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Five Simple Principles for World Trade

With the Asian financial crisis barely over, the world economy stands at the brink of another major eruption--one with potentially much greater significance to the long-term health of the global economic system. The cause this time is not panicked bankers rushing for the exits out of developing countries, but a deep crisis of legitimacy that threatens to overwhelm the world's trading regime.

As the showdown in Seattle has demonstrated, a coalition of labor, environmental, and human rights advocates is intent on derailing the World Trade Organization (WTO), the institutional embodiment of the world's trading order. The WTO is in trouble as well with developing countries, which feel increasingly estranged from rules they believe do not benefit them. The chasm that separates these groups from the agenda pursued by United States and European Union policy makers is growing, destabilizing the world economy in the process.

All sides in this acrimonious debate agree that the stability of the international economic system is predicated on a system of global rules. What is contested is the nature of these rules. The opponents of trade liberalization decry the secretiveness and "nondemocratic" nature of the WTO, and the disproportionate influence of corporate interests in rule making. They see a trading system that privileges business over labor rights, the environment, and consumer safety. Developing countries complain about the restrictive rules that apply to exports of interest to them (garments, agricultural products, labor services). They also fear that the demands they face in the area of labor and environment are designed to undermine their competitiveness even further.

Rational debate on these matters is hampered by the arcane language and detail of trade law. Making our way out of the crisis requires that we articulate clear guiding principles for trade rules. Here are five simple principles that could allow us to move forward.

Trade is a means to an end, not an end in itself. Advocates of globalization lecture the rest of the world incessantly about the adjustments countries have to undertake in their policies and institutions in order to expand their international trade and become more attractive to foreign investors. This way of thinking about trade confuses means with ends. Trade serves at best as an instrument for achieving the goals that societies seek: prosperity, stability, freedom, and quality of life. Nothing enrages WTO bashers more than the suspicion that, when push comes to shove, the WTO allows trade to trump the environment or human rights. And developing countries are right to resist a system that evaluates their needs from the perspective of expanding world trade instead of poverty alleviation.

Reversing our priorities would have a simple but powerful implication. Instead of asking what kind of multilateral trading system maximizes foreign trade and investment opportunities, we would ask what kind of multilateral system best enables nations

around the world to pursue their own values and developmental objectives.

Trade rules have to allow for diversity in national institutions and standards. There is no single recipe for economic advancement. Citizens of different countries have varying preferences as to the regulations that should govern new technologies (such as genetically modified organisms), restrictiveness of environmental regulations, intrusiveness of government policies, extensiveness of social safety nets, or, more broadly, the relationship between efficiency and equity. Rich and poor nations have very different needs in the areas of labor standards or patent protection. Moreover, poor countries need the space to follow developmental policies that richer countries no longer require. When countries use the trade system to impose their institutional preferences on others, the result is erosion of trade's legitimacy. Trade rules should seek peaceful co-existence among national practices, not harmonization.

Nondemocratic countries cannot count on the same trade privileges as democratic ones. National standards that deviate from those in trade partners and thereby provide trade advantages are legitimate only to the extent that they are grounded in free choices made by citizens. Take the case of labor and environmental standards. Poor countries argue that they cannot afford to have the same stringent standards in these areas as advanced countries. Indeed, tough emission standards or regulations against the use of child labor can backfire if they lead to fewer jobs and greater poverty. A democratic country such as India can argue, legitimately, that its practices are consistent with the wishes of its population.

But nondemocratic countries, such as China, do not pass the same prima facie test. The assertion that labor rights and the environment are trampled for the benefit of the few cannot be as easily dismissed in those countries. Consequently, exports of nondemocratic countries deserve greater international scrutiny, particularly when they entail costly dislocations in other countries.

Countries have the right to protect their own social arrangements and institutions. Opponents of globalization argue that trade sets off a "race to the bottom," with nations converging toward the lowest levels of environmental, labor, and consumer protections. Advocates counter that there is little evidence that trade leads to the erosion of national standards. One way to cut through this morass is to accept that countries can uphold national standards in these areas, by withholding market access if necessary, when trade demonstrably undermines domestic practices enjoying broad popular support. For example, countries might seek temporary protection against imports originating from countries with weak enforcement of labor rights when such imports serve to worsen working conditions at home. The WTO already has a "safeguard" system in place to protect firms from import surges. An extension of this principle to protect environmental, labor, or consumer safety standards at home--with appropriate procedural restraints against abuse--might make the world trading system more resilient and less resistant to ad hoc protectionism.

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Using trade restrictions to uphold our values has to be sharply distinguished from using them to impose these values on other countries. Trade rules should not force Americans to consume shrimp that are caught in ways that most Americans find unacceptable, but neither should they allow the United States to use trade sanctions to alter the way that foreign nations go about their fishing business. Citizens of rich countries who are genuinely concerned about the state of the environment or of workers in the developing world can be more effective through channels other than trade--via diplomacy or foreign aid, for example. Even when they work, trade sanctions should be used only against nondemocratic countries.

These are simple guidelines, easy to communicate to electorates often confused by the intricacies of trade regulations. Sticking to them would enhance the legitimacy of trade and put the world economy on a sounder footing.