused by different labor market regulations, but by different levels of productivity. Wages are low in low-income countries because productivity is substantially lower in these countries. As productivity rises in these countries, wages will rise as well. Raising productivity takes time. The incomes currently being earned in low-skilled manufacturing jobs are the necessary first step in this process. These higher incomes enable families to send their children to school rather than to work in the rice paddies (or in the local dump). Education in turn qualifies these young people for employment in jobs demanding more skills and paying higher wages. Over time, society transitions away from low-skilled, labor-intensive manufacturing.

The sweatshop debate thus raises complex issues that refuse to yield simple answers. Both groups want working conditions in the developing world to improve, but they offer fundamentally different approaches to this end. Moreover, each side in this debate is deeply skeptical of the remedy proposed by the other. The antisweatshop movement has little faith in the operation of the market; the defenders of globalization have little faith in the ability of governments to use regulations in a manner that yield welfare gains. Moreover, they argue that regulations often have consequences that cut against the antisweatshop movement's intended goals. Thus, one's stance in this debate reflects underlying beliefs about the benefits of markets and the ability of governments to effectively regulate markets that are not easily altered, much less subject to negotiation and compromise. Regardless of where you stand, Paul Krugman's advice seems apt: The lives of millions of people are at stake in this debate. Consequently, it is critically important that remedies offered are the product of careful reflection about all of their potential consequences (Krugman 1997).

POLICY ANALYSIS AND DEBATE

LABOR STANDARDS IN THE WORLD TRADE ORGANIZATION

QUESTION

How can working conditions in developing societies be improved?

OVERVIEW

The antisweatshop movement has advocated the development and enforcement of global labor standards to improve working conditions in developing countries. Some NGOs press for linking the Core Labor Standards to the WTO. Others want to go further, by linking market access to the implementation and enforcement of so-called cash standards as well. Behind this push lies a concern that market-based development enables MNCs to profit, but creates few incentives for these firms to share these gains with workers.

Defenders of globalization argue that such standards would be counterproductive. Defenders of globalization argue that the solution to poor working conditions lies in economic development that raises productivity in the developing world. The key to such productivity gains lies in continued participation in the global economy through exporting to, and attracting technology from, the advanced industrialized countries. Moreover, they argue, because enforceable labor standards will raise the cost of production in developing societies, they are more likely to reduce the number of jobs available to workers in the developing world than to improve conditions. What should be done to improve working conditions in the developing world?

POLICY OPTIONS

- Bring labor standards into the WTO and use the dispute settlement mechanism to ensure that developing countries enforce these labor standards.
- Liberalize trade in labor-intensive products in the advanced industrialized world in the belief that the resulting exports will improve working conditions in the developing world.

POLICY ANALYSIS

- What are the risks of relying on labor standards?
- What are the arguments against relying on markets to generate better working conditions?

TAKE A POSITION

- Which option do you prefer? Justify your choice.
- What criticisms of your position should you anticipate? How would you defend your recommendation against this critique?

RESOURCES

Online: Explore the material available on the National Labor Committee's website (*www.nlcnet.org*). Look also for an Oxfam-sponsored report entitled "We Are Not Machines." You might also do an online search for "sweatshops."

In Print: See the extended discussion of labor standards in Kimberly Ann Elliott and Richard Freeman, *Can Labor Standards Improve Under Globalization?* (Washington DC: Institute for International Economics, 2003); John Miller, "Why Economists are Wrong About Sweatshops and the Antisweatshop Movement," *Challenge* 46 (January–February 2003): 93–122; and Jagdish Bhagwati, *In Defense of Globalization* (New York: Oxford University Press, 2004).

Trade and the Environment

Globalization has also generated controversy about its environmental consequences. This debate pits the environmental movement against the defenders of globalization. The debate over the environmental consequences of globalization is less sharp than the debate over sweatshops, however. On the one hand, there is greater consensus between the two groups about how to conceptualize the relationship between trade and the environment. On the other hand, greater consensus about the impact of globalization on the environment generates smaller disagreement about how to manage the negative consequences that do exist. The differences that do exist reflect different values and different evaluations of the appropriate solutions to the problems.

