

ECONOMIC THEORY, APPLICATIONS AND ISSUES

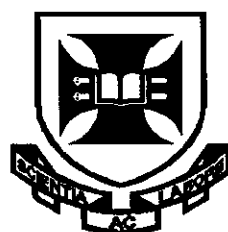
Working Paper No. 14

**The WTO, Labour and Environmental
Standards: Globalisation with Reference to
India**

by

Clem Tisdell

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† Professor of Economics, The University of Queensland, Brisbane 4072 Australia.
Email: c.tisdell@economics.uq.edu.au

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For more information write to Professor Clem Tisdell, School of Economics, University of Queensland, Brisbane 4072, Australia or email c.tisdell@economics.uq.edu.au

The WTO, Labour and Environmental Standards: Globalisation with Reference to India

Abstract

Considers and examines the contrasting attitudes of developing and higher income countries, as well as the WTO, to the proposition that the failure of a country to meet core labour or social standards should constitute allowable grounds for international trade discrimination against it. Similarly, the parallel proposition for failure of a country to satisfy globally 'acceptable' environmental standards is examined. It is emphasized that social standards are much wider than social norms. Furthermore, international fiscal competition, easily fostered by globalisation, can result in a lowering of social standards in all countries and a global economic welfare loss.

Reductions of environmental standards by competing nations can have a similar adverse consequences. Although, as demonstrated analytically, a case exists for lower standards in developing countries than in higher income countries, this does not mean that developing countries should have no standards. It is argued that the development of global governance has failed to keep pace with growing international economic and environmental interdependence. This should be a matter for widespread concern.

THE WTO, LABOUR AND ENVIRONMENTAL STANDARDS: GLOBALISATION WITH REFERENCE TO INDIA

1. Introduction

While processes favouring economic globalisation have been evolving for centuries (cf. Held et al., 1999, Ch.3), they accelerated in the last few decades of the 20th century. This acceleration was the result of several forces:

- (1) Continuing improvements in communication and transport systems significantly reduced physical barriers or transaction costs involved in trade.
- (2) Many countries, such as India, turned from supporting inward-looking economic policies involving protectionism to more open policies favouring free markets and international trade.
- (3) Developing countries, in particular, were put under increasing pressure by the IMF, and the World Bank and similar international organizations, to adopt structural adjustment policies involving a small government sector and maximum use of free markets, including greater freedom of international trade.
- (4) GATT and subsequently WTO began to exert increasing pressure on its members to adopt less restrictive trade policies following the Uruguay Round.

In addition to all these factors, the world, commencing in the 1970s, became increasingly aware of global environmental problems resulting from growing economic activity, such as the build up of greenhouse gases, for example CO₂. There was also greater awareness and sensitivity to biodiversity loss and growing concern that economic growth or development might prove to be unsustainable. In fact, Nehru was one of the first national leaders to express concern that the development of less developed nations might prove to be unsustainable. At the United Nations Stockholm Conference of 1972, he called on the developed countries to

adopt policies designed not just to promote temporary economic growth in developing countries but to support their sustainable development.

While Nehru is not noted as an environmental conservationist, and although his policies in India seemed to be designed to be pro-growth with little consideration of the environment, his views expressed in Stockholm eventually led to the formation of the World Commission on Environment and Development (WCED) and its 1987 report. WCED searched for policies designed to ensure sustainable development on a worldwide scale. It was especially interested to discover policies that would enable economic development to be combined with environmental conservation because it was of the view that sustainable development could not be achieved without an appropriate degree of environmental conservation. However, WCED (1987), and the subsequent 1992 United Nations Rio de Janeiro Conference on Sustainable Development, failed to resolve controversy about the appropriate way to reconcile economic policies with economic growth and environmental conservation. Possible conflict between these goals remains a contentious economic issue as, for example, underlined by the protests and demonstrations at the WTO Millennium Meeting in Seattle towards the end of 1999.

At this WTO meeting also labour issues were a major bone of contention. Many protesters wanted the WTO to take an active role in protecting labour and environmental standards. In this regard, there appears to have been support from the 'central' more developed countries, that is the industrialised countries as represented by the G-8 Governments. The main opposition came from developing countries of which India was probably the most vocal. Also Australia, a second-tier relatively high-income country but one not belonging to a significant regional free-trade association, remained strenuously opposed to the WTO's becoming

involved in enforcing labour and environmental norms. Presumably, all governments were looking to their own political interests, if not their own national self-interest.

