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Arguments for an Inclusive World Trade Order

Christoph Scherrer

If 'free trade' is presented, in reference to Ricardo, as a 'win-win situation', then the current confrontation between the governments of the People's Republic of China and the United States of America (USA), and the broad rejection of recent large-scale free trade initiatives such as the Trans-Pacific Partnership (TPP), is certainly surprising. However, if globalisation processes are interpreted as a 'win-loss situation', even though the 'loss' may only be relative compared to the greater gains of the other, then both phenomena are hardly surprising.

The deepening and spreading of the division of labour through the free cross-border movement of goods, services, capital and labour brings many advantages. As we have known since Adam Smith, material wealth is created by efficiency gains of specialisation. Since Friedrich List, it has been known that there are winners and losers not only in the process of adapting to the respective levels of liberalisation (Ricardo), but also in the long term.

Specialisation leads to different growth dynamics. Those who are lucky enough to specialise in key technologies with spill-over effects for example, cloth) will grow more rapidly economically through cluster formation than those whose specialisation has no positive effects on other sectors of the economy (such as wine –Ricardo’s examples). Some specialisations (such as nautical instruments) also have military technology implications that may foster power asymmetries between nations, which in turn have economic effects. Today's international division of labour still shows considerable traces of the degradation of large parts of the world into suppliers of raw materials and low-tech labour-intensive low-value-added products, which was forcibly imposed during European colonialism.

A world economic order in favour of the strong

The current world economic order is characterized by the predominance of the interests of economically strong states and corporations. This is noticeable in several ways.

1. The USA and the EU (European Union) are attempting to turn away from the principle of multilateralism by means of bilateral 'free trade' agreements, to further the interests of the corporations based in their countries. They are better able to assert their economic size vis-à-vis individual countries than vis-à-vis country alliances within the multilateral World Trade Organisation (WTO). Their demands include above all the extension of intellectual property protection, investment protection, opening public procurement to foreign suppliers and restricting state-owned enterprises.

2. Where the USA and the EU were able to assert themselves in trade policy terms, the possibilities for catching up on economic development were narrowly limited. Among the losers are countries which, under pressure from the IMF imposed structural adjustment programmes, have opened their markets to foreign competition. Without protection from foreign competition or the possibility of state subsidies, these countries face severe obstacles to developing more sophisticated industries.

3. The losers from integration in the world economy, be they states or groups within states, receive little compensation. Development aid, which often also benefits the donor country's companies, is insufficient in relation to the continuing disadvantages in world trade.

4. The negative external effects of today's trade regime on human life are becoming increasingly tangible. Trade contributes to climate change, accelerates the spread of viruses, increases pressure on local environmental resources and often leads to the over-exploitation of human labour. The central coordinating mechanism of a market economy, the price, does not reflect the social costs of production and consumption. Market prices do not capture the consumption of 'public' goods and violations of civil and social human rights. It is known that the environmental effects of production (such as water consumption), transport (air pollution) and consumption (electronic waste) are, if at all, only priced in to a small extent. The same is true for social costs. Especially in those sectors of the economy where market entry is very easy or transnational companies dictate prices, the social human rights of workers are violated on a large scale. Furthermore, the infrastructural inputs are usually not reflected in prices. A striking example is the garment industry in Bangladesh. The state there lacks the financial resources to build up infrastructure in the areas of health, education, research, roads and water management. One reason is that the transnational corporations, as buyers, do not pay taxes (Anner und Hossain, 2016).

What should a new world trade order look like?

An inclusive world trade order should be built on the following principles: multilateralism, an economic policy scope for sustainable development, compensation for losers and, above all, internalisation of external effects.

Multilateral rounds of negotiations are indispensable for a fair balance of interests. At the same time, leeway should be left for sustainable economic policies. In view of toda''s economies of scale, smaller states should be supported in economic integration with their neighbours.

Many states that benefit little or not at all from world trade today have been forced by their former colonial powers into a division of labour that is unfavourable to them. Ethically, compensation would be required. Since this is unlikely to happen, at least debt relief and punishing aiding capital flight ('tax havens') should be on the global agenda. Within nation states, welfare state compensation is needed for the losers in the structural change driven by trade policy.

How is the internalisation of external costs to be done?

The expectation that individual states would ensure that the costs to society are reflected in prices has not been fulfilled. The fierce international competition in the lower market segments and the profit expectations of local and international elites stand in the way of this. International agreements without effective sanction mechanisms, such as the climate agreement or the conventions of the International Labour Organisation (ILO), are an incentive to 'free-riding'. However, rules on cross-border trade can contribute to the internalisation of societal costs.

Nobel laureate William Nordhaus has proposed that countries should agree on an international carbon price as a target that could be raised over time. To punish those who do not comply with the agreement, he proposes tariffs on imports from non-participants. He prefers a uniform tariff on all imports from non-participating countries into the countries of the 'Climate Club', as the aim is not to fine-tune tariffs to the production structure of a non-participating country, but to create strong incentives for countries to join the Climate Club (Nordhaus, 2020).

The challenge is different for local environmental impacts. While greenhouse gases heat up the climate all over the world, regardless of their origin, the effects of groundwater pollution, for example, are rather local. Here it makes sense to include the focal companies in the duty of care for their supply chains in accordance with the UN's guiding principles for business and human rights. Positive incentives (such as corporate tax rebates) or negative ones (such as blocking public contracts) are conceivable.

It would also be simpler if the respective governments could demonstrate that they spend a certain proportion of a tax on exports (or on corporate earnings) on public or private investments in environmental protection and provide proof of better water and air quality for industrial regions. These measures should become part of a comprehensive industrial policy for an environmentally and socially more sustainable economic development.

They could, as Nordhaus suggests, be backed up by punitive tariffs for non-compliance. As a first step, the current preferential tariff programmes could be used for this purpose. The current EU 'Everything but Arms' (EBA) and the Generalised System of Preferences Plus (GSP+) programmes are largely granted to the least developed countries. This increases the pressure on other countries, particularly the clothing producing countries, which do not benefit from the same trade preferences. Despite higher productivity, they can only raise their standards and wages at the risk of losing market share because the EU subsidises imports from the low-wage countries. Therefore, these EBA or GPS+ preferences should be made conditional on a commitment to devoting a certain percentage of export earnings to environmental protection and to ensuring annual real wage growth of, for example, 5% in the clothing sector. If the target figures are not met, the trade preference could be reduced by some percentage points in the following year. Wage increases can be ensured by raising the minimum wage or by a legally extended sectoral collective agreement. At the same time, importers could be obliged not to increase their purchases in EBA or GSP+ countries that do not guarantee a predetermined annual real wage growth.

Powerful interests stand in the way of such an inclusive world trade order. But instead of providing these countries with justifications for their behaviour based on an ahistorical, one-sidedly narrow view of humanity, ways should be sought to move closer to the inclusive vision. In the face of the corona pandemic, the internalisation of the costs of comprehensive health care is a priority.

Christoph Scherrer is professor in Globalization and Politics at the University of Kassel, Germany, executive director of the International Centre for Development and Decent Work, and a member of the steering committee of the Global Labour University.

References

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Contact the editor for questions or contributions: Claire.Ceruti@global-labour-university.org

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