This current consensus suggests that globalization does not necessarily harm the environment, but can instead have either positive or negative environmental consequences. Globalization affects the environment in two ways (see UNEP 2000, 35–40). First, globalization has scale effects that arise from the expansion of economic activity. These scale effects can be positive or negative. Positive scale effects can arise from the diffusion of technology through trade and foreign investment and from the impact of rising incomes. As firms upgrade their technology, they consume fewer natural resources and generate less waste. Development can also improve the environment as individuals alter traditional practices. In poor societies, for example, people rely heavily on high-polluting fuels such as wood and coal to cook and heat. As incomes rise, people shift to cleaner fuels. Other positive effects stem from an apparent association between higher income and demand for a clean environment. This relationship may reflect a simple income effect; that is, as people become wealthier they can more easily afford the cost of environmental protection. Alternatively, this may reflect a change in values; that is, as their material needs are satisfied, people begin to place greater value on the nonmaterial aspects of cleaner environments. In either case, rising incomes are often associated with more concern for the environment.

Scale effects can also have negative environmental consequences. All economic activity has some impact on the environment. Economic activity requires natural resources and generates waste. As the scale of economic activity expands, resource use and waste generation will both increase. In addition, consumption patterns can change as incomes rise in ways that harm the environment. Most Chinese now ride bicycles. Yet, as Chinese incomes rise, a larger percentage of Chinese will begin to drive cars. Consequently (assuming the internal combustion engine remains predominant), carbon dioxide emissions will increase with clear negative consequences for the global environment.

Globalization also has structural effects brought about by economic specialization within a global division of labor. These structural effects can also be positive or negative. If an economy has a comparative advantage in green industries, then specialization through trade will encourage it to shift out of polluting industries and into clean industries. If, on the other hand, the country has a comparative advantage in dirty industries, then specialization through trade in these industries will lead to growing environmental problems. Many countries, for example, developed large aquaculture industries to produce shrimp for export. The shrimp ponds generated a large amount of waste that polluted local water supplies, lowered the water table, and thereby caused salt water to seep into the local water supply. As a result, the expansion of aquaculture damaged the surrounding mangrove forests (Bhagwati 2004, 140).

Whether globalization has a positive or a negative impact on the environment, therefore, depends on whether the scale and structural effects are, on balance, positive or negative. Two different factors shape the balance between the positive and negative impact. First, for many (though not all) environmental problems, the balance is influenced by economic development (see, e.g., Grossman and Krueger 1995; Frankel and Rose 2002). At low income levels, environmental damage from economic activity is limited. As societies began to industrialize and move from low to middle-income status, however, the negative scale and structural effects predominate and environmental damage worsens. As societies transition from middle- to high-income, status, the positive scale and structural effects begin to predominate. At high-income levels, the positive effects outweigh the negative effects substantially. The result is an inverted *U*-shaped relationship between income levels and environmental damage. This inverted *U* is often called the **environmental Kuznets curve** (after Simon Kuznets, who posited a similar relationship between income levels and income distribution).

Government environmental regulations also play a critical role in influencing the balance between the positive and negative impact of globalization on the environment. In most instances, the environmental consequences of economic activity are not taken into account through the market. In shrimp farming, for example, the private cost of production (building the ponds, feeding and harvesting the shrimp) was much lower than the social cost of production (the private costs plus the negative environmental consequences). Because shrimp farmers were able to impose these costs onto society as a whole, they expanded their production and caused more environmental damage than society would have accepted if the environmental costs had been incorporated into the economic picture.

Government regulations could reduce these negative environmental consequences by forcing shrimp farmers to take the environmental consequences of their activities into account. Such regulations could require farms to use the best available waste treatment systems, could raise the cost of water in response to fluctuations in the water table, and so on. By forcing the shrimp farmer to pay these social costs, environmental damage can be reduced. Thus, government regulation plays an important role in ensuring that scale and structural consequences are, on balance, positive rather than negative.

The mainstream environmental movement and the defenders of globalization largely agree on this conceptual framework. They disagree, however, in one very broad and one narrower way. First, each group holds a distinct philosophy about the place of humans in the natural world. Environmentalists believe that nature is autonomous and should be protected from human exploitation. Pro-globalizers believe that "nature is subordinate to humans" and should be used to raise our incomes (Bhagwati 2004, 136–137). These different beliefs lead the two camps to weigh the income gains from globalization and the resulting environmental degradation quite differently. Environmentalists weigh the negative environmental consequences very heavily and the income gains from globalization less heavily. Pro-globalizers weigh the income gains from globalization heavily and the negative environmental consequences less so

(Bhagwati 2004, 136–137). Consequently, the two groups will always disagree about how much environmental damage they are willing to accept to achieve a given rise in income.