In this paper, particular attention will be given to assessing the role of labour standards in relation to globalisation, and the importance of taking a wider view that takes account of social service standards and international fiscal competition. Similarly, attention will be given to environmental standards. The role and position of the WTO in relation to these matters will be given particular attention. The political position of India will be highlighted and possible implications for West Bengal will be touched on. Consider each of these matters in turn.

2. International Labour Standards

Concern about international labour standards and trade is by no means new. As early as 1919, the International Labour Organization (ILO) accepted the view that trade should not be based on exploitation of labour. Several ILO Conventions have been developed that have implications for international trade. But not all ILO Conventions are adopted by all countries, and some countries have ratified none. However, a group of ILO Conventions are regarded as constituting core international labour standards. These include freedom of association of workers e.g. the right of workers to join trade unions, their right to bargain collectively, non-discrimination in employment, for example on the basis of race or social origin, and the prohibition of forced labour. However, according to Mah (1998) “there is no ILO Convention that directly addresses the issue of child labour exploitation as such”.

While ILO Conventions bind countries that adopt them, mechanisms for enforcing compliance do not seem to be very strong. The ILO, in practice, does not impose sanctions on countries that do not comply with its conventions but relies mainly on social pressures, in

some cases reinforced by the option of a Commission of Inquiry, to encourage compliance (Mah, 1998).

Scherrer (1996, p.9) observes that the ILO's "method of setting voluntary conventions is increasingly considered to be inadequate, as the ILO is finding it ever more difficult to enforce conventions. Furthermore, the process of adopting and implementing ILO conventions has slowed down significantly in the last decade. The International Confederation of Free Trade Unions has therefore demanded that workers' fundamental rights be written into trade agreements as social clauses". The social clauses in question are the core labour standards mentioned above plus the prohibition of child labour.

However, ILO's administration has resisted attempts to involve it in supporting international trade sanctions as a means to enforce core labour standards or social clauses. For example, the Director-General of ILO in 1996 said "The ILO's role is not to put right distortions in international competition that may arise from different levels of social protection that countries offer their workers. This problem, if such it is, is more the domain of the WTO" (Hansenne, 1996). On the other hand, the WTO washes its hands of such involvement. At the 1997, WTO Singapore meeting, the Trade Ministers declared that the ILO is the competent body to deal with such standards. WTO has made it clear that it does not want to become involved in trade sanctions to enforce the full range of core labour standards. Nevertheless, GATT does permit trade protection measures against products produced by forced labour.

Most developing countries have expressed opposition to moves by the more industrialised countries such as members of the G-8, especially the USA, to allow trade sanctions to be imposed on countries not adopting core labour standards. India has been particularly vocal in

it opposition. For example, India was represented at the Seattle WTO meeting in 1999 by its Commerce Minister, Murosoi Maron. Dash (1999, p.1) reported in the *Times of India* that at this meeting “India was unimpressed, and convinced that the attempt to bring labour and environmental concerns into the trade debate was a protectionist objective to deny market access to products from developing countries”. India was said to be firmly opposed to linking trade and non-trade issues, and Maron was quoted by Dash (1999, p.1) as saying, “We will not accept anything which dilutes our cost advantage in international trade”. However, it is pertinent to note that what is and what is not a trade issue is not straightforward.

The South Asian position in relation to the Millennium Round of the WTO (Seattle Meeting) seems to be summarised by SAARC. It states: “There is a move to further overload the WTO agenda with ‘new issues’ such as social clauses, environment, governance, labour standards etc. Since these are not trade related, they should be kept out of the multilateral trading system. There is a need to deepen and broaden concessions already provided under the Special Differential (SAD) clauses in favour of developing and least-developed countries” (SAARC, 2001, p.2). Furthermore, ASEAN (Association of South East Asian Nations) members have been firmly opposed to proposals to link social clauses with allowable trade sanctions (Mah, 1998).

According to Scherrer (1998, p.11) “The debate about international social standards revolves primarily around the introduction and raising of standards in developing countries Opponents of social standards argue that better living and working conditions cannot be legislated but would be the natural outcome of industrialisation. Economic development would be best promoted by ensuring that the trading system was as free as possible”.

While some proponents of increased labour standards in developing countries believe that these may raise living standards, most opponents in developing countries see such standards as a way to help protect the jobs and incomes of unskilled or low-skilled workers in more developed countries. Theoretical argument in such cases often revolves around the application of the Samuelson-Stolper theorem (cf. Svizzero and Tisdell, 2001). Since unskilled and low-skilled labour is in relatively abundant supply in less developed countries but in short supply in high-income countries, it is theoretically possible that working conditions of this group of labourers in higher income countries will be undermined by globalisation, at least initially, even if not permanently. This aspect involves international conflict about the distribution of income.

