

Free Trade in the 21st Century: Managing Viruses, Phobias and Social Agendas

By

Jagdish Bhagwati

**Arthur Lehman Professor of Economics
& Professor of Political Science
Columbia University**

This is the text of the Third Anita and Robert Summers Lecture given at University of Pennsylvania on April 13, 1999.

Let me begin by saying that I feel honored to have been invited to give the Summers Lecture today. The invitation also pleases me, and for both personal and professional reasons. I feel like I have known both Anita and Bob for many years because, while I have often met Anita's celebrated and affable brother Ken Arrow, I have known Bob's brother Paul Samuelson very well indeed. He was one of my greatest teachers and then a most generous colleague at MIT; and he has remained a good friend even as the distance between Cambridge and New York now divides us. And, of course, I have known their son, Larry, over the years: I do not recollect him from my MIT classes but I am confident that he missed nothing since there is little that I could have taught this remarkably gifted young man. My Indian ancestors distinguished between "received" (or innate) and "heard" (or learnt) knowledge: Larry would have been a fine specimen of the former!

But it is not just that Bob & Anita have a magnificent diaspora between their nuclear and their extended families; they are themselves accomplished economists of considerable repute. I am familiar with Anita's important work on educational policy, a critical component of a good society. At the same time, as an economist interested in trade and in developmental questions, I have been influenced by Bob's pathbreaking work with Irving Kravis and Alan Heston that has transformed the way we look at international prices and the manner in which we compute internationally comparable national incomes. Few of us can boast of such an enormous achievement.

And so, I think that no greater tribute could be paid by me to Bob and Anita than to talk today, **within the broader context** of problems faced by free traders as we end this millennium

and enter the next, about the **interface between their two interests**: the pursuit of free trade and the pursuit of social agendas in the broadest sense so as to include the promotion of human rights, better environment, improved working conditions and other elements of what might be called well-being. Unfortunately, the groups that passionately promote such agendas have now allied themselves with others coming from different directions and set themselves against free trade and its institutions such as the WTO, displaying not just skepticism but outright hostility.

Indeed, at a Cambridge Union debate with the leading English environmentalist, the younger brother of the late Sir James Goldsmith who was an impassioned protectionist, I found myself facing an intelligent man who nonetheless believed illogically and without evidence that Free Trade was responsible for damage to the environment, for the sorry state of women and children in society, for ills of all kind that I had lacked the imagination to lay at the door of Free Trade. So, being in England where wit rules supreme, I replied by recalling the 1831 novella of Balzac, The Wild Ass's Skin (in French, La Peau de Chagrin). The central character, Raphael, has a terrible condition: when he desires a beautiful woman, the talisman in shape of the ass's skin that he has been tempted into accepting shrinks and, with it, his life span as well. So, to go to the opera where he cannot avoid seeing lovely women around him, Raphael carries a special "monocle whose microscopic lens, skillfully inserted, destroy[s] the harmony of the loveliest features and [gives] them a hideous aspect". Looking through this monocle, Raphael sees only ugly women and is able to enjoy unscathed the glorious music he loves. Mr. Goldsmith, I added, you seem to have with you a similar monocle except that when you use it and see us wonderful free traders, you find us turned into ugly monsters. Our angel's halo turns into the devil's horns!

It is tempting, of course, to dismiss Goldsmith and the Sierra Club, John Sweeney of AFL-CIO and the unions, and countless other NGOs that regularly agitate against Free Trade

and its institutions, as nuisances to be ignored. Indeed, when I recently debated a militantly anti-trade Ralph Nader at Cornell, with nearly a thousand students assembled, I had earlier addressed the faculty and graduate students at an Economics seminar on the subject of Free Trade at a technical level, and asked: which of you are going to the debate? And I was astonished to find that no one was. Their typical explanation was: why waste your time? But let me assure you that this is no waste of time. If the free traders among us do not figure out how to address and accommodate the pursuit of social agendas, and also how to confront and relieve the fears that create added opposition to Free Trade, in ways that preserve and advance the cause of Free Trade, we will certainly be overwhelmed.

If you do not believe me, just look at the expensive full-page ads that used to appear in The New York Times and The Washington Post, with declamations against Free Trade and denunciations of the GATT as GATTzilla, invoking both horror and the fear that Japan produced at the time.

