

Controversies in Trade Policy

(Krugman, Obstfeld, Melitz: Chapter 12)

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Trade and the Environment

- Compared to rich-country standards, environmental standards in low- and middle-income countries are lax.
- Some have opposed free trade for this reason.
- But we cannot conclude that trade hurts the environment, since consumption and production in the absence of trade have degraded the environment.

Trade and the Environment

- Some environmental activists want to include environmental standards in trade negotiations.
 - However, environmental standards imposed by foreign countries are opposed by governments of low- and middle-income countries.
 - International standards could be used as a protectionist policy or a basis for lawsuits when domestic producers did not meet them.
 - Standards set by high-income countries would be expensive for low- and middle-income producers.

Trade and the Environment

- Because rich countries usually have strict environmental regulations and poor countries do not, environmentally hazardous activities may be moved to poor countries.
 - A **pollution haven** is a place where an economic activity that is subject to strict environmental controls in some countries is moved to (sold to) other countries with less strict regulation.
 - Yet, there is evidence that pollution havens are insignificant relative to the pollution that occurs without international trade.

Trade and the Environment

WWII 70th Anniversary in China 2015



Trade and the Environment

APEC 2014 Meeting in Beijing

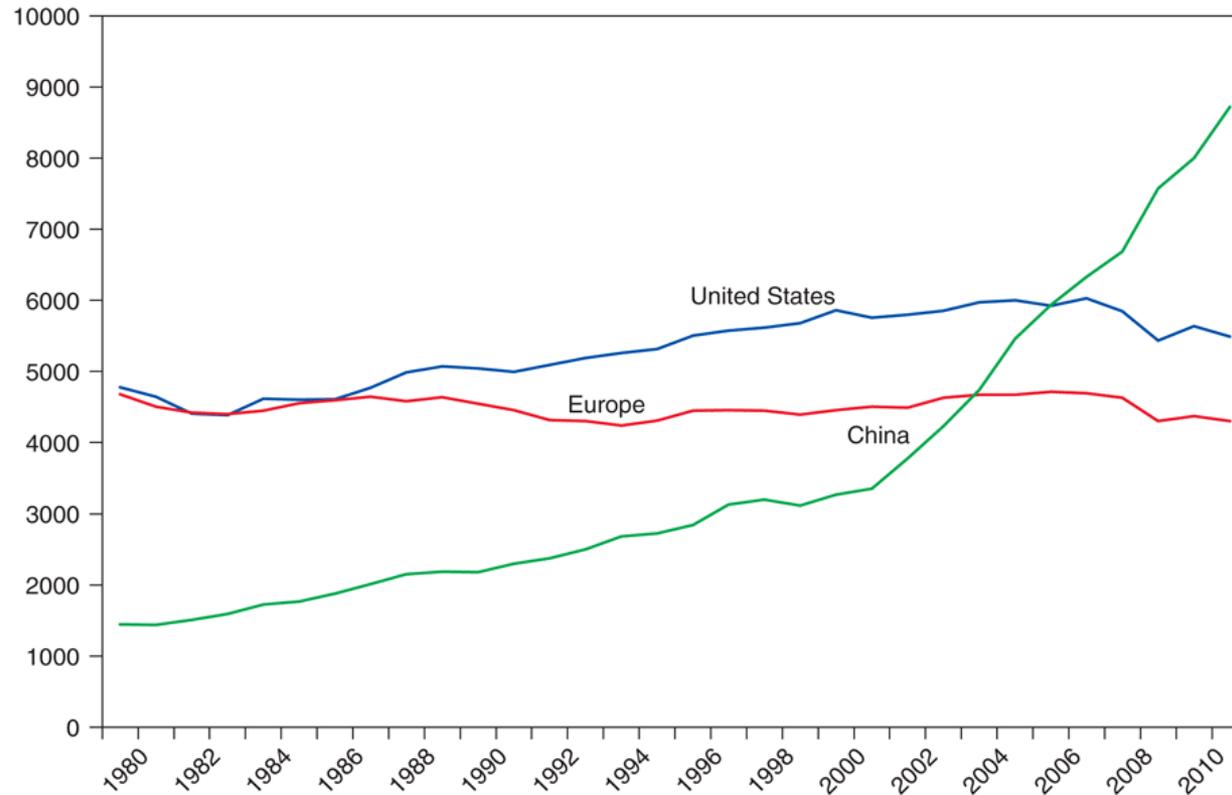


The Environmental Kuznets Curve



Carbon Dioxide Emissions

Carbon dioxide emissions
(million metric tons)



Source: Energy Information Agency.