It is also sometimes suggested that lack of core labour standards in developing countries results in unfair international trade. Supporters of this view argue that the absence of such standards acts as an implicit subsidy to exporters in developing countries. Given higher labour standards in most higher income countries, second-best efficiency arguments suggest that lower standards in less developed countries might add to global economic inefficiency. It would, however, be incumbent on supporters of the point of view to show that the efficiency loss is significant. Yet economic efficiency is not an absolute value above all other values. Such factors as social justice in the distribution of income and economic opportunity must also be taken into account in policy-making.

3. Social Standards, Entitlements and Fiscal Competition

Amartya Sen (1981a) has emphasized the importance of entitlements in determining the economic well-being individuals. While working conditions constitute a part of social entitlements, in most cases they are only a part of the entitlements of working people and the

disadvantaged. As noted by Sen (1981b) social entitlements also include access to social services or welfare assistance provided by or arranged by the state e.g. aged pensions, unemployment benefits, state-provided or financed educational services and health care. While the provision of state support for individuals is generally much less in lower income countries than in high income countries, even in less developed countries the role of the state in providing educational and health services can be very significant in influencing the effective distribution of income and the pattern of economic opportunity.

Following World War II, several Western countries, for example Sweden, the UK and West Germany, developed Welfare States. But in recent times both the ideal of a Welfare State and policies to support it have been eroded. This erosion is not confined to more developed countries. Even in China, individuals are increasingly required to pay for education and for health care.

This erosion can be attributed to a number of factors. As argued by Gray (1998) and as considered further later, economic globalisation tends to undermine the Welfare State. Nevertheless, authors such as Hirst and Thompson (1999, p.190) suggest that higher income countries have considerable scope still for providing welfare services despite growing globalisation. In part, the erosion of the Welfare State may reflect changing social values in high-income countries. Possibly both factors have an influence. Secondly, the world seems to have gone through, or could still be in, a phase where economic efficiency is regarded by most of its leaders as mighty above all other things, including distributional justice. Associated with this, has been the emphasis of international institutions, such as the IMF and the World Bank, on the desirability of structural adjustment policies emphasizing as ideals small government, minimal government intervention in economies, free markets and

international trade. Thus there have been pressures to return to *laissez-faire* policies that were treated with a degree of scepticism in the 1950s and 1960s and into the early 1970s. How much further the world will proceed down the path of *laissez-faire* remains to be seen.

From the above, it can be seen that labour standards only constitute a part of potentially desirable social norms. A wider view of social conditions affecting labour must be taken that includes not only labour conditions but also social entitlements provided for by the intervention of the state and also by individuals or groups of individuals as a result of social custom. Indeed, this wider view was a basis for the formation of the British Labour Party and the Australian Labor Party. Therefore, it is stressed that ILO core labour standards, sometimes referred to as social clauses or even social standards, for example, by Scherrer (1996, p.11), are in fact, incomplete indicators of social standards.

Because of their overall economic condition, low income countries are unable to maintain as high a level of state-initiated welfare and social support as higher income countries and usually are unable to meet the same labour standards as in high income countries. There seems little alternative but to adjust 'acceptable' labour and social standards to the stage of economic development and the economic situation of individual nations.

While Scherrer (1996, p.11) suggests that many in higher income countries want social standards to be raised in lower income countries to prevent what they see as unfair international competition from such countries, the main problem in this regard may arise from differences in standards of countries at a similar stage of economic development. While international competition does exist to some extent between developed and less developed countries, the intensity of economic competition is likely to be greatest between countries

with similar factor proportions and at a similar stage of development. Thus one might expect greater intensity of economic competition between less developed countries than between less developed countries and higher income nations. A similar situation may exist for high income countries. In these circumstances, differences in social standards between less developed and higher income countries may be secondary importance in their influence on international competition and the pattern of international trade and investment, as far as these two groups of nations are concerned. Of much greater significance are differences in social standards within each of these groups. A nation with lower social standards within its group may obtain an international competitive economic advantage, at least in the short run.

However, the competitive advantage is at the expense of near competing countries and they may retaliate also by lowering social standards. As a result, all countries in the group may become worse off. Fiscal competitiveness provides an example.

A country may attract foreign direct investment by reducing taxes on income from such investment and relaxing fiscal obligations on employers, as Ireland has done. Provided competing countries do not do likewise, the nation initiating such fiscal competitiveness may gain. However, if competing nations, or many of them, follow suit, all may suffer a reduction in welfare.

