**Don't neglect the impoverished South**
Broad, Robin; Cavanagh, John
*Foreign Policy;* Winter 1995; 101; Research Library Core
pg. 18

# Don't Neglect the Impoverished South

*by Robin Broad and John Cavanagh*

For four and a half decades, the Cold War offered Americans a prism through which to view the three-quarters of humanity who live in the impoverished countries of Latin America, Africa, and Asia. The United States fought or funded wars and covert operations in dozens of these countries—including Cuba, the Dominican Republic, Guatemala, Iran, Korea, Nicaragua, and Vietnam—with the stated goal of preventing the spread of Soviet-backed communism. Shaped to meet this goal, U.S. economic and military policies toward the so-called Third World, or South, were relatively simple and straightforward.

Today, a half decade into the confusing post–Cold War era and more than halfway through President Bill Clinton's first term, the Third World still erupts into the forefront of U.S. foreign policy with alarming regularity. The administration and media tend to categorize these episodes into one of three oversimplified images. The first and dominant one can be termed "the Rwanda image," and includes countries where, the media tells us, everything is falling apart, and people kill one another in large numbers. Bosnia in 1995, Haiti in 1994, or Somalia in 1993 fit the bill. A second image, promoted by

ROBIN BROAD *is a professor of international development at the School of International Service, The American University.* JOHN CAVANAGH, *a fellow at the Institute for Policy Studies and the Transnational Institute, is co-author, with Richard J. Barnet, of* Global Dreams: Imperial Corporations and the New World Order *(Simon & Schuster, 1994). Broad and Cavanagh are co-authors of* Plundering Paradise: The Struggle for the Environment in the Philippines *(University of California Press, 1993).*



Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

beleaguered defense contractors and Pentagon hawks, paints certain volatile Third World nations and the former Soviet Union as emerging security threats equal to that posed by Moscow at the height of the Cold War. Here, North Korea and Iraq stand out, each with leaders easily caricatured by the media as Hollywood villains. Finally, there is the much newer image of a financially tattered Mexico and the fear that other nations may plunge rapidly into similar crises; tens of billions of dollars of short-term speculative capital race around the globe, abandoning yesterday's favorite "emerging market" for promises of quick returns elsewhere.

Content to respond to crises in these three categories, the Clinton administration has yet to forge an overarching policy framework that addresses the deep and changing problems of the South, which comprises approximately 150 countries. In fact, aside from attention to some crisis spots, the administration forfeited its chance to craft a new North-South policy agenda, preferring instead one that places in the foreground only a handful of these countries. And this policy is being managed not by the State or Treasury Department, but by the Commerce Department, which has singled out 10 promising "big emerging markets" for U.S. exports and investments.

When pressed to articulate themes or values that underlie U.S. policy toward these countries and the rest of the South, Clinton administration officials unite around the rhetoric of markets and democracy: Freer markets, through such pacts as the North American Free Trade Agreement (NAFTA), will, they claim, bring both growth and greater democracy. Remarkably, the positions of most Republican leaders in Congress differ only slightly in substance from this agenda. They support the free-trade agenda and the notion that U.S. foreign policy should support U.S. business. A vocal minority who are more protectionist includes the powerful chairman of the Senate Foreign Relations Committee, Jesse Helms (R–NC). Despite his dramatic overstatements and misstatements that seek to distance him from the Democrats, Helms's attack on Clinton's North-South agenda has concentrated on one issue: cutting U.S. aid drastically (much of which, he likes to say, is "going down foreign rat-holes").

Thus, Washington is poised to continue neglecting the South, except in response to crisis-based chaos or through free-trade agreements and business promotion aimed at a few Third World countries. This lack of a broader North-South economic agenda, however, may



Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

well turn out to be one of the great blunders of the Clinton administration. The danger of neglect lies beneath the facile surface images of the Third World reality: a deteriorating living standard for the poorest 2.5 billion people in the world, widening inequalities in almost every nation on earth, and employment and environmental crises that beg global initiatives.