The two groups also disagree about whether current WTO rules limit governments' ability to use national regulations to achieve environmental goals. The environmental movement argues that WTO rules greatly complicate these efforts. One of their central concerns focuses on the environmental consequences of the somewhat obscure WTO term like products. WTO rules (General Agreement on Tariffs and Trade GATT Articles I and III) require governments to treat "like products" identically. Historically, the main criterion for determining whether two items are like products is whether they can be substituted for one another in the marketplace (often called the market substitutability test). Consider, for example, two memory chips produced by different manufacturers. Suppose that both chips contain the same amount of memory, that both are produced to the same technical standards, and that both can be placed into the same expansion slot in a pc. Under the market substitutability test, therefore, the two memory chips are like products.

Environmental groups argue that the market substitutability test results in too broad a definition of like products with negative consequences for national environmental regulations. They argue that, in determining what makes products like and unlike, governments and the WTO should consider how the two products are made. Different production processes (known within the WTO as **process and production methods, or PPMs**) can have very different environmental consequences. In the semiconductor industry, for example, one manufacturing process uses ozone-depleting chemicals, whereas another process does not. Environmental groups argue that because the two computer chips are produced through two different methods with two very different environmental consequences, they are not like products.

Yet, WTO rules often prevent governments from taking PPMs into account when determining if two products are like products. The two most well-known disputes in the GATT and the WTO, the tuna–dolphin case and the turtle–shrimp case, revolved around import bans adopted in pursuit of environmental goals. In both disputes, the central issue was whether the United States could discriminate between goods that differed only in the method used to harvest them. That is, could the United States import tuna and shrimp caught using environmentally friendly techniques while banning imports of identical tuna and shrimp harvested with environmentally harmful techniques? The WTO ruled in both cases that the American import bans violated WTO rules regarding PPMs and like products (though for different reasons—see this chapter's "A Closer Look"). The environmental movement argues that if WTO rules allowed governments to take PPMs into account for determining like products, they could use trade restrictions to encourage the adoption of green production methods and discourage the use of harmful techniques.

The defenders of globalization are skeptical about the effort to widen the criteria for like products. At the broadest level, they question the need and the wisdom of pursuing environmental objectives through trade policy. Rather than trying to achieve environmental goals by restricting trade, they argue, it would be more effective to pursue environmental goals using environmental policy. As Bhagwati (2004, 141) argues, "you cannot generally kill two birds with one stone." Thus, defenders of globalization

A CLOSER LOOK

ENVIRONMENTAL DISPUTES IN THE WORLD TRADE ORGANIZATION

Two recent trade disputes involving American environmental regulations help illustrate how they can do so. The first case involved an American decision to ban imports of tuna from Mexico, Venezuela, and Vanuatu. This dispute arose because U.S. regulations required the American tuna fleet to reduce the number of dolphins killed during tuna fishing. As a consequence, between 1960 and 1990 the number of dolphins killed by the American tuna fleet fell by 90 percent, from a high of about 500,000 per year (Vogel 2000, 353). Fishing fleets based in Mexico, Venezuela, and Vanuatu continued to kill dolphins at a much higher rate, however, and much of the tuna caught by these fleets was exported to the American market. The United States then banned tuna imports from those countries, hoping that the ban would encourage these governments to adopt regulations to protect dolphins.

The Mexican government filed a complaint with the GATT, arguing that the U.S. trade restriction represented a nonproduct-related PPM. The United States was prohibiting the import of a like product (tuna imported from Mexico was identical to tuna caught by the American fleet) because of the production process used in Mexico. The GATT dispute panel ruled in favor of Mexico, stating that although a country could impose whatever regulation it wanted within its own borders (as long as the regulation did not discriminate between domestic and foreign producers), it could not attempt to regulate the production methods used in other countries. Thus, the United States could not attempt to regulate how the Mexican fleet harvested tuna, and it could not make access to the American market contingent upon the adoption of dolphin-friendly techniques. Environmental groups claimed that this case reflected an antienvironment bias at the center of the GATT. As the Sierra Club stated, "Meeting in a closed room in Geneva . . . three unelected trade experts . . . conspired to kill Flipper" (Vogel 2000, 353).