Or simply recollect the high drama of a hapless President Clinton's defeat on his request to the Congress for renewal of fast-track authority to negotiate new trade-liberalizing agreements nearly two years ago. As always, there were other contributory factors, including failed promises from the days of the NAFTA passage to Congressmen in exchange for their affirmative votes so that, having felt deceived, they did not find new Presidential promises of largesse in exchange for support credible. But surely, a major role was played by groups that sought to advance social agendas by piggybacking them on fast-track and future trade treaties, and also by unions who feared that world competition would undermine their members' incomes.

I must remark that, astonishingly, this huge and impassioned hostility to free trade, afflicting the richest country today and present in some degree also in other rich nations, has

come at the end of a half century of trade liberalization that was accompanied by unprecedented growth and prosperity. Begun by the rich nations, and led by us, this opening to trade was resisted by many of the poor nations. But, in view of the failures of their own autarkic strategies and the success of those that turned outwards, policymakers in many of the poor nations have come to recognize the folly of ignoring trade and have turned to greater openness in trade. A supremely compelling example is President Cardoso of Brazil, the celebrated sociologist known in the years of autarky as the proponent of the dependencia thesis and now the leader of Brazil's turn to integration into the world economy! So, we have what I call an **ironic reversal**: the poor nations have largely abandoned objections to freer trade today while the rich nations have embraced them!¹

The key problem facing us therefore is the rise of this **angst** and **hostility** at our end, in our midst. And the key question for us therefore is: what can we do to confront it and to surmount it? In short, what do these developments at the end of the 20th century tell us about the strategic ways in which we can advance the agenda of free trade in the 21st century, while recognizing and coping creatively with the new factors that seek to place obstacles in its path? In addressing these questions today, I shall therefore not concern myself narrowly with the question of social agendas which is a major issue on the trade scene; I will broaden my analysis to include also some of the other ways in which free trade today is beleaguered.

¹ This is not to say that everyone in the poor nations is pro-free trade today. Some of the civil society groups in the poor countries are also to be found arrayed against "globalization: generally, and sometimes against Free Trade specifically. But the preponderance of influential opinion is certainly changed to a pro-globalization agenda in the poor nations.

Old-fashioned Protectionism

Of course, old-fashioned protectionism has not died; it probably never will. Indeed, if one observes the Washington scene today, and the rise of protectionist sentiment in Congress over steel, for instance, it is evident that we are still witnessing the perennial war of import-competing or special interests with the social or general interest. Of course, one might cynically observe that, in public parlance, others' interests are special and one's own are general! But the fact remains that the general interest is served best by freer trade; and while ignorance and willful disregard of intellectual and empirical argumentation on the subject can produce the Buchanans and the Perots who are unashamedly protectionist, the Congressmen, the Gephardt and the Bonior, who pander to protectionism are usually playing to special interests in their constituencies.

As you well know, our Congress is particularly vulnerable to special interests. As a wit has observed, a Christian Congressman in the United States feels constrained to provide a missionary for breakfast if a cannibal constituent demands it! The executive's role has usually been to countervail these special interests in Congress with a leadership that reflects the general interest. Unfortunately, President Clinton has, for several reasons, failed to provide that leadership.

Free Trade Afflicted by a new Virus: The Folly of "Fair Trade"

Among these reasons, we must reckon with his unfortunate surrender to the protectionist strategy to cast other nations increasingly as "unfair traders" and hence deserving of any trade barriers we might level at them. In a fundamental sense, fairness is a subjective, almost vacuous

concept since anything can be declared unfair if it simply appears to us to be so. Besides, we also know that, generally speaking, it is absurd to deny ourselves the benefits of free trade simply because of what others do or do not do in their trade policy. As my old and grand and radical teacher, Joan Robinson, used to say, and I adapt and paraphrase a little: if others throw rocks into their harbors, it may be fair to throw rocks into ours, but it is damned silly to do so as we hurt ourselves twice over.

In fact, our Section 301 in trade legislation gives the authority, even lays down for the executive the duty in certain ways, to condemn other nations as “unfair traders” simply because they indulge in what we **unilaterally** list as “**unreasonable**” practices, and then to follow this up with threats of tariff retaliation. I have called this “aggressive unilateralism”; and it stands condemned worldwide as an intolerable practice unworthy of a nation of laws.

True, President Clinton inherited the drift to claims of “unfair trade” but he accentuated them greatly. Thus, **President Bush** had largely **refused** to surrender to Japan-baiting, if not Japan-bashing, as Japan rose to be our rival in the world economy and there was talk of the 21st century being Pacific just as the 20th century was American and the 19th had been British. But **President Clinton** came to the White House, **rooting to go for Japan’s jugular**, literally surrounded by Japanophobes who cried “foul” at every opportunity. Japan was regarded by them as the mighty Superman and the evil Lex Luthor rolled into a fearsome juggernaut. Demonized, Japan was accused repeatedly by the administration in President Clinton’s first term of being a wicked trader whose exports were predatory and imports were exclusionary.