The Clinton administration and the Republican Congress face three immediate opportunities to address these larger problems—opportunities that should be seized to frame a more comprehensive policy toward the South. First, the administration has begun considering the expansion of NAFTA to include the Caribbean Basin, Chile, and the rest of Latin America. Second, Congress is debating new criteria for giving U.S. aid to poor countries. And finally, the Mexico debacle initiated a propitious international deliberation on fundamental reform of the world's leading multilateral institutions—the World Bank and the International Monetary Fund (IMF)—to meet the new financial crises of the twenty-first century.

What is required to seize these opportunities is a deeper understanding of the new dynamics between North and South and a more comprehensive policy agenda. Unfortunately, Clinton's narrow policies are based on three deeply flawed assumptions (also shared by most Republican leaders) about the nature of the changes in the global economy.

**The North-South economic gap is narrowing for about a dozen countries but continues to widen for well over 100 others.**

The first incorrect assumption is that free trade and the promotion of U.S. business interests overseas are good for U.S. workers and communities. Commerce Secretary Ron Brown is the clearest articulator of this view, and he supports it with planeloads of corporate CEOs on trips to such "big emerging markets" as Brazil, China, and Indonesia. These trips and the two major free-trade agreements completed under Clinton—NAFTA and a new round of the General Agreement on Tariffs and Trade (GATT)—have offered tens of bil-



Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

lions of dollars in new business overseas to the United States's largest firms. As the former deputy director of policy planning at the State Department, John Stremlau, wrote in the Winter 1994–95 issue of FOREIGN POLICY, the administration's big-emerging-markets program "should create millions of new and better-paying jobs for Americans, spur domestic productivity, ease adjustment to technological change, restrain inflation, [and] reduce trade and fiscal deficits."

The second flawed assumption of U.S. policy is that free trade and increased U.S. engagement in the 10 biggest emerging markets will not only help these economies but will also enhance growth in other Southern countries. Jumping on the big-emerging-markets bandwagon, American CEOs echo administration claims that U.S. policies are leading to the growth of huge middle classes—in such countries as China, India, and Indonesia—that will drive the world economy in the twenty-first century.

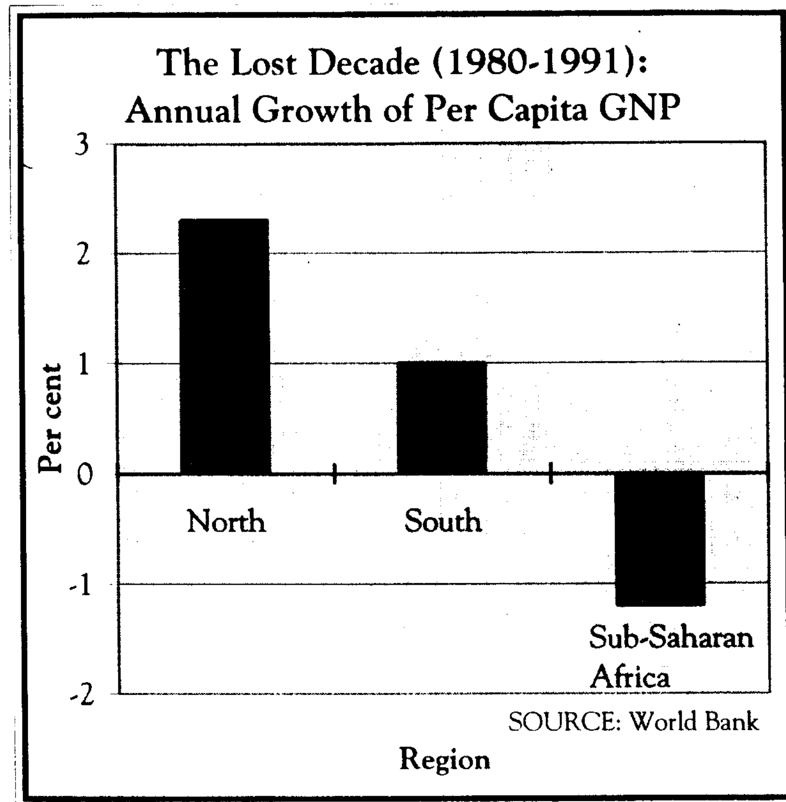
A third assumption is that the economic gap between rich and poor countries is now narrowing—a trend that the administration claims is aided by free trade and attention to the 10 Third World countries with big emerging markets. Indeed, there is a widespread perception among U.S. policymakers that the Third World debt crisis that widened the gap during the 1980s has ended, that new capital is flowing into the Third World, and that the gap is beginning to close. These perceptions are reinforced by World Bank projections that over the next decade Third World countries will actually grow faster than richer countries, thus catching up.