As a result of counter responses of all nations in the competing group, government receipts are likely to fall with subsequent reduction in welfare support and lowered provision of education, and health care and so on by governments. This is assuming that long-term budget deficits are ruled out, as is so in the European Union. Consequently all nations in the

competing group may be made worse off by fiscal competition. The same applies, in many cases, to deliberate reduction of social standards in order to attract globally mobile capital.

Competition of the above nature can generate a prisoners' dilemma-type problem. This can be illustrated by the game theory matrix shown as Table 1. There player 1 is a country contemplating the adoption of a competitive strategy involving fiscal competition or lowering of employer obligations. Player 2 represents all competing countries. Furthermore, α_1 represents a strategy in which country 1 maintains its fiscal requirements whereas α_2 represents a situation in which these requirements are lowered. Similarly, β_1 represents a situation in which competing nations maintain their fiscal requirements and β_2 a situation in which they lower these requirements. The numbers in the matrix represent the corresponding levels of economic welfare achieved within the nations concerned. They need not be cardinal values.

Table 1 A Case in which International Fiscal Competition Lowers the Welfare of All Competing Nations

		Strategies of Player 2 (Competing Nations)	
		β_1	β_2
Strategies of Players 1 (Nation 1)	α_1	(2, 3)	(0, 5)
	α_2	(4, 1)	(1, 2)

Suppose that the game shown in Table 1 is replicated and initially strategies (α_1, β_1) are adopted. The outcome is Pareto optimal. Suppose, however, that nation 1 decides to engage in international fiscal competition and adopts strategy α_2 . If the other competing nations maintain previous standards, nation 1 is better off but its competitors are worse off. If

however, competitors react by also lowering fiscal requirements, the payoffs corresponding to (α_2, β_2) prevail. All the nations involved are now worse off than if they had not engaged in fiscal competition. Furthermore, the combination of strategies (α_2, β_2) results in a Nash equilibrium. This stable equilibrium will persist in the absence of collective action to break the cycle involved.

Clearly in a globalising world, fiscal competition between nations can undermine national policies designed to provide collective or national benefits. The matters involved are beyond the mandate of the WTO. In fact, there are no global institutions to govern such matters. In fact, global economic interdependence has proceeded in such cases well beyond the development of global institutions for its governance.

The type of situation illustrated in Table 1 is likely to be associated with increasing inequality of entitlements in society. The entitlements of the disadvantaged and their offspring are likely to be reduced whereas those of the better off may actually increase. Furthermore, the unskilled and disadvantaged may as suggested by Rodrik (1999) have an increasing tax burden, assuming that they have little outward mobility from higher income countries. International fiscal competitiveness is liable to result in reduced taxes on internationally mobile resources and relatively higher taxes on less mobile resources.

4. The Environment, Globalisation and the WTO

Globalisation and the environment are interconnected in several ways. As economic globalisation has proceeded, global gross product has risen, and vice versa. Possibly mutual causation or circular causation occurs. Expanding global production has now resulted in globally significant changes to the state of the natural environment and threatens the

sustainability of economic growth and development. Emissions of greenhouse gases associated with increased burning of fossil fuels provides an example. Biodiversity loss, particularly in cultivars and domesticated animals, may also imperil global economic development. No workable global solution to these problems has been agreed to so far. Furthermore, transformation of natural resources or environmental capital into man-made capital and other commodities continues at a rapid rate. In many cases, renewable resources, such as some capture fisheries are being exploited beyond their sustainable levels, and possibly non-renewable resources are being depleted at an excessive rate. In addition, the balance between natural environmental capital and man-made capital may become lopsided with the ratio of the former to the latter becoming too low to sustain economic production.

Apart from the fact that actual impacts of economic activity on the environment have become globally more important, international perceptions of environmental damage have been made more vivid and accessible as a result of globalisation of communications and of the media. Westerners, therefore, may, in particular, become more sensitive to environmental conditions not only in their own countries but also elsewhere.

For many, however, economic growth is seen as the key to eventual environmental improvement. They argue that the Environmental Kuznets Curve (EKC) demonstrates that with sufficient growth of economic output and income, pollution intensity (pollution levels in relation to GDP) eventually falls, and point out that such intensities tend to be lower in higher income countries, such as most OECD countries, than in lower income countries, such as India and China. According to EKC-analysis, pollution intensity as a function of a country's GDP per capita tends to conform to an inverted U-relationship. This means that if a less

developed country experiences maintained economic growth, at first its pollution intensity rises but once higher incomes are achieved, this intensity begins to fall.