President Clinton’s second term only saw an intensification, this time however not with the administration’s active complicity but rather with its weak effort at resistance, of this steady drift to the notion of others’ “unfair trade”, with Mexico now being demonized as an “unfair

trader”. Messrs. Gephardt and Bonior worked the political circuit pretty thoroughly to almost defeat NAFTA by claiming that free trade with Mexico was “unfair” because its labor and its environmental standards were not as good as ours and that even its democracy was not up to snuff. Funnily, of course, the Canadian opponents of the Canada-US Free Trade Agreement, the CUFTA, had earlier raised the same argument against free trade with the US: that our social standards on health insurance and social security were lower than theirs. Remember also that the Europeans, thanks to their welfare state, often go further in their labor and social standards than we do but I do not recall our fair-trade-minded politicians turning our PR machine around to aim at our own trade as being unfair to the Europeans! But then, fairness is defined by all as it suits them; that is the name of the game.

The rot that has set in by now, from the advancing embrace of “fair trade”, is manifest in the administration’s response to the current demands for steel protectionism. Our spokespersons on trade, Ambassador Barshefsky and Commerce Secretary Daly, have endlessly complained in public about our increased trade deficit as a surefire sign that we have become the “importers of last resort” for the world’s steel and that the EU and Japan have failed their responsibility by having inappropriate macroeconomic policies which have impaired their growth and hence their absorption of steel, thus compounding our problem. Thus, EU and Japan are as good, or perhaps I should say as bad, as unfair traders who must be blamed for the outbreak of our steel protectionism and even for the administration’s difficulty in containing it.

This is truly ridiculous. Of course, if the EU and Japan were in fact using protection to contain their imports and thereby diverting imports onto US shores, that would indeed be something we could complain about. But we are instead saying in effect: your macro policies are not good enough and that is what makes you an unfair trader. For anyone who knows how fragile

our understanding of macroeconomics is, and how even the IMF and the US Treasury with some of today's best macroeconomists unwittingly started, and then accentuated, the East Asian financial and economic crash, it must seem a foolhardy, if not a foolish, thing for us to consider macroeconomic failure to be tantamount to unfair trade! And yet that is exactly what the Clinton administration, from the President down to his trade deputies, is busy doing.

And so one must painfully conclude that these days our unfair-trade-obsessed politicians generally divide into two sets: the less disagreeable ones whose slogan is “free **and** fair trade” and the more disagreeable ones who insist on “fair trade **before** free trade”, leaving only the rare few (like the distinguished Senators Moynihan, a Democrat, and Gramm, a Republican) who ask for plain free trade. I only need to recall for you President Clinton's State of the Union address in January, calling for “**a freer and fairer trading system for 21st century America**” !

Indeed, at a recent Trade Summit organized by Senator Bob Kerrey in Omaha, Nebraska, I was struck by the widely-shared sentiment among the speakers that free trade was in crisis in the United States because we were confronted by a world of unfair traders! They urged therefore that only a militant crusade against other nations' unfair trade could save free trade. The plain truth, however, is that the ceaseless refrain of “unfair trade” has itself produced a public perception that free trade by us is both economically unwise and politically naïve. And so has the public support for free trade been seriously undermined.

This is ironic indeed; worse, it is tragic. If we are therefore to save free trade in the 21st century, our statesmen, as distinct from mere politicians, will have to lean painfully to confront and renounce, rather than accommodate and adopt, the rhetoric of fair trade, recognizing it for the deadly virus that it is.

On to Fears, and Social Agendas reflecting Moral Values

But the folly of fair trade, and its corrosive effect on the pursuit of free trade, is not all that free traders in the United States face as they enter the 21st century. If I had to choose from the several flashpoints only the problems of perhaps the greatest significance, as I must in this Lecture, I would take the following two:

- (i) the palpable fear that the unions have that trade with poor countries will produce poor in our midst; and
- (ii) the morally-driven arguments that inform and prompt civil society institutions, not just ours, to set up the pursuit of social agendas as obstacles to the pursuit of trade liberalization.