A careful analysis of social and economic data from the United Nations, the World Bank, the IMF, and other sources, offers a shockingly different picture of trends in the global economy and the gap between rich and poor countries. There are two ways to measure what is happening economically between North and South. The first is to measure which is growing faster, and therefore whether the gap between them is growing or shrinking. The second is to measure financial resource flows between the two.

On the first issue the picture is clear: The North-South gap widened dramatically in the decade after 1982 as the Third World debt crisis drained financial resources from poor countries to rich banks. Between 1985 and 1992, Southern nations paid some $280 billion more in debt service to Northern creditors than they received in new private loans and government aid. Gross national product



Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.




(GNP) per capita rose an average of only 1 per cent in the South in the 1980s (in sub-Saharan Africa, it fell 1.2 per cent), while it rose 2.3 per cent in the North.

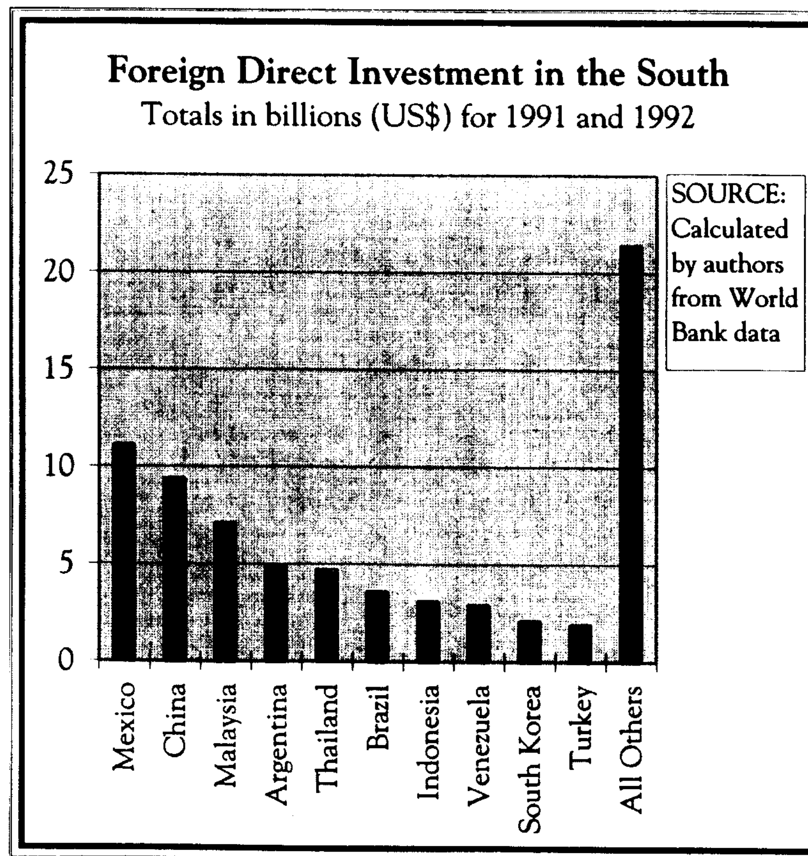
Situating the "lost decade" of the 1980s within a longer time period reveals no drastic change: In 1960, per capita gross domestic product (GDP) in the South stood at 18 per cent of the average of Northern nations; by 1990, it had fallen only slightly to 17 per cent. In other words, the North-South gap remained fairly constant.

However, such aggregate figures camouflage a complex reality: For a small group of countries, primarily such Asian big emerging markets as China, Hong Kong, Singapore, South Korea, and Taiwan, the gap with the North has been closing. But—and here is the rub—for most of the rest, the gap has been slowly *widening*. In sub-Saharan Africa the picture is even worse. Not only has the gap expanded significantly, but for many of these countries, per capita GNP has continued to fall.



Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Likewise, a look at various resource flows between North and South reveals a reality out of sync with prevailing assumptions. Despite the perception of an easing of the debt crisis, the overall Third World debt stock continues to swell by almost $100 billion each year (it reached $1.9 trillion in 1994). Southern debt service still exceeds new lending, and the net outflow remains particularly crushing in Africa. While it is true that a series of debt reschedulings and the accumulation of arrears by many debtors have reduced the net negative financial transfer from South to North over the last few years, the flows remain negative.






Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Part of the reason some analysts argue that the debt crisis is no longer a problem is that since the early 1990s these outflows of debt repayments have been matched by increased inflows of foreign capital. Here too, however, a deeper look at disaggregated figures reinforces the disconcerting reality. According to World Bank figures, roughly half of the new foreign direct investment by global corporations in the South in 1992 quickly left those countries as profits. In addition, investment flows primarily to only 10 to 12 Third World countries that are viewed as new profit centers by Northern corporations and investors. More than 70 per cent of investment flows in 1991 and 1992 went to just 10 of the so-called emerging markets: Mexico, followed by China, Malaysia, Argentina, Thailand, Brazil, Indonesia, Venezuela, South Korea, and Turkey.

There is another problem with these capital flows. Several of these countries (Brazil, India, Mexico, South Korea, and Taiwan) have attracted substantial short-term flows by opening their stock markets to foreigners and by issuing billions of dollars in bonds. Between 1991 and 1993 alone, foreign direct investment as a share of all private capital flows into poor countries fell from 65 to 44 per cent as these more speculative flows increased. Recent events in Mexico provide an indication of the fickleness of these new investment flows: During the last week of 1994, an estimated $10 billion in short-term funds fled the country.

In addition, Third World countries have been hurt by the declining buying power of their exports vis-à-vis their imports. Southern nations have long pointed out the general tendency of the prices of their primary product exports to rise more slowly than the prices of manufactured goods imports. This "terms of trade" decline was particularly sharp between 1985 and 1993 when the real prices of primary commodities fell 30 per cent. This translates into billions of dollars: The 3.5 per cent decline in the purchasing power of Africa's 1993 exports, for example, cost the continent some $3 billion.

The inescapable conclusion is that the North-South economic gap is narrowing for about a dozen countries but continues to widen for well over 100 others. Hence, without a major shift in policy, the world of the twenty-first century will be one of economic apartheid. There will be two dozen richer nations, a dozen or so poorer nations that have begun to close the gap with the rich, and approximately 140 poor nations slipping further behind.



Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

## Globalization of North and South

What about the administration's assumption that policies promoting U.S. business are good for overseas as well as domestic markets—that free markets and globalization raise standards of living across the board in both North and South? Here, too, the Clinton administration has missed a fundamental new reality of the global economy. As U.S. firms have shifted from local to national and now global markets over the past half century, a new division of winners and losers has emerged in all countries. A recent book, *Global Dreams: Imperial Corporations and the New World Order*, written by one of the authors and Institute for Policy Studies co-founder Richard Barnet, chronicles how powerful U.S. firms and their counterparts from England, France, Germany, and Japan are integrating only about one-third of humanity (most of those in the rich countries plus the elite of poor countries) into complex chains of production, shopping, culture, and finance.

While there are enclaves in every country that are linked to these global economic webs, others are left out. Wal-Mart is spreading its superstores throughout the Western Hemisphere; millions in Latin America, though, are too poor to enjoy anything but glimpses of luxury. Citibank customers can access automated-teller machines throughout the world; the vast majority of people nevertheless borrow from the loan shark down the road. Ford Motor Company pieces together its new "global car" in Kansas City from parts made all over the globe, while executives in Detroit worry about who will be able to afford it.

Thus, while on one level the North-South gap is becoming more pronounced for the vast majority of Third World countries, on another level these global chains blur distinctions between geographical North and South. These processes create another North-South divide between the roughly one-third of humanity who comprise a "global North" of beneficiaries in every country and the two-thirds of humanity from the slums of New York to the favelas of Rio who are not hooked into the new global menu of producing, consuming, and borrowing opportunities in the "global South."

