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# Keeping the “T” in the WTO: Where to next on environment and labor standards?

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## Abstract

Agreement on a new trade Round depends partly on reassuring voters that it will contribute to better environmental protection and more social justice. That argument should be won comfortably. Increased international trade is a powerful tool for tackling poverty—the single biggest cause of environmental degradation and social misery world-wide—and many individual trade restrictions have direct, negative, environmental and social effects. Proposals to punish irresponsible environmental and social behavior through the WTO are a much more doubtful prospect. Without the underpinning of universally accepted environmental and social standards, trade restrictions are the wrong policy tool to use. © 2001 Elsevier Science Inc. All rights reserved.

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## 1. Introduction

Since its creation in 1995, the World Trade Organization (WTO) has been at the center of a debate about the broad, noncommercial effects and implications of trade liberalization. The debate has focused on links that exist naturally, or that some feel should be forged artificially, between the rules of the trading system on the one hand, and on the other efforts at national and international levels to promote better protection of the environment, higher labor standards, improved social conditions, and respect for human rights.

Critics of the WTO have made three main claims of linkage:

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- Trade is a root cause of much of the problem; for example, it encourages more intensive use of environmentally sensitive natural resources and creates markets for products of child labor. Trade should not be liberalized in the absence of guarantees that its effects will be benign.
- WTO trade rules do not provide enough room for, and in some cases are at direct odds with, important pieces of national environmental and social legislation. The rules need changing.
- The WTO should allow trade sanctions to be used to enforce international agreements and standards. It does so already in the area of peace and security (General Agreement on Tariffs and Trade (GATT) Article XXI). This facility should be extended to the environmental, social and human rights fields.

The first of these claims is based on the “magnifier” effect of trade liberalization in expanding commercial activities that create environmental pollution, involve child labor, and so forth. The problem identified is real enough, but the proposed policy response is incorrect and it needs to be rejected. The proper response is to put in place policies to control pollution and take children out of the labor force. Absent those policies, even closing an economy to trade entirely will have no predictable effect in improving environmental conditions or labor standards.

The second claim cannot be dismissed so easily, although in essence it is very wide of the mark. Today, the rules of the trading system extend beyond border measures and encompass domestic regulations which affect conditions of competition for imported goods and services. Inevitably, frictions arise when disciplining the regulations for trade purposes interferes with their effectiveness in achieving other policy objectives. By and large,<sup>1</sup> WTO rules can cope sensitively with this where the regulations are product-based; subject to meeting the core disciplines of nondiscrimination and transparency, a government can do anything to regulate imported goods that it does to regulate domestically-produced goods. The core of the complaint here is that WTO rules do not permit governments to restrict imports on the basis of process standards that do not affect the physical characteristics of a product (so-called unincorporated Process and Production Methods, or PPM, standards). Restricting imports of tuna which has been fished in a way that causes dolphin deaths is the classic example—more recent ones are banning trade with Myanmar on the grounds of human rights abuse, and demanding that foreign farmers meet the animal welfare norms of the importing country. There are good economic and political reasons for believing that the WTO rules are correct in banning unilateral PPM-based trade restrictions—trade restrictions are an inefficient and high cost way of trying to alter another country’s PPMs, and they are wide open to protectionist abuse—but more room may need to be made in WTO rules to allow for measures based on internationally agreed PPM standards.

The third claim of linkage casts the WTO in the role of enforcing Members’ foreign policy objectives through its dispute settlement mechanism, by allowing trade restrictions to be used to punish renegade governments that do not conform to international norms. Demands for a WTO “social clause” to help enforce International Labor Organization (ILO) labor standards is the prime example. Political saber-rattling has more to do with this argument than economics, given that in most instances actually applying trade restrictions would seem more

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