I will say a little about each of these problem areas, and indeed most about the social agenda problem, arguing optimistically that the first is an unjustified fear, while showing you how economic analysis suggests solutions to the second which enable us to salvage free trade consistently with the pursuit of these other, what sophisticated economists call, “non-economic” objectives.²

The Fear of the Unions: Threat to Real Wages

Our unions have a palpable fear of free trade: they are convinced that trade with the poor countries will produce poor in the rich countries. The experience of the 1980s through mid-1990s, of a decline and then sluggishness in the real wages of workers, has produced this fear. As

² If I had more time, I would add analysis of, and solution to, two other problems of some significance today: (1) the problems raised by the alleged conflict between trade and culture; and (2) the complaint that there is a “Democratic Deficit” in the working of the WTO, with “faceless” bureaucrats running the trade rules, aided by international and national corporate interests.

the Russian proverb says well: fear has **big eyes**. In this instance, it has also had **both ears** of the administration for the reason, not necessarily of conviction, but of the exigencies of politics. For, while (as I shall presently argue) the evidence in support of the fear is far from compelling, and I myself believe that trade with poor countries actually helps **moderate instead of accentuating** the pressure on the real wages of unskilled workers that ongoing technical change imposes, the administration has never boldly espoused these views and taken on the unions in fierce intellectual debate for fear of losing their political support.

In fact, if you think back on the heroic battle for NAFTA that the administration fought, you will recall that the decisive turning point came when Al Gore slew Ross Perot in the celebrated TV debate. Of course, the outcome was astonishing, given Gore's unrivaled ability to simulate rigor mortis, until you realized that Perot was a knave so certain of his victory that he had clearly walked into the debate unrehearsed and armed only with an ego that made one recall Gore Vidal's famous witticism that the sweetest of all emotions is requited self-love! But, when the President went for the fast-track renewal that he did not get, he could not pull off a similar defining moment: for, that would have required putting Al Gore on prime time against John Sweeney; and, well, that just would not do!

So, why do I think that the unions' fear is just that, with no substance? Let me just take two main arguments that produce the fear and take them apart.

First, as Paul Samuelson and Wolfgang Stolper showed in a classic paper over half a century ago, if the price of imported labor-intensive goods falls in world trade, then ceteris paribus, the real wages of labor will fall too, under certain conditions which include our not reaching complete specialization (because it is manifest that any fall in the price of imports that have no import-competing production must benefit all factors that produce the exported goods).

Hence, many fear that trade with poor countries will push prices of labor-intensive goods, and hence our workers' real wages, steadily down.

But if you look at the (relative) prices of labor-intensive goods in the 1980s, they actually rose, instead of falling, thus cutting off the Stolper-Samuelson argument at source. When I started thinking about this empirical reality, I suddenly realized that it was not at all surprising. The reason is that some of the poor nations had become rich in the 1980s and had steadily moved up what the late Bela Balassa used to call the ladder of comparative advantage: they had become net importers of labor-intensive goods, absorbing the new exports of labor-intensive goods from countries poorer than themselves. This is the story, to some extent, in the 1970s when Japan's withdrawal from exports of labor-intensive goods absorbed much, but not all, of the exports of the four dynamic NICs: Taiwan, South Korea, Singapore and Hong Kong. It is an even more significant story in the 1980s when the offset to China's entry as a major net exporter of labor-intensive exporter is provided by the shift out of such exports by the NICs. Looked at directly in terms of underlying causes, capital accumulation and technical change in the rapidly growing economies have put downward pressure on the production of labor-intensive goods --- a conclusion that we know from general-equilibrium analysis of the output-composition changes from these phenomena when we hold goods prices constant --- and so the tendency has been to raise, not lower, the world prices of labor-intensive goods.³

Second, unions often argue that the outflow of direct foreign investment (DFI) either "costs jobs" or drives down wages. But surely, whatever the purely economic merits or demerits of this contention, it cannot withstand the fact that, during the 1980s when the pressure on real

³ This argument is empirically supported by the work of the Australian economist, Ross Garnaut. I have developed the argument more fully in my latest paper on the problem, "Play It Again Sam: Yet Another Look at Trade and Wages", forthcoming in Gus Ranis and Laxmi Raut (eds), Essays in Honor of T.N.Srinivasan, Elsevier: Amsterdam, 1999.

wages was the most intense, there was also almost equal **inflow** of DFI into the United States. In fact, that DFI is a two-way street has been very much on the minds of international economists for nearly four decades; and there is no excuse really for having one's eyes trained only on the outflow. As always, concretizing this point helps. In their excellent recent book, **The Coming Prosperity**, the Wall Street Journal reporters Bob Davis and David Wessel write how a stretch of I-95 going through North Carolina is now known as the Autobahn, with several top German multinationals having come in as the region lost textile factories to foreign locations. The low-paying jobs in textiles have vanished and the workers have wound up getting paid far more at Siemens and other German firms. They are now rooting for globalization, for investment and trade in the global economy!