However, as pointed out in Tisdell (2001), the situation is not as simple as EKC-analysis might suggest. Even if EKC is of a reversed-U shape, economic growth could still cause total pollution levels to rise to thresholds that trigger catastrophic global environmental change, such as may occur as a result of the accumulation of greenhouse gases. Secondly, even though the pollution intensity in a country may fall, its total level of pollution emissions can continue to rise. For example, although total emission of the United States of CO₂ per unit of its GDP falls, its total level of emissions of CO₂ have continued to rise.

Furthermore, trends in the emission of different types of emissions are likely to differ. There appears to be a tendency once incomes in a country rise sufficiently to control first pollutants that have significant local impact, such as emissions of particulate matter. Then follows control of those pollutants less evident locally but having significant adverse consequences within national borders, such as in some cases emissions fostering acid rains or water pollution. Those pollutants that largely affect other countries or add generally to global pollution seem to be the last to be controlled, if they are controlled at all, because their effects are largely external to each nation creating the pollution.

The world is still searching for effective and acceptable policy mechanisms to control global environmental pollution. Once again, in this respect, economic systems have expanded globally beyond the present capacity of the world community to govern these. Given the conflicting interests of nations, it is for example proving difficult to develop effective global regulation of greenhouse gas emissions.

As in the case of labour standards, the WTO is, on the whole, opposed to the use of trade sanctions as a means to enforce environmental standards. The reasons are probably complex (cf. Stewart, 1998). In many cases, it may fear that such sanctions could be based on weak grounds and be used mainly as a back door means to trade protection. Secondly, it feels that is more appropriate that these matters be the subject of separate international agreements and conventions. However, the possibility of trade sanctions may be necessary to enforce some multilateral environmental agreements as stressed by Brack (1989, p.296). Possibly it takes this view because it feels that if its mission is widened to include broad environmental conditions, its mission will become too wide in relation to its capacities for it to function effectively in its determinations. Yet phytosanitary requirements can be a basis for allowable trade restrictions under the rules of the WTO. Basically this means that the environmental effects of production of a commodity in an exporting country cannot be used as a reason to restrict its international trade unless there is something inherent in the commodity that threatens health, safety or the environment in the importing country, and this can be substantiated on the basis of scientific evidence. Furthermore, the decision to exclude the commodity must be based on appropriate assessment of "The risks for human animal or plant life or health". This allows use to be made of the precautionary principle (Charnovitz, 1999).

Nevertheless, several higher income countries such as EU nations, Japan and the United States have been pressing for international environmental norms. It is believed that countries imposing low environmental standards in relation to economic production are providing a hidden subsidy to producers and this results in unfair international trade competition and unfair international competition for foreign direct investment. On the other hand, less developed countries, of which India is one of the more vocal, see this as a strategy of higher

income countries to discriminate against less developed countries in international competition. The situation is, however, complex.

It is possible for competitive reduction in environmental standards to give rise to a situation similar to that illustrated above in the case of fiscal competitiveness. A prisoner-dilemma type problem may arise that results in a Paretian inferior Nash equilibrium for all nations, or for groups of nations in close competition with one another. The argument is similar to that given above, and it applies even if the environmental spillovers are purely confined to the nation lowering environmental standards.

On the other hand, it is questionable whether environmental norms in developing countries should be as high as in more developed countries. Somewhat lower norms or standards in developing countries seem defensible from an economic viewpoint. This, however, does not mean that no environmental standards should apply in developing countries. This can be elucidated by considering a suggestion of the International Institute for Sustainable Development (IISD).

IISD suggests that the polluter-pays principle should be applied by all countries so as to internalise all environmental externalities. To do this would make the environmental hidden subsidy explicit in the case of marketed commodities. It would help promote sustainable development and create a relatively level playing field as far as the environment and international competition are concerned. However, such policies are more easily proposed than implemented. This is partly because environmental externalities are difficult to measure in monetary terms and considerable government agency costs may be incurred in forcing polluters to pay.

If, however, these matters are put to one side, the economic costs of the same environmental spillover in a developing country may be rated as lower than in a higher income country. Thus it can be economically rational for less developed countries to tolerate a higher level of pollution than high income countries. Consequently, the same standards should not apply in both cases.