In contrast with the Pollyanna-ish assumptions of the Clinton administration, globalization, accelerated by the administration's new free-trade and investment agreements, has deepened three in-



Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

tractable problems that now plague almost every nation on earth including the United States: income inequalities, job losses, and environmental damage.

*Income Inequalities*

The major adverse consequence of quickening global economic integration has been widening income disparity within almost all nations as the wealthier strata cash in on the opportunities of globalization, while millions of other citizens are hurt, marginalized, or left behind. Years ago, economist Simon Kuznets hypothesized that as economies develop there is initially a growth-equity trade-off, i.e., income inequalities rise as nations enter the early stages of economic growth and fall in more mature economies. Today, however, the inequalities are growing everywhere—to such an extent that in late 1994 the *Economist* acknowledged that "it is no coincidence that the biggest increases in income inequalities have occurred in economies . . . where free-market economic policies have been pursued most zealously" and that "it is a combination of lightly regulated labour markets and global economic forces that has done much more . . . to favour the rich over the poor."

One sees this in the perverse widening of the gap between rich and poor within nations and across the globe. Thirty years ago, the income of the richest fifth of the world's population combined was 30 times greater than that of the poorest fifth. Today, the income gap is more than 60 times greater. Over this period the income of the richest 20 per cent grew from 70 to 85 per cent of the total world income, while the global share of the poorest 20 per cent fell from 2.3 to 1.4 per cent.

The number of billionaires grew dramatically over the past seven years, coinciding with the spread of free-market policies around the world. Between 1987 and 1994, the number more than doubled from 145 to 358. According to our calculations, those 358 billionaires are collectively worth some $762 billion, which is about the combined income of the world's poorest 2.5 billion people. (There are no figures for the combined wealth of the world's poor, but since most have little wealth beyond income, their wealth total would not be much higher than their income total.) At the bottom, 2.5 billion peo-



Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

ple—approximately 45 per cent of the world's population—eke out an existence using just under 4 per cent of the world's GNP. At the top, 358 individuals own the same per cent.

The impact of free-market policies on this concentration of wealth has been particularly pronounced in Mexico, a country that essentially began its free-market opening in 1986 and that, until the peso debacle of December 1994, was often presented as the model of these policies' success. In 1987, there was just one billionaire in Mexico. By 1994, there were 24 who accounted for $44.1 billion in collective wealth. This exceeded the total income of the poorest 40 per cent of Mexican households. As a result, the 24 wealthiest people are richer than the poorest 33 million people in Mexico.

### *Job Losses*

With the exception of a few East Asian economies, every nation—North and South—is grappling with high or rising unemployment, and many, including the United States, are suffering from deteriorating working conditions for a sizable share of the workforce. Worldwide, more than 800 million people are unemployed or seriously underemployed, with tens of millions more falling into this situation each year. Technology has combined with globalization in a devastating manner to spawn this crisis of work. Unlike previous industrial revolutions, the two most important technological innovations in recent decades—information/computers and biotechnology—destroy more jobs than they create. At the same time, rapid strides in transportation and communications technologies allow increasing numbers of jobs to be sent to countries other than the United States. Whereas a generation ago, firms shifted only apparel and consumer electronics jobs overseas, today they can move virtually the entire range of manufacturing and agricultural tasks (and a number of service jobs as well) to China, Mexico, or a range of other countries.

As corporations and governments alike strive to compete globally by cutting costs, the move to slash jobs accelerates. *Fortune* 500 firms have cut approximately 400,000 jobs a year for the past 15 years. As many as one-third of U.S. workers are swimming in a global labor pool; their jobs can be moved elsewhere, and this fact confers on their global corporate employers enhanced power to bargain down wages



Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

and working conditions.