Social Agendas and Free Trade: Burdening Trade with “Values-related” Obstacles

These fears on the part of the unions have misled them into protectionism. At minimum, the unions have been lukewarm about fresh trade liberalization with the poor countries. There has even been talk at times of free trade only with “like-wage” countries.

But it has also made some of the unions, and the politicians sensitive to their concerns and demands, **agitate for a social agenda (such as the raising of environmental and labor obligations)** for the poor countries where their rivals are located. Why? Because, faced with competitiveness problems that you wish to moderate, you can either become a conventional, import protectionist, or you can try to moderate the competition by somehow raising the costs of your rivals abroad. This latter, I call “export protectionism”. Or, if the former is called “isolationism”, the latter merits the epithet “intrusionism”. An analogy might help. If a bull is

charging at you, you can try to take it by the horns and stop it in its tracks; alternatively, you can (tortuously, for sure) reach behind the beast, hoping to seize it by its tail and to break its charge.

Despite all the protestations to the contrary, there is little doubt that many abroad (including some of the indigenous NGOs not indebted financially to our Foundations and NGOs for their survival) see our efforts at including these social agendas into trade treaties and institutions as reflecting competitiveness concerns. And rightly so. Just ask the Congressmen who voted to table the Harkin Child Deterrence Bill (which did not make it) whether they have a special interest in children's rights and welfare quite generally (as, say, Marianne Edelman's Children's Defense Fund has), whether they have a coherent and comprehensive policy to advance child welfare within the United States itself, and whether they have made any legislative efforts in Congress to get the United States itself to adhere more fully to the Human Rights law as based on the UN Convention on the Child (which categorically forbids, for instance, juvenile capital punishment as a barbaric practice that violates children's fundamental rights at their very core, when several of our states effectively permit it). I tried to probe the matter a little along these lines, calling up some of these Congressmen only to get their staffs whose willingness to explain their Congressmen's philosophy and practice on these matters was not exactly marked by enthusiasm.

But let me just add that there are indeed **morally-motivated groups** such as Human Rights Watch (with which I work on the Academic Advisory Board to its Asia section) whose **interest in social agendas has nothing to do with competitiveness or protectionist considerations**. They would, for instance, oppose child labor on the moon, if Carl Sagan or Neil Armstrong had been able to find life there, even if we did not trade with the moon. They would

show extended empathy for children everywhere, cutting across nation states. **Morality sans Borders** is their motto.

It is analytically helpful also to note that, in turn, these values-driven groups divide into two sets from the viewpoint of their objectives and how they impinge on free trade. The first set wish to advance their social agendas abroad, and would like to piggyback on trade treaties because they believe that nations eager to trade with us will pay the price and accept obligations to extend the desired social agendas to their nationals. These groups seek to act strategically, using trade only as an instrumentality to advance their essentially trade-unrelated, social agendas abroad.

Others, however, form a second set that does not necessarily share this consequentialist objective. Instead, they follow the moral principle that “I shall not sup with the devil even if all that happens is that I miss a free supper and **the devil** does not shed his horns”. This viewpoint is particularly prevalent when, as I immediately discuss below, citizens feel that the products they are importing use production and process methods (PPMs) that they morally object to and hence demand that free trade in them be suspended. [I myself believe, however, that even these apparently non-consequentialist groups, if you probed their sentiments deeper, are unlikely to be free from all traces of consequentialism and indeed do desire to reshape others abroad in their own image, eliminating objectionable PPMs abroad.]

We also must distinguish among two entirely different levels at which these “values-related” objections to free trade arise.

First, we may wish to **embargo**, altogether or by denial of trade privileges such as MFN status, **entire nations** which egregiously violate human rights: e.g. **apartheid in South Africa**

or the practice of gulag and the denial of democratic rights in China. Such dramatic embargoes are in practice driven by consequentialist groups and must be assessed as such.

Second, at a far less dramatic level but one that arises with far greater frequency in the public domain, we may want to proscribe only trade in **specific products** that use PPMs that offend our values: e.g. the use of child labor, the use of purse seine nets that kill dolphins while catching tuna, the cruel raising of hogs in crowded pens and of chickens in battery, and the use of leghold traps in hunting for fur. Indeed, there are many such process-objections that one could cite, ranging from **niche or boutique values specific to one's own culture but puzzling to other cultures** (e.g. passionately objecting to the killing of dolphins in the course of tuna fishing while happily eating mahi mahi) **to the deeper values, which often are shared beyond one's own society and therefore tend to be embodied in multilaterally-defined human rights law.** In either case, the PPMs issue is raised by both non-consequentialists who simply wish to proscribe such products in their midst and by consequentialists who would like to banish them elsewhere as well. And, so I will judge them successively by both criteria, below.