The second case involved the use of turtle-excluding devices, known as TEDs, on shrimp nets. This dispute originated in a law passed by the U.S. Congress in 1989 that required American shrimpers to use TEDs to prevent sea turtles from becoming entangled in shrimp nets. The United States then extended this regulation to foreign shrimpers in 1995. As a result, shrimp harvested in countries that did not require TEDs could not be sold in the United States. As in the tuna–dolphin case, the United States was restricting imports based on a nonproduct-related PPM.

In October 1996, India, Pakistan, Malaysia, and Thailand, all of which were affected by the American regulation, initiated a dispute within the WTO. These governments argued that GATT rules prohibit the United States from restricting access to the U.S. market simply because their fleets used a different method to harvest shrimp. The initial WTO dispute panel ruled against the United States, as did the appellate body when the United States appealed. Some environmental groups argued that the decision in this case, like the decision in the previous

(continued)

tuna–dolphin case, reflected a willingness by the WTO to overturn environmental regulations in order to promote international trade. Charles Clarke of the World Wildlife Fund stated that the decision "denies individual countries the right to restrict trade even when species, in this case sea turtles, are endangered and the complainant countries have signed international environmental agreements to protect them" (Zaracostas 1998).

The United States invoked Article XX(g) in the TEDs case, arguing that the U.S. ban on imported shrimp was legal because it attempted to conserve an exhaustible natural resource. The WTO Appellate Panel agreed with the American position, arguing that governments could use nonproduct-related PPMs to restrict trade in order to achieve an environmental objective. However, the Appellate Panel argued, trade restrictions imposed for this purpose must meet the conditions spelled out in the *chapeau* of Article XX. The Appellate Panel ruled that even though the U.S. import ban was consistent with Article XX, the United States had applied this ban in a discriminatory manner. The United States provided Caribbean nations with financial and technical assistance, as well as an extended transition period to help shrimpers adopt TEDs. The United States provided no such assistance to the Asian countries. As such, the U.S. ban discriminated between WTO members. For this reason, the U.S. trade restriction was found to be inconsistent with WTO rules.

argue that the WTO should be used to achieve the income gains from globalization, and environmental regulations should be used to safeguard the environment. There is simply no need to use trade restrictions to achieve environmental goals.

The environmental movement also argues that even when WTO rules do allow governments to restrict trade in pursuit of environmental goals, the burden of proof necessary to do so can be insurmountable. The WTO does allow governments to restrict trade in pursuit of an environmental goal. GATT Article XX, known as the general exceptions article, allows governments to restrict trade when "necessary to protect human, animal, or plant life or health" (Article XX(b)) or when such measures relate "to the conservation of exhaustible natural resources if such measures are made effective in conjunction with restrictions on domestic production or consumption" (Article XX(g)). If a government invokes one of these exceptions, however, it must prove two things, if challenged. First, it must prove that the trade restriction was in fact adopted to achieve goals set out in either XX(b) or XX(g), rather than a form of disguised protectionism. Second, it must prove that the measure is consistent with the lead paragraph of Article XX, known as the *chapeau*. The *chapeau* states that a government can restrict trade "subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade." The burden of proof required to restrict trade in pursuit of an environmental objective is thus quite high.

The defenders of globalization argue that such stringent burdens of proof, although sometimes inconvenient, are necessary. Without stringent conditions, it would be too easy

for governments to disguise simple protectionism as environmental safeguards. In banning shrimp and tuna imports, for example, was the U.S. government protecting dolphin and sea turtles, or was it protecting the American tuna fleet and American shrimpers against foreign competition? The world trade system needs rules that require a heavy burden of proof in order to prevent widespread use of protectionist practices disguised as environmental safeguards. Relaxing these rules would result in large income sacrifices for uncertain environmental gains that could be as readily achieved with other methods.

