

Cordell Hull Institute, Press Release

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Contents

Cordell Hull Institute - PRESS RELEASE: Tuesday 19 June 2001 (0001 Hours EST)	1
A WTO Round? Key Players Far Apart Labor Standards a “Launch Breaker”	1
Continuing Sense of “Drift”	1
An Old Argument in New Clothing	2
A Commission on Labor Standards?	3
Note	3
Contact	4
Metadata	5
SiSU Metadata, document information	5

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A WTO Round? Key Players Far Apart Labor Standards a “Launch Breaker”

ABOR standards, along with sanctions to enforce them, have become a make-or-break issue for the World Trade Organization in considering the launch of a new round of trade-liberalizing negotiations. Although earlier urged by President Clinton, and favored by many members of the U.S. Congress, incorporating labor standards in the WTO system is vehemently opposed by nearly all 142 member countries.

Accordingly, including in U.S. trade-negotiating authority a remit to press for enforceable labor standards in trade agreements would be a “launch breaker”, for there is no willingness to negotiate with the United States on such terms.

Those are among the conclusions of a wide-ranging report being prepared by a panel of independent trade-policy experts sponsored by the newly formed Cordell Hull Institute in Washington. The report is being finalized for publication prior to the Economic Summit meeting in Genoa, Italy, in late July. A draft of the report was reviewed at a recent international meeting of senior trade officials and independent experts at Gressy-en-France near Paris.

The Cordell Hull Institute is being established on a bipartisan basis to promote independent research and public discussion of international economic policy issues. Its trade-policy panel is headed by Harald Malmgren, a former Deputy U.S. Trade Representative, who also chaired the Gressy meeting. The panel is focusing on the exploratory talks, begun at the start of this year, on initiating a new round at the fourth WTO ministerial conference at Doha, Qatar, in early November.

Continuing Sense of “Drift”

In a chairman's statement on the draft report and Gressy review, Ambassador Malmgren remarks that little has changed since the debacle at the previous WTO ministerial meeting, held in Seattle eighteen months ago: “Repeated high-level calls for a WTO round are greatly at odds with what is happening at a working level? A sense of drift still characterizes WTO deliberations. In most countries, including the United States, political leaders are still not speaking up in support of the rules-based trading system. At this juncture, only a few months before the Doha meeting, governments are no closer to agreement on a negotiating agenda than they were at the Seattle meeting.”

While the inclusion of labor standards on the WTO agenda is internationally unacceptable, Dr Malmgren adds “there is a readiness to discuss labor standards outside the WTO system in a developmental and social context”.

But on other subjects under discussion, the report explains, governments are also seriously divided. For example, several developing countries are having profound “implementation problems” over their commitments in the Uruguay Round agreements and

the “like-minded group”, which includes India, Pakistan, Malaysia and Egypt, is asserting that they must be resolved before a new round is launched. In addition, emerging-market economies are adamant about addressing anti-dumping reform and restrictions on textiles, steel and other labor-intensive products.

Whereas the U.S. Administration favors a “focused agenda”, Dr Malmgren continues, 11
other governments favor a comprehensive round that covers the interests of all WTO member countries. The European Union and Japan want the WTO system extended to investment and competition laws as “trade offs” for liberalizing trade in agricultural products. On food products there are big differences over the handling of public health and safety issues. Against developing-country opposition, the European Union wants environmental issues addressed, either separately or collectively through a set of standards.

An Old Argument in New Clothing

The old cheap-labor argument for protection is widely seen to be behind the push by 12
some American interest groups and labor leaders for a “social clause” in the WTO system, the report says. The argument is that because of low wages in developing countries, with an abundant supply of cheap labor, industries in developed countries should be protected by tariffs that counteract the lower costs of those foreign suppliers. 13

Ambassador Malmgren remarks that although the argument has been popular in the 14
United States for decades it has well-known flaws:

- “Developed countries have an advantage with another factor of production, namely an 15
abundant supply of cheap capital, while agricultural exporters enjoy an advantage with a third factor, plenty of cheap land. Should their lower costs also be counter-acted?”

- “International trade thrives on differences. If all countries bore the same costs, used 16
the same technologies and produced the same things, there would be no point in trading. Business is about discovering differences, however small, and inventing new ones. By trading on the basis of differences, the differences themselves become narrower, prices converge, initial profits get competed away and the true entrepreneur is soon looking for new differences. That is the way with market economies. ”The social gain, as opposed to the entrepreneurial profit, comes in the form of lower prices for goods and services that used to be rare and dear. Thus the sporting metaphor of a level playing field is inappropriate. International trade is a positive-sum game in which everyone wins - rich and poor, productive and unproductive.”

During the Tokyo Round negotiations, the cheap-labor argument was resurrected in 17
“human rights” clothing by President Carter, the report recollects. During the Uruguay Round negotiations it was raised again by President Clinton. Both times it was roundly rejected by other governments.

At the first WTO ministerial conference in December 1996, the report further recol- 18
lects, the concluding declaration “rejected the use of labor standards for protectionist

purposes” and said “the comparative advantage of countries, particularly low-wage developing countries, should in no way be put in question”. At the same time, though, ministers renewed their commitment to core labor standards, but insisted that the International Labor Organization is the competent body in which to pursue them.

A Commission on Labor Standards?

Not all proponents of labor standards are driven by the cheap-labor argument, Dr Malmgren points out. Others are interested in improving working conditions around the world. “At the Seattle ministerial,” he recalls, “there was trans-Atlantic agreement on a work program to examine the `social dimension of trade liberalization’. But it was killed when President Clinton suddenly declared a preference for trade sanctions if countries did not comply with core labor standards. The President confirmed the suspicions of developing countries that U.S. proposals were intended all along to put new limits on their trade.”

For a number of years the ILO has had a working party on the “social dimensions of globalization”. Last December, the European Commission suggested that labor standards be discussed, in a forum outside the WTO system, in the context of “social development”. In February, three former directors-general of the multilateral trading system proposed that an independent commission, involving the heads of the ILO, the World Bank and the WTO, address the issue in a “developmental and social context”.

At the Gressy meeting, Ambassador Malmgren adds, there was support for creating an international commission aimed at producing an authoritative assessment of issues, facts and arguments.

Last week at the ILO's ministerial conference in Geneva, its director-general, Juan Somavia, proposed an international commission on the “social dimensions of globalization”. The conference, which continues this week, is due to discuss the proposal today (Tuesday 19 June).

Note

THE bipartisan Cordell Hull Institute is being established to promote independent analysis and public discussion of issues in international economic relations, focusing primarily on trade, competition and investment policies. It is a non-profit organization, incorporated in Washington, D.C., and is tax exempt under Section 501(c)(3) of the Inland Revenue Code.

The board of directors is chaired by former U.S. Secretary of State Lawrence Eagleburger. Its executive committee is headed by Harald B. Malmgren, a former Deputy U.S. Trade Representative (1973-75), who played a major role in launching the Tokyo Round negotiations. The board, representing a wide range of experience and expertise, includes Robert C. Cassidy Jr., Gary Horlick, Richard Rivers, William D. Rogers, Brent

Scowcroft and Robert S. Strauss, as well as academics Jagdish Bhagwati, Robert E. Hudec and Joseph Stiglitz.

The president of the Institute is Hugh Corbet, previously at the Woodrow Wilson International Center for Scholars, the Brookings Institution and George Washington University, all in Washington. Earlier he was the director of the Trade Policy Research Centre (1968-89), then based in London, and editor of *The World Economy*, Oxford and Boston. 27

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