Free traders should not, indeed **I** do not (despite astonishingly claims to that effect by NGOs who cannot be expected to know better and some economists such as Kennedy School's Dani Rodrik who surely should know better⁴), object to these "values-related" consequentialist and non-consequentialist **objectives** as **free traders** though, of course, we can object to them as **citizens** who may find them unappealing or wholly unworthy. What free traders can, and should, object to instead is the inference that such objectives necessarily justify and require the suspension of the **policy and pursuit of free trade.** In particular, I believe that a cost-benefit

⁴ See my Letter to the Editor, commenting critically on Rodrik's article on the world trading system's flaws and his solution to them in The New Republic, November 2, 1998.

analysis suggests that, generally speaking, there are more cost-effective ways of pursuing these objectives that permit the simultaneous pursuit of free trade. Let me explain.

Embargoes: Thus, consider the case of embargoes (whose objective is almost always consequentialist: to deny benefits of trade and hence to pressure regimes into changing their ways). Now, as far as trade law today at the WTO is concerned, multilaterally shared goals and corresponding embargoes pose no real problem. It is perfectly possible for the entire trade of a member country to be suspended, at the WTO itself and also through UN procedures. The legal problem arises essentially when the decision to embargo the trade of WTO members is **unilateral** and lacks wide consensus. The WTO-illegality of such unilateral action creates resentment against the WTO, and against free traders, when the embargo reflects strong outrage. But there are good reasons to think that the legitimization of such unilateralism is not desirable.

First, the legal ability to embargo trade freely and unilaterally with another WTO member, when a multilateral consensus has not been obtained (so that one's values are not effectively shared and hence their alleged universality itself may be called into question), could open up a number of uncontrollable disruptions of trade. More likely, it would result in unequal and hence unjust resort to embargoes: the powerful nations would indulge them far more freely once all international safeguards and constraints on them have been lifted, whereas the weak states would feel constrained by prudence and intimidated by their relative lack of power in confronting the strong. In endorsing unilateralism, we would thus effectively be resurrecting the old adage: "might is right" or the seductive doctrine of the strong that power and virtue go together.

Second, and this argument is more compelling, unilateral embargoes are generally likely to be ineffective. The reason is that embargoes are easier to evade when others have not joined

us. This evasion reduces the cost of the embargo to the targeted country. But, since trade and investment get diverted to the non-embargoing countries, the effect is to set our own business lobbies against our unilateral embargo. So, we wind up with a fractious constituency for the embargo: the human rights and the business lobbies divide over the embargo, weakening the resolve and the sustainability of the embargo. Just recall the huge divisions over the renewal of MFN status for China, if not the current divisions over China's entry into the WTO.

So, it seems to me that we need to consider alternative ways of targeting the country whose human rights violations offend us. Surely, we are not without other policy instruments. These include the full articulation of our moral disapproval at the Human Rights Commission in Geneva, the moral and political support of NGOs such as Human Rights Watch that agitate against such violations, and financial support for dissidents in and from the offending country. These instruments may appear to be without teeth. But just as the Pope has no troops but wields much clout, these policies can embarrass and shame and prod the offending regimes in the right direction, however slowly. After all, remember that China's communist regime has worked very hard to shut us up as far as our official articulation of dissent is concerned, suggesting that it takes our public criticism seriously.⁵ Human rights and business groups are also more likely to unite on these instruments and hence make the sustainability of our pressure for change more certain.

“Values-related” PPMs: Consider then the problems posed by “values-related” PPMs instead, taking first the non-consequentialist argument that we merely object to products so defiled appearing in **our own markets** and next the consequentialist contention that we have instead a “social agenda” to advance **elsewhere** the elimination of the PPMs that we abhor.

⁵ True, some dictators are probably beyond the pale: e.g. Stalin and Hitler. Mercifully, however, they are “outliers”. And embargoes are equally unlikely to reform or deter them!