Finally, the environmental movement is quite concerned about the potential for conflict between WTO rules and multilateral environmental agreements. **Multilateral environmental agreements** (MEAs) are international agreements between three or more governments dedicated to the achievement of a specific environmental objective (see Table 16.4). Potential conflict between MEAs and WTO rules arises because several MEAs contain trade restrictions that may violate WTO rules. Some MEAs

Table 16.4 Multilateral Environmental Agreements

Agreement	Trade Provisions
Convention for the Protection of the Ozone Layer (Montreal Protocol)	• Requires governments to apply stricter trade provisions to nonparties than to parties to the agreement; in potential conflict with General Agreement on Tariffs and Trade (GATT) article I. • Regulates Process and Production Methods (PPMs) in potential conflict with GATT Article III. • Allows trade sanctions to enforce the agreement, in potential violation of GATT Article I.
Convention on International Trade in Endangered Species of Wild Fauna and Flora	• Requires governments to apply stricter trade provisions to nonparties than to parties to the agreement; in potential conflict with GATT Article I. • Requires licensing arrangements in potential conflict with GATT Article XI. • Allows trade sanctions to enforce the agreement, in potential violation of GATT Article I.
Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal	• Requires governments to apply stricter trade provisions to nonparties than to parties to the agreement; in potential conflict with GATT Article I. • Requires licensing arrangements in potential conflict with GATT Article XI. • Allows trade sanctions to enforce the agreement, in potential violation of GATT Article I.

encourage governments to restrict trade with nonmembers, thereby potentially violating the WTO's most-favored-nation clause. Other MEAs encourage governments to adopt different standards toward domestic and imported goods, thereby potentially violating the WTO's rule of national treatment. Many MEAs call on governments to use trade sanctions to enforce the agreement, thereby raising the possibility of a violation of the most-favored-nation clause.

If a trade sanction is imposed to enforce one of these MEAs, could the sanctioned country use the WTO's dispute-settlement mechanism to have the sanction removed? If so, wouldn't the WTO then undermine the goal of the MEA? Environmental groups argue that to prevent this possibility, the WTO should accept as a general principle that any trade restriction applied in connection with an MEA is fully consistent with WTO rules and beyond review by WTO dispute panels (see, e.g., World Wildlife Fund 1999).

Here the defenders argue that WTO rules are not nearly as constraining as the environmental movement suggests. Although WTO rules do require national environmental regulations to conform to a limited number of global principles, these rules hardly preclude the use of national environmental regulations or the conclusion of international environmental agreements. The evidence of this lies in the very fact that governments have negotiated a large number of MEAs and no government has been forced to remove a single environmental regulation as a result of a WTO dispute-settlement ruling. Moreover, the potential for conflict between MEAs and WTO rules is only that—potential. To date, not a single WTO dispute has arisen from trade provisions contained in MEAs. Thus, the defenders of globalization argue, there is no need to change WTO rules in order to enable governments to safeguard the environment.

The emergence and subsequent evolution of this debate has pushed the WTO toward greater sensitivity to globalization's impact on the environment. Even though it is hard to characterize WTO rules as pro-environment, there is now a greater willingness to think about environmental concerns when interpreting WTO rules—a comparison of the tuna–dolphin and shrimp–turtle cases highlights this change. In addition, in 1995 the WTO created a Committee on Trade and the Environment (CTE). The CTE's mandate is "to identify the relationship between trade measures and environmental measures in order to promote sustainable development" and "to make appropriate recommendations on whether any modifications of the provisions of the multilateral trading system are required, compatible with the open, equitable and nondiscriminatory nature of the system." Since its creation, the CTE has examined a number of issues, including the relationship between the WTO and international environmental agreements; the feasibility of requiring environmental evaluations of trade agreements; the environmental impact of production subsidies, particularly in agricultural production and energy use; and other issues.

These changes within the WTO have led some commentators to suggest that even though the environmentalists may have lost many of the individual battles, they have won the war to bring the environment into the world trade system (Weinstein and Charnovitz 2001). This may be an overstatement, but it does suggest that the debate over how globalization affects the environment, and the debate over how best to address these consequences, has evolved in a productive manner within the existing institutional framework. And because, at its core, environmentalists and the defenders of globalization will never fully agree on the balance to be struck between the income gains and environmental degradation, perhaps that is the most we can hope to achieve.