This can be illustrated by Figure 1. In Figure 1, x represents the level of pollution from an economic activity. Assume that the marginal economic benefits to polluters from this activity are indicated by line $FACG$ whether it is carried out in a higher income country or a less developed one. The marginal external costs in a higher income country from these emissions might be as shown by line OAB and in a less developed country, be as shown by OCD . If a polluter-pays approach is adopted, the appropriate tax per unit of emission in the high-income country is t_2 and in the low-income country t_1 . Assuming that environmental spillovers are intra-national, a lower environmental standard and higher level of emissions in a less developed country is economically rational. However, in this case, it would not be rational for the less developed country not to moderate its pollution emission. If it were to do this, x_3 units of the pollutant would be emitted and the less developed country would suffer a deadweight social loss. Furthermore if high-income countries were charging a per unit tax of t_2 on emissions, they would have grounds to claim that the less developed country is engaging in 'unfair' competition.

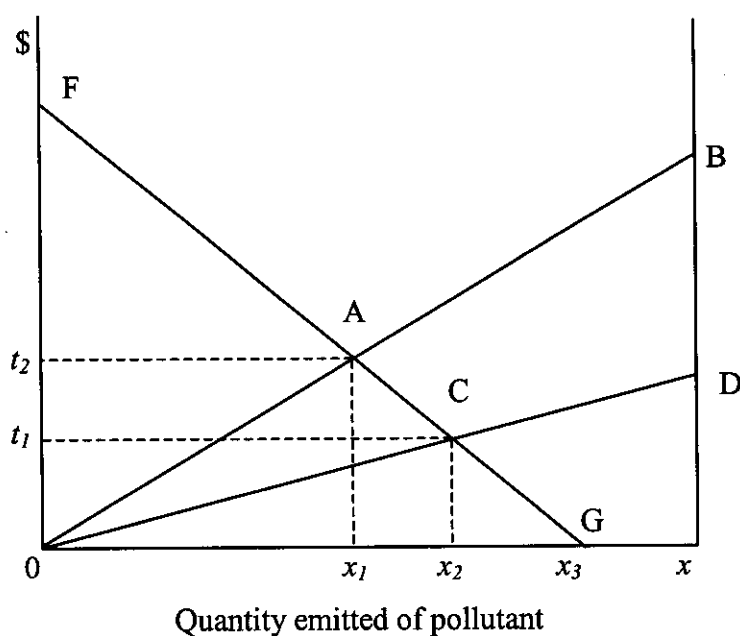


Figure 1 The economically optimal level of charges for the same amount of pollution in a developing country is likely to be lower than in a more developed country given Pigou's welfare framework.

Observe that sometimes countries not only fail to tax economic activities giving rise to unfavourable externalities but actually subsidise these. An example is the large subsidy and degree of protection for the sugar industry in the United States. This is reducing the size of the Everglades in Florida and has unfavourable consequences for nature conservation in the United States. The protection of the sugar industry in the US restricts sugar exports of other countries to the US including some countries with significantly lower levels of income than the US, for example, Brazil.

The model illustrated by Figure 1 assumes the environmental spillover caused by an economic activity in a country does not extend in its economic impact beyond the borders of the country concerned. If it extends beyond national borders, this complicates the welfare

economics of its control. Environmental impacts extending beyond national borders may be of two types:

- (a) Purely psychological or subjective. For example, concern of Westerners because of destruction of marine turtles in the developing world.
- (b) Objective or real, as in the case of acid rains having their source in China and falling in Japan. Other examples include reduced water quality and quantity in transboundary river systems due to changed activity in their headwaters in neighbouring countries e.g. in the Brahmaputra River or the Mekong as a result of altered use of their headwaters in China. In principle also greenhouse gas emission belong to the real or objective category.

In what manner one should deal with subjective externalities is probably contentious. They arise out of empathy. Nevertheless if we were to follow the logic of Robbins (1937), they would count in the global welfare calculus.

The presence of transnational environmental spillovers complicates the control of externalities, especially if the polluter pays principle is adopted. If this principle is adopted, not only should the polluter pay for the environmental spillovers imposed upon those in the country where the polluter is located but also for unfavourable externalities generated in other countries. The situation can be illustrated by Figure 2.