(i)Our Own Markets: The difficult issues here arise again when we unilaterally seek to deny or suspend market access to specific products which use PPMs that only we (or just a few) object to. It is tempting to argue that such unilateral action should be freely allowed, following only national legislation such as we have had in regard to the importation of tuna caught with purse seine nets.⁶

But in granting such a freewheeling hunting license for unilateral trade-restricting actions we run the danger of likely opening up a Pandora's Box of trade barriers: any nation or society could in principle then assert that their moral values are offended by certain PPMs and hence suspend or deny market access without any restraints. I should also remind you that it would be terribly easy to devise legislation that appears facially neutral, objecting to products on the alleged ground that they use specific PPMs, while actually aiming the legislation at the moderation or elimination of uncomfortable competition in the products themselves. There are in fact many instances of GATT and WTO dispute settlement cases demonstrating precisely such abuse. Under freewheeling unilateralism, such cases would surely be impossible: that would be a pity.

So, again we must look for **better alternatives**. Indeed, these are possible. I would argue that **labeling** is precisely one such alternative that is rapidly gaining ground (even though it presents some difficulties): consumers can then make informed choices. We now have

⁶ Dani Rodrik has recently suggested, as far as I can understand him, that such unilateralism should be permitted after an anti-dumping style "administrative" process that determines whether the legislation reflects a national moral consensus of sorts. This is, of course, a funny suggestion. I should have thought that the passage of the legislation itself demonstrates the expression of such a preference. Besides, imagine a process whereby quasi-judicial bodies sit in judgment over the legislation in this fashion! Rodrik also implies, in a recent pamphlet on Globalization issued by the Institute for International Economics, that trade economists do not appreciate that PPMs matter. That view is, of course, based on ignorance of the massive literature on the subject (e.g. the 2 volumes edited by me and Robert Hudec on the subject with MIT Press in 1996). The problem is not that we do not understand that processes can be objected to but rather what to do about it in managing international trade sensibly.

labels that say “Dolphin-safe Tuna”, the Rugmark that says rugs have not been made by children, the Free Range Chicken label, and a possible resolution of the hormone-fed beef dispute between the US and the EU through the device of labeling hormone-fed beef as such. This is surely a reasonable solution that dominates unbridled unilateralism. It is also a solution that acquires greater potency and appeal when we recognize the possibility of private boycotts, agitations and educational campaigns: these are powerful weapons indeed.

(ii) Advancing Social Agendas Elsewhere: And that brings me to those who would proscribe trade in products using objectionable PPMs instead with a view to advancing their social agendas **elsewhere**. This is clearly the motivation of the NGOs that back proposals such as the inclusion of a Social Clause, for instance, in the WTO: a proposal that the Clinton administration seems to have embraced but almost no developing country consents to.

My main objection to the inclusion of such social agendas in trade institutions and treaties, or what is now known as the **Linkage Issue**, is that this amounts to trying to kill two birds with one stone: a recipe for missing both birds except in the fluke event where the two birds happen to lie on a common trajectory and Wonder Woman is hurling the stone into the sky with deadly force and accuracy.

We already know how the linkage proposed by the President divided the Republicans and the Democrats and was a factor in his loss of the Congressional support for fast-track renewal. And, even if it had cleared Congress, you can be sure that it would have been a divisive North-South issue, as indeed it is. All this, of course, slows down trade liberalization, thus missing that bird. But I would contend that linkage makes you miss the other bird as well: the social agendas themselves get compromised. For, remember that when you take your moral agendas to the trade arena, the dominant players there are trade lobbies; and this context inevitably taints your

program with the stench of competitiveness considerations. In fact, this distortion is very real: as many of us have observed, the objectionable PPMs that are currently specified in the Social Clause are, unsurprisingly, those where the competitive developing countries are expected to be the defendants, not the developed countries that fear the competition. Thus, you have child labor in the Clause. But there is nothing there about sweatshops or the treatment of migrant labor: the former would destroy almost half of our garment industry while the latter would hurt deeply our agriculture if the occasional documentation of quasi-slavery on several farms using migrant labor is to be believed. So, the very choice of what you put into the Social Clause and what you leave out of it reveals the cynical reality that the moral face of this Clause is a mask hiding the fear of competition. So, you devalue the morality of your social agenda and hurt the cause, thus missing the other bird as well.

Linkage thus undermines both the freeing of trade and the advancing of our social agendas. We need another stone, or a number of pellets to aim at a number of birds. Of course, this is the economists' **theory of economic policy**: generally speaking, we have to match the number of instruments with the number of targets. And we do have the possibility of fashioning new stones, as required. Thus, it is perfectly possible for us to pursue freer trade through WTO-led trade negotiations and treaties, while pursuing children's rights (including freedom from juvenile capital punishment) quite universally through UNICEF, child labor questions jointly between UNICEF and ILO, environmental improvement through UNEP, humane treatment of refugees through UNHCR, and so on. I have long proposed also the creation of a World Migration Organization to oversee the ethical and economic dimensions of immigration flows quite generally, repairing this great lacuna in the international superstructure today. By bringing impartial, symmetric and systematic reviews of national policies in these

areas, these agencies can bring to bear moral suasion to bear in desirable directions, prodding nations into better behavior, thus spreading morally attractive agendas with universal appeal.