Conclusion

The debate over globalization, therefore, is a debate about how the income generated by global economic activity should be distributed. It is a debate about whether we should be willing to give up some of the income that globalization generates in order to achieve other goals, such as safeguarding the environment. Thus, current controversies over the consequences of globalization are the contemporary manifestation of the enduring battle between those who see themselves gaining from globalization and those who believe they are losing from these dynamics.

I firmly believe that the two camps engaged in this debate share a common objective: reducing global poverty through the sustainable exploitation of natural resources. But each side has a distinct approach for achieving this goal. These distinct approaches themselves reflect the long-running debate about the relative merits of states and markets. The critics of globalization are quite skeptical of the market's ability to deliver sustained income gains for the majority of the world's population at a reasonable environmental cost. Consequently, they advocate a larger role for the state in redistributing income, protecting the poor, and safeguarding the environment. And few of these critics seem willing to question their implicit assumption that state power can achieve these goals without killing the golden goose that is generating the income they wish to redistribute.

Defenders of globalization, in contrast, are very skeptical of the state's capacity to bring about positive change, particularly, but not exclusively, in the developing world. The defenders of globalization look at the history of import substitution industrialization and see far too many instances in which government intervention not only failed to reduce poverty, but in fact, generated more poverty while also destroying the environment (see, e.g., Lal 2004). In contrasting that record to the last twenty years, the defenders of globalization conclude that markets will do what developing-country governments demonstrated they could not. And the defenders look at the history of protectionism in the advanced industrialized countries and ask why we should risk globalization's gains by creating global rules that make it easy for governments to impose new forms of protection. Because they have little faith in the state's ability to act in the "public interest," the defenders discount existing inequities and environmental damage and take refuge in the belief that these problems will take care of themselves as long as global income continues to rise.

What does this all imply for the future of globalization? I fear that the debate is having a corrosive effect on political support for globalization. One sees signs of eroding support within the American public. Public opinion polls tracking attitudes about the global economy regularly indicate that the American public is uneasy about the global economy (see Scheve and Slaughter 2001). They fear that globalization is eliminating jobs and lowering wages in the United States; they fear that globalization is generating poverty and widening income inequalities; they fear that trade is destroying the environment. As many of these fears are not supported by the evidence, these public opinion polls suggest that globalization has a real public-relations problem that has been created in part by the antiglobalization movement based on partially, and in many instances factually, incorrect claims.

This public-relations problem is, I think, a serious threat to globalization. The United States remains the world's largest economy; as a consequence, there can be no globalization without American participation in, and support for, the global economic tem. Yet, the U.S. government's support for globalization requires American voters support globalization, and they seem to be unenthusiastic and perhaps even increas- ;ly skeptical. Thus, the fate of the world's poor is in the hands of rather poorly ormed American voters. I would ask that you to keep this in mind as you debate, dis- ;s, and make decisions about how the global economy should be organized.

Key Terms

re Labor Standards	Global Division of Labor
vironmental Kuznets Curve	Multilateral Environmental Agreements
ai Coefficient	Process and Production Methods (PPMs)

Web Links

sit the World Bank webpage on "Measuring Inequality," *http://web.worldbank.org/ WBSITE/ EXTERNAL/TOPICS/EXTPOVERTY/EXTPA /0,,contentMDK:20238991~menuPK:49218~ pagePK:148956~piPK:216618~theSitePK:430367,00.html.*

ere is a vast amount of material about sweatshops on the web. The National Labor Committee (*www.nlcnet.org*) is a good place to start.

fam also provides a lot of online material concerning the relationship between globalization and development. Visit them at *www.oxfam.org*.

u can also follow the WTO Committee on Trade and the Environment on the WTO website at *http://www.wto.org/english/tratop_e/envir_e/wrk_committee_e.htm.*

Suggestions for Further Reading

On global income inequality, the recent book by Glenn Firebaugh, *The New Geography of obal Income Inequality* (Cambridge, MA: Harvard University Press, 2003), is probably the most orough and the most accessible.

On the subject of labor standards, the short book by Kimberly Ann Elliott and Richard eeman, *Can Labor Standards Improve under Globalization?* (Washington DC: Institute for ternational Economics, 2003), is excellent. A shorter argument in favor of standards can be ind in John Miller, "Why Economists Are Wrong about Sweatshops and the Antisweatshop ovement," *Challenge* 46 (January–February 2003.): 93–122. Jagdish Bhagwati argues the oppo- e side in his *In Defense of Globalization* (New York: Oxford Univeristy Press, 2004).