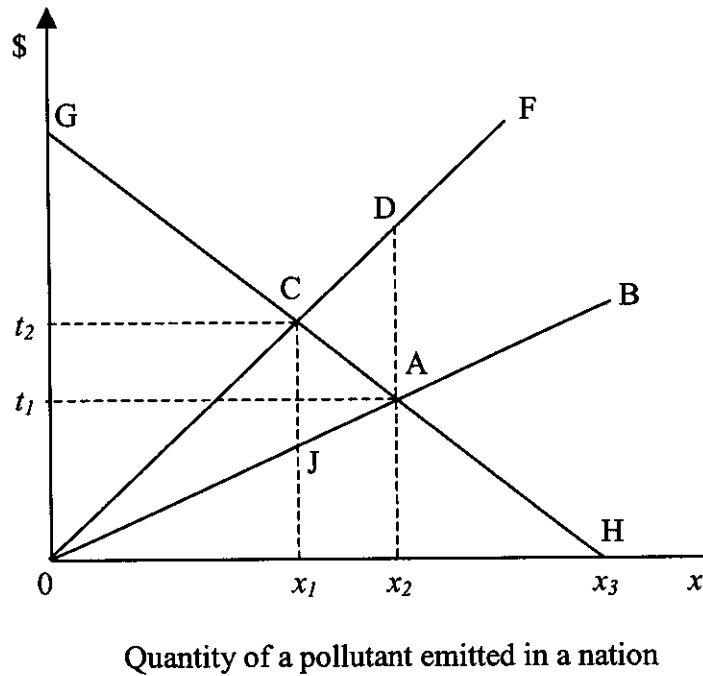


Figure 2 Transnational environmental spillovers complicate their control politically.

In Figure 2, x represents the quantity of emission of a pollutant by a nation. Line GCH represents the marginal benefits to polluters (within the nation) of being able to pollute and line OAC the marginal environmental externality costs generated within the nation. Line OCF indicates total marginal spillover costs (those imposed on the nation as well as other nations), and the difference between line OAB and OCF represents the marginal spillover costs imposed on other nations.

In the absence of any control of its pollution, the polluting nation illustrated emits x_3 of pollutants per period of time. It suffers a deadweight source loss due to the impact of the pollutant on its own population, and the global deadweight loss is even larger. On the other hand, if the polluting nation imposes a tax of t_1 on each unit emitted of the pollutant, it will eliminate its national deadweight loss. From a national point of view, its situation will be optimal on the basis of the Kaldor-Hicks criterion. However, given the international

spillovers, a global deadweight loss equivalent to the area of triangle CDA will occur. A tax of t_2 per unit of emissions would be needed to bring about a global Kaldor-Hicks optimum. But if such a tax is imposed by the polluting country, it experiences a reduction in its 'real' income equivalent to the area of triangle CJA.

In such cases, where the polluting nation is a poor nation and the beneficiaries of additional control of its spillovers are richer nations, the poor nation may argue that the richer nations should compensate it for extra control of its pollutants. Thus it may wish to reject the polluter-pays principle on income distributional grounds. Bargaining is inevitably involved and this can result in political stalemate. Once again current global mechanisms of governance are likely to prove inadequate to rectify transboundary environmental spillovers in a socially optimal way. This provides another example of the expansion of global interdependence beyond the limits of mechanisms for its adequate global governance.

5. India's Position in Relation to Globalisation and the WTO, and West Bengal's Situation within this Context

In recent years, India has consistently and strongly opposed attempts that would permit trade restrictions to be imposed on international exchange with nations not maintaining 'acceptable' labour norms and environmental standards. In this respect, India has the support of most developing countries. For example, the *Telegraph India* reporting on the demonstration at the WTO meeting in Seattle in 1999 stated: "Several trade minister, particularly those from developing countries, felt that demonstration was stage managed by Clinton to press his demand to include labour standards and environmental protection in the WTO agenda. Developing countries have been opposing this, fearing this would legitimise protection" (*Telegraph India*, 1 December 1999, p.1).

India is concerned that it will be economically disadvantaged by any restriction on trade designed to enforce labour and environmental standards. It fears that not all the standards likely to be proposed will be appropriate to its stage of economic development. India, and many other developing countries, point out that today's higher income countries had low or non-existent standards of this type during their early stages of economic development. They therefore, suggest that to impose labour environmental standards on developing countries would not be just given their early stage of development. It would imply unequal treatment of nations in a similar situation.

It is feared that such measures may retard the economic growth of less developed nations. It is argued that the imposition of such standards is likely to be counterproductive since rising environmental and labour standards are a by-product of economic growth and economic development. Economic growth according to this view provides the best prospect for raising labour and environmental standards.

In addition, there is the fear that more developed countries may indiscriminately impose trade protection based on supposed failure of a developing country to maintain "acceptable" environmental and labour norms. Thus attempts to introduce these considerations into WTO rules are seen as a Trojan horse: a presentation seen as harbouring ulterior motives.