Moral and financial support of NGOs, in turn, can be important aids in mounting pressures for change, based on these impeccable and impartial reviews (as distinct from the biased and witless national reviews which, as with the State Department on Human Rights, and USTR on unfair trade, concentrate on others while turning a blind eye to our own failings). I am often told that the ILO, for instance, is toothless, its research incompetent and its structure unproductive. Even if this were true, surely the answer for a superpower such as the US is to open the jaws and put in the missing teeth by, if I may mix metaphors, putting our shoulders to the wheel.

Nor should we forget instruments such as **aid and technology transfer**. Thus, consider the recent WTO “shrimp-turtle” case to see how **aid** could well have solved a gratuitous conflict. When the WTO Appeals Court recently found against our legislation because it had, without prior efforts at negotiations, unilaterally excluded shrimps from countries which did not mandate the use of narrow-necked nets that would prevent turtles from being caught in them, the US environmentalist groups went ballistic against the WTO. But surely, this is ridiculous. The fishermen in the plaintiff countries (India, Pakistan and Malaysia, with Thailand joining the case but having no shrimp fishing in dispute) could have been outfitted with the desired nets by the United States, which valued turtles, at something like \$50.00 a net at Wal-Mart! The issue would have been off the front pages and the evening news and the objectives of both freer trade and the turtle-protecting environmental groups would have been creatively reconciled at no social cost if only a half dozen aid-financed boondoggle economics conferences in Bangkok and New Delhi had been cancelled and the moneys diverted to such a program.

The same might be said of **technological assistance**. We all know how the Global Warming treaty has been facilitated by the use of technological transfer to the developing countries by the US and other OECD countries. But let me tell you how the Save the Tiger campaign might also be aided by ingenious use of technology to effectively supplement, if not substitute for, the use of trade sanctions. The danger to the tiger comes from the CITES-illegal demand for it Chinese communities on the mainland and overseas because its organs are astonishingly considered an aphrodisiac by this otherwise sophisticated community. But take Viagra now. It has of course swept America, which is no surprise. After all, faced with a choice between two Presidential candidates last time, one (Bob Dole) who needs Viagra and another (Bill Clinton) who needs an antidote, the country chose the latter! But if only this potent drug, which is surely more effective as an aphrodisiac and far cheaper than smuggled tiger parts, were made even more cheaply available by our EPA and USAID in South East Asia, we would have truly helped Save the Tiger. Or I fondly think so. And I do know that nothing would please Bob Dole more than to be our Rep in Asia, doing well by peddling Viagra and doing good simultaneously by saving the tiger. Indeed, recalling Exxon's fetching slogan, Put a Tiger in your Tank, Bob Dole might embrace the ditty: Take a Viagra, hey; and Save a Tiger today.

So, to return to my main theme, the administration has failed us in not recognizing and proactively pursuing the numerous possibilities of fashioning alternative policies that are more cost-effective than burdening trade treaties and negotiations with social agendas as preconditions for the freeing of trade. The administration has thus failed to develop, and bring our citizens to its embrace, a clear conception of what I like to call **Appropriate Governance**, i.e. how to accommodate creatively, while preserving the efficient pursuit of free trade, the different social or values-related agendas on the stage today. I submit that, instead of the intellectually lazy

option of accepting the demands to pile everything on to the WTO and thus trying in a futile fashion to kill two birds with one stone, the President should be providing the leadership to argue forcefully and unequivocally that it is best to pursue (except when unavoidable interface exists) free trade and social agendas in different fora, with equal fervor.

Indeed, let him say that the pursuit of free trade, and indeed of economic reforms everywhere, is a moral agenda as well. For, without the prosperity that free trade and other reforms will engender, we can only carry our liberalism on the lapels of our jackets, not translate it into the reality that alone matters. So, free trade is not an evil force that must be contained by social agendas; it is itself part of our overall moral agenda. And, the pursuit of these different moral agendas, including better environment and respect for human rights, must be pursued appropriately, without sacrificing any one of them (except when this is totally unavoidable) by designing the tools of appropriate governance. Is that too much to ask of our leadership?