U.S. car companies, for example, can attain roughly equivalent levels of productivity and quality at their Mexican plants today as in their U.S. plants. The denial of basic worker rights in Mexico, however, severely hampers Mexican workers' efforts to negotiate improvements in their working conditions, and their wages remain a fraction of those of U.S. autoworkers. The credible threat of moving more production to Mexico gives the U.S. companies bargaining chips against their U.S. workers when wages and benefits are set. Overall Mexican productivity climbed by at least 24 per cent during the boom years from 1987 to 1992, while wages rose only 13 per cent; this gap has increased even more since the peso crisis of late 1994. Likewise, according to the U.S. International Trade Commission, Brazilian workers were 59 per cent as productive in 1986 as U.S. workers but earned 17 per cent of the average U.S. wage. Even in Bangladesh, shirtmakers are about 60 per cent as productive as their American counterparts but earn only 3 to 5 per cent of a U.S. salary.

In the South, roughly 38 million people enter stagnating job markets each year. Markets for Third World products are expanding quite slowly in the rich countries, and biotechnology innovations that create synthetic substitutes for everything from vanilla to cocoa and coffee threaten to eliminate the livelihood of millions of Third World agricultural workers. As in the United States, real wages have fallen in most of Latin America and parts of Asia since the early 1980s—a shock that hits women particularly hard since they earn 30 to 40 per cent less than men doing the same jobs.

As job pressures grow across the South, many people leave for Europe and North America, where job markets are also tight. Violent acts of xenophobia and racism in the North are some of the ugliest manifestations of this current era of inequality and joblessness.

### *Environmental Damage*

Just as jobs and working conditions become bargaining chips for firms in a deregulated global economy, so too do environmental standards. If the Mexican government can attract foreign firms by ignoring violations of environmental laws, it will do so, and, arguably, it must do so or lose investment. The same logic fuels the Republican party's crusade to eliminate a wide range of



Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

environmental and other regulations in the United States.

Another pressure on the environment in the South is the constant admonition by the World Bank and the IMF to increase exports. Since most of the world's minerals, timber, fish, and land are in the South, exports tend to be natural-resource intensive. The depletion of these resources hurts yields for millions of small farmers and fishers. The frenzy to ship more goods overseas accelerates environmental degradation and thus diminishes the real, long-term wealth of Southern nations.

On the other hand, as Southern countries have rightly pointed out, most of the world's consumption, greenhouse gas emissions, ozone-depleting chemical emissions, and industrial pollution occur in the North. The heaviest burden for global environmental action rests there. But the creation of a "global North" in the South through the big-emerging-markets strategy also spreads environmental havoc. Following annual economic growth rates averaging 10 per cent since 1978, China's commercial sector consumes more than 1 billion tons of coal annually; thus China produces nearly 11 per cent of the world's carbon dioxide emissions. If this rate of climb continues, the impact on global warming will be catastrophic. In India, increased consumption will exacerbate a situation where scale already exceeds carrying capacity: 16 per cent of the world's population is degrading just 2.3 per cent of the world's land resources and 1.7 per cent of its forest stock. And to compensate for falling oil revenues, Indonesia is tearing down the world's second-largest tropical rainforest, becoming the world's largest exporter of processed wood products.

## Comparative Disadvantage

The North-South reality of the mid-1990s hardly matches the soothing scenario suggested by the Clinton administration. Rather, we find the ominous combination of a growing gap between the majority of the Southern and Northern countries as well as the existence of a privileged minority in a "global North" and a marginalized majority in a "global South." Indeed, our analysis suggests three sets of problems that demand attention:

- Most of the "global South"—some 45 per cent of humanity who reside mainly in the 140 poorest countries of the Third World—is locked in poverty and left behind as the richer strata grow.



Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

- Roughly 20 per cent of the world's population—who are at the upper end of the two-thirds in the "global South," mainly in the big emerging markets—is beginning to enter the global consuming class in a fashion that threatens the environment and exacerbates social tensions.
- An increasing number of workers among the top one-third, or "global North," of the world is experiencing falling incomes and an erosion of worker rights and standards.

Thus far, U.S. policy has largely ignored the bottom 45 per cent, concentrated on the middle 20 per cent in the big emerging markets, and exacerbated the tensions within the top third. The challenge for U.S. policymakers is to focus on this new global picture with a two-tiered set of policies—one aimed at the forsaken 45 per cent primarily in Southern countries and the other focused on the growing inequalities and the job and environmental crises mainly in the big emerging markets and the richer countries of the North. The seeds of what has to change in terms of aid, debt, trade, and investment policies have, in most cases, already been planted. And, as was suggested earlier, the administration has ready venues to change course in the current policy debates on NAFTA expansion, aid reform, and World Bank and IMF restructuring.