Nevertheless, there are also counter arguments to consider. It can be claimed that the situation of today's developing nations differs from that of higher income countries in their earliest stages of development. This is because the world is now much more interdependent than in those earlier times both from an economic and environmental point of view, and depletion of the world's natural resource/environmental stock is now much more advanced. Past practices

may, therefore, be irrational given the current global situation. Moreover, it is possible that the past actions of today's higher income countries were not socially optimal in their time, both from a national and global viewpoints. Therefore, although the opposition of developing countries to environmental norms may have a sound political basis, absolute opposition to all such standards may not have a rational basis.

Nevertheless, very high standards are likely to be socially inappropriate for developing countries, including their regional areas, such as West Bengal. In Calcutta, for example, particulate air-borne matter is well in excess of health standards set by the World Health Organisation. Possibly they are even beyond locally optimal levels given the less developed situation of West Bengal. There may, therefore, be a case for tightening controls on emissions even if it is unrealistic for Calcutta to try to meet WHO standards for air quality in the near future.

Again there is considerable use of child labour in India, including West Bengal, and in some neighbouring countries, for example, Bangladesh. While there is no ILO convention that specifically bans child labour, the EU has attempted to make use of child labour a violation of labour norms and thereby a basis for trade discrimination against industries in countries using such labour. But such measures are unlikely to assist families in poverty forced to employ their children as child labour to make ends meet. Any measures of this nature could be detrimental to West Bengal. At the same time, however, governments need to take measures to stamp out patent abuse of child labourers.

In practice, there may be little competition between products produced with child labour in developing countries and products produced in higher income countries. Hence, strong

feelings about use of child labour expressed in higher income countries may be for the most part emotionally based.

6. Concluding Observations and Comments

The world is divided on the desirability, or otherwise, of whether the WTO should make greater allowances for environmental and labour norms in its trade policies. A large group of higher income nations have suggested that international trade discrimination should be permitted in relation to the exports of countries that fail to achieve 'appropriate' environmental norms. In general, this proposal has been opposed by less developed countries. India has been in the forefront of the opposition.

Using internet sites and other data sources, I have constructed Table 2 which summarises the position of the major world's pressure groups as at the end of the 20th century about whether environmental and labour norms should be taken into account in trade policy. From this it can be seen that the major industrialised countries want environmental and labour norms to count but not developing countries. The position of the United States is somewhat ambivalent but basically favoured norms, as can be seen from Table 2. As part of the G-8, it supported norms. But in conjunction with the Cairns group of exporting countries (such as Australian and Brazil) mainly exporting primary products, it did not favour such norms. Indeed, some critics of the US believe that it is selective in its attitude to trade protection depending on what is most workable politically within the United States itself. Hence, the position of the United States is considered by some critics to be hypocritical. Table 2 also indicates whether the groups considered favour economic concessions for less developed countries.

Table 2
*Summary of Views of Pressure Groups about whether WTO Should make Greater Allowance
for Environmental Norms, Labour Norms and LDCs in its Policies*

Group	Environment Norms	Labour Norms	Concessions for LDCs
Labour bodies			
ICFTU (International Federation of Free Trade Unions)	✓	✓	✓
AFL-CIO (USA)	✓	✓	✗ (?)
Business organizations			
Business Council of Australia	✗	✗	?(✗)
Federation of German Industries	✓	(?)✗	(?)✗
Farmers groups			
Non-Cairns minus USA	✓	(?)✗	?
Cairns plus USA	✗	✗	✗
Environmentalists			
Most	✓	✓(?)	✓
LDCs			
India	✗	✗	✓
Industrialised countries			
G-8 Governments	✓	✓	?

Note: This table is purely indicative and cannot capture fully differences in views and their complexities.

Source: Tisdell (2000, p.18)

Although India and most developing countries oppose the possibility of WTO rules being altered to allow trade discrimination to enforce labour and environmental standards, most industrialised countries favour this possibility. Nevertheless, not all higher income countries support the latter position. Australia and other members of the Cairns groups oppose it.

This paper indicates, however, that while these positions may be appropriate political stances for the nations concerned, failure to maintain some environmental and social standards can

reduce global welfare. This is not to say that the same standards are appropriate for developing and higher income countries. Far from it. It is also debatable whether the WTO would have the capacity to deal effectively with such issues, even though their significance is apparent from this article. In fact, the world seems to face a very serious problem: its mechanisms for global governance of environmental and social standards are not adequate to take account of the degree of global interdependence that has evolved. In other words, global environmental and economic interdependence has outpaced global government, and no easy solution appears to be in sight.

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