TPP Agreement on the Environment

- **Chapter 20: Environment**

- **Article 20.15: Transition to a Low Emissions and Resilient Economy**

The Parties recognize that each Party's actions to transition to a low emissions economy **should reflect domestic circumstances and capabilities** and, consistent with Article 20.12 (Cooperative Frameworks), Parties shall cooperate to address matters of joint or common interest. Areas of cooperation may include, but are not limited to: energy efficiency; development of cost-effective, low-emissions technologies and alternative, clean and renewable energy sources; sustainable transport and sustainable urban infrastructure development; addressing deforestation and forest degradation; emissions monitoring; market and non-market mechanisms; low-emissions, resilient development and sharing of information and experiences in addressing this issue. Further, the Parties shall, as appropriate, **engage in cooperative and capacity-building activities related to transitioning to a low emissions economy.**

Trade and Labor

- Manufactured exports from low- and middle-income countries have been increasing.
- Compared to rich-country standards, workers who produce these goods are paid low wages and may work under poor conditions.
- Some have opposed free trade for this reason.

Trade and Labor

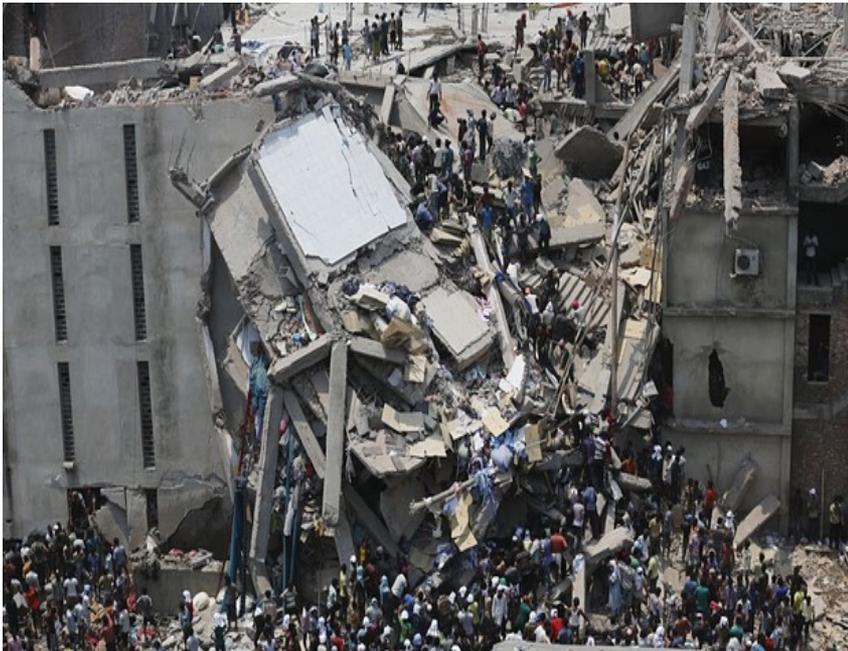
- Some labor activists want to include labor standards in trade negotiations.
 - However, labor standards imposed by foreign countries are opposed by governments of low- and middle-income countries.
 - International standards could be used as a protectionist policy or a basis for lawsuits when domestic producers did not meet them.
 - Standards set by high-income countries would be expensive for low- and middle-income producers.

Trade and Labor

- A policy that could be agreeable for governments of low- and middle-income countries is a system that monitors wages and working conditions and makes this information available to consumers.
 - Products could be certified as made with acceptable wage rates and working conditions.
 - But this policy would have a limited effect, since a large majority of workers in low- and middle-income countries do not work in the export sector.

Trade and Labor

Rana Plaza disaster in Bangladesh



Living wage?

BREAKDOWN OF COSTS OF A T-SHIRT



TPP Agreement on Labor

- **Chapter 19: Labor**

- **Article 19.3: Labour Rights**

1. Each Party shall adopt and maintain in its statutes and regulations, and practices thereunder, the following rights **as stated in the ILO**

Declaration:

- (a) freedom of association and the effective recognition of the right to collective bargaining;
- (b) the elimination of all forms of forced or compulsory labour;
- (c) the effective abolition of child labour and, for the purposes of this Agreement, a prohibition on the worst forms of child labour; and
- (d) the elimination of discrimination in respect of employment and occupation.

2. Each Party shall adopt and maintain statutes and regulations, and practices thereunder, governing **acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health.**

Trade and Culture

- Some activists believe that trade destroys culture in other countries.
 - This belief neglects the principle that we should allow people to define their culture through the choices that *they* make, not through standards set by others.
 - Also, any economic change, not just trade, leads to changes in everyday life.

Trade and Culture

First Starbucks in Vietnam (2013)

First McDonald in Vietnam (2014)



Trade and Culture

Curiosity?



Street coffee culture



Trade and Culture

Curiosity?



Street food culture



Trade and Culture

- The process of economic development reaches a crisis when a nation passes from one stage to the next. It is at that moment when temptations arise. If the nation manages to resist these temptations, it will achieve development; otherwise, it will only enjoy a short period of enrichment.
 - Mariano Grondona
In Culture Matters: How Values Shape Human Progress (eds. Lawrence E. Harrison and Samuel P. Huntington, 2000)