On trade and the environment, see the now somewhat dated book by Daniel C. Esty, *The eening of the GATT: Trade, Environment, and the Future* (Washington, DC: Institute for ternational Economics, 1994). A more recent treatment can be found in Brian Copeland and . Scott Taylor, *Trade and the Environment: Theory and Evidence* (Princeton, NJ: Princeton iiversity Press, 2003).

Glossary

Absolute Advantage The principle upon which Adam Smith first claimed that free-trade benefits all countries. It holds that a country benefits from trade when it produces a particular good at a lower cost (in terms of labor input) than it costs to produce the good in any other country. By specializing in the production and export of this good and importing goods whose production costs are higher than in other countries, the country can consume more of both goods. In trade theories, this principle was later replaced by the principle of comparative advantage. (*See* comparative advantage.)

Accelerationist Principle A central component of monetarist theories and first stated by Milton Friedman in the 1960s, it claims that a government can keep unemployment below the natural rate of unemployment only if it is willing to accept a continually increasing rate of inflation. That is, the principle claims that there is no long-run Phillips Curve trade-off between inflation and unemployment. Such a trade-off exists only in the short run. This principle became widely accepted by governments and central bankers in the advanced industrialized countries during the 1980s, leading to the demise of Keynesian strategies of macroeconomic management. (*See* Keynesianism; Phillips curve.)

Antidumping Government investigations to determine whether a foreign firm is selling its products in international markets at a price that is below its cost of production. Under the rules of the international trade system, a positive finding in such an investigation allows the government to impose tariffs to offset the margin of dumping. (*See* dumping.)

Backward Linkages A term applied to the industrialization process that refers to instances when the creation of a domestic industry increases demand in domestic industries that supply inputs to the original industry. For example, the creation of a domestic auto industry may increase the demand for domestic auto parts such as batteries, glass, tires, etc.

Baker Plan Proposed in 1985 by Secretary of the U.S. Treasury James A. Baker III, this plan attempted to resolve the developing-country debt crisis through a combination of economic adjustment and additional lending. Of particular significance, the plan linked access to financial assistance from the International Monetary Fund, World Bank, and private lenders to the willingness of debtor governments to adopt structural adjustment programs.

Balance of Payments An accounting device that records a country's international transactions. The balance of payments is divided into two broad categories: the current account and the capital account.

Balance-of-Payments Adjustment The use of government policies to correct a balance-of-payments deficit or surplus.

Big Push The state would plan and coordinate a substantial large investment to solve the market failures that structuralists believed inhibited rapid industrialization in developing societies.

Brady Plan Proposed in 1989 by Secretary of the U.S. Treasury Nicholas J. Brady, this plan attempted to bring the developing-country debt crisis to a close. It encouraged commercial banks to negotiate debt reduction agreements with debtor governments. To make the proposal attractive to commercial banks, the advanced industrialized countries and the multilateral financial institutions advanced $30 billion with which to guarantee the principal of the Brady bonds, as the new debt instruments came to be called.

Bretton Woods System The international monetary system that was created in 1944 at Bretton Woods, New Hampshire. It was based on fixed-but-adjustable exchange rates in an attempt to provide a stable international monetary system and at the same time allow governments to use monetary policy to manage the domestic economy. The system collapsed in 1973 and represented the last time that governments attempted to create and maintain an international monetary system based on some form of fixed exchange rates.

Calvo Doctrine Named after the Argentinean legal scholar Carlos Calvo, who first stated it in 1868, this doctrine argues that no government has the right to intervene in another country to enforce the private claims of that government's citizens. The doctrine was invoked by Latin American governments during the late nineteenth and early twentieth century to challenge the right of governments to use diplomatic pressure and military force to protect foreign investments made by their citizens.

Capital Account One of the two principal components of the balance of payments, it records all financial flows into and out of a particular country. Such financial flows include bank loans, equities (stocks and bonds), and foreign direct investment.

Central-Bank Independence The degree to which a country's central bank can set monetary policy free from interference by the government. Typically considered to be a function of three things: the degree to which