*The Bottom 45 Per Cent*

The main U.S. policy arena addressing the problems of the world's poor is the debate over aid. Helms is achieving deep cuts in aid but wrongly asserts that most poor countries are "foreign rat-holes" and are, hence, undeserving of assistance. Virtually all countries in the world now pursue the same basic package of market-opening, privatizing, government-trimming, export-driven policies. While it is true that there is more corruption and inefficiency in some countries than in others, this is as true for favored countries that are at the center of U.S. policy (e.g., Mexico) as for the 140 neglected countries (e.g., Zaire).

At the same time, anyone who has studied development projects and policies on the ground cannot help but acknowledge the truth in some of Helms's criticisms: Much U.S., World Bank, and other aid either fails to ease poverty or is conditioned on the recipient nation adopting policies that deepen social and environmental pain. More



Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

of the same aid is not the way to close the gap. The key is to make less aid more effective. The current obsession in Washington with restructuring aid agencies will be misplaced if it does not focus on the quality of aid. Any restructuring must learn from a growing number of aid experiments throughout the world that channel small amounts of funds directly to entities run by local citizen groups with guidelines that stress sustainability, participation, and equity.

While it would be a good step to redirect more aid in this manner, a great deal more needs to be done outside the realm of aid to stop the hemorrhage of resource flows from the bottom 140 countries to the North. The most fruitful avenue is to try to close the gap by taking less money out of the South rather than by getting more money in. Here the focus needs to shift back to debt. The place to begin is with the roughly 17 per cent of Third World debt owed to the World Bank and the IMF—with far higher percentages owed by the poorest African nations. The World Bank and the IMF could readily use their reserves ($17 billion and $40 billion, respectively) to cancel much of the outstanding debt owed to them by the poorest countries. The World Bank could likewise write off loans to other countries for projects and programs that have failed by its own economic criteria and/or have had severe adverse effects on local populations and the environment. (A World Bank study found that in fiscal year 1991 more than one-third of its projects were "unsatisfactory at completion" in meeting a minimum economic rate of return.)

As governments debate World Bank restructuring, it is important to note that there are alternatives to the World Bank's formula of excessive dependence on exports and capital inflows. If the goal is to prevent nations from falling into debt again, then debt reduction can be conditioned on policies that encourage productive investment, provide assistance to small entrepreneurs and farmers, and encourage less indebted economies. One alternative worth considering, proposed by a number of Mexican economists, is the adoption of policies for the World Bank and Mexico that reestablish land rights for the poor, steer access to affordable credit to small farmers and entrepreneurs, and restrict inflows of short-term speculative investment.

Economic reformers in Mexico and elsewhere also push for effective systems of fair taxation, while acknowledging how difficult that goal is since most tax systems are poorly enforced. Most critics of the World Bank model acknowledge the need to maintain smaller export



Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

sectors to finance vital imports of capital goods but place greater emphasis on production for the domestic market, as was done in South Korea and Taiwan in their early years of industrialization.

The World Bank and the Agency for International Development should also be restrained from pressing dozens of countries into simultaneous export binges on everything from cut flowers to coffee; the impact of so many countries exporting the same products will inevitably be to depress world prices. And these institutions should nurture the small but growing movement that is stimulating trade in goods produced under conditions that respect worker rights and the environment and recognize the deep discrimination that frequently exists against female producers. "Fair trade" entrepreneurs, who are particularly strong in Europe and are spreading in North America, are now responsible for hundreds of millions of dollars of trade in coffee, textiles, and other products and are developing new notions of what constitutes socially and environmentally responsible trade.

Not surprisingly, the agenda suggested for the bottom 45 per cent draws from a more traditional set of remedies on how to shrink the North-South gap. However, attacking the trio of problems outlined for the global North and South—the inequities, joblessness, and environmental degradation—demands that these be implemented in conjunction with a newer set of policy instruments.

### *The Big Emerging Markets and Anxiety at the Top*

Rather than quickening the pace to compete in an increasingly deregulated global economy, the United States can lead in calling for new rules to temper economic integration's socially and environmentally destructive effect upon unequal nations. It is important to recall that the United States rose to this same challenge on a national level in the 1930s when large firms were integrating the U.S. national economy and, in the process, playing rich unionized states off poor nonunion states. A strong trade-union movement created the momentum for Franklin Roosevelt's administration to set new national rules for minimum wages, maximum hours of work, and decent health and safety standards.

In the 1990s, this same dynamic now occurs on a global stage, where global corporations play workers and environmental standards against one another to bargain richer countries down to the standards



Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

of the poorer ones. Free-trade agreements that accelerate integration without explicitly safeguarding labor and environmental rights and standards are only deepening global job and environmental crises. Therefore, internationally recognized standards on worker rights (including freedom of association, the right to collective bargaining, and a ban on discrimination based on gender or race) and the environment, which have been hammered out by member governments of the International Labor Organization (ILO) and various international environmental treaties, need to be grafted onto new trade agreements so that firms benefiting from lower tariffs would be obligated to respect those rights and standards.

The first steps in this direction have already been taken. Since 1984, U.S. trade law has conditioned the granting of "trade preferences" to a developing country's respect for internationally recognized worker rights. Threats by the U.S. government to withdraw trade preferences have led to important reforms in a number of countries. For instance, in response to looming U.S. sanctions, El Salvador has worked with the ILO to adopt a more comprehensive labor code. The government of Sri Lanka reacted to similar pressure by agreeing to open its garment industry to collective bargaining. Indonesia announced a 29 per cent increase in its minimum wage in 1994 after the United States threatened to remove trade preferences. Building on this U.S. trade law, NAFTA's negotiators crafted side agreements that threaten minor sanctions to encourage enforcement of a small number of labor rights and environmental standards.

In addition to social clauses on trade agreements, global corporations should be held to codes of conduct that require compliance with these rights and standards. A number of U.S. firms, including Levi Strauss and Sears, have taken a step toward comprehensive corporate codes by agreeing to voluntary codes for the firms with which they subcontract in the Third World.

New corporate codes and socially responsible trade and investment agreements would not solve all the world's job, environmental, and inequality problems, but they could be implemented in the short term and would help reverse the negative dynamic we now face. In the long term, such policies would be more effective if supplemented with strong national policies to address the job and environmental problems jointly.

Even with the best codes of conduct and social clauses on trade



Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

agreements, increased trade is likely to continue to be based on the unsustainable exploitation of natural resources. This creates two challenges: first, to raise standards of living in the big emerging markets and other Southern nations without exceeding the Earth's environmental limits and, second, to get Northern societies to acknowledge the costs to the environment of their already high standards of living. Across the board, nations—and individuals—need to acknowledge the environmental costs of economic decisions.

One way to reduce trade in natural resources (such as virgin timber) and the use of resource-intensive products (such as cars) is for governments to adopt accounting systems that factor in the real costs of natural-resource depletion and environmental degradation. In fact, technical work on "environmental accounting" is already quite advanced, as seen in the World Resources Institute's work in Costa Rica, Indonesia, and other developing countries. Even the U.S. Commerce Department has begun recalculations for a "green GDP." In this regard, the World Bank and the IMF should be required to adopt a system of "shadow pricing" that accounts for environmental costs in their projects and programs. This would be an important step in the direction of seeing "green GDPs" become the conceptual framework across the globe.

## Enlightened Self-Interest

For the next year, the Republican Congress will reinforce the Clinton administration's hesitancy to embrace a number of these proposals. Yet, there is an impetus for a shift in policy regarding the poorer majority of the world. In the tough debate over NAFTA, citizens' groups—trade unions, environmental groups, organizations of small farmers, consumer activists, religious groups, women's groups, and others—emerged in Canada, Mexico, and the United States to press for safeguards on labor, the environment, and agriculture. While only small gains were realized in the final agreement, the democratization of the debate over international economic policy continued during the recent GATT deliberation and is likely to characterize the next debates over integration in the Americas and Asia. Similar citizen coalitions throughout the world have likewise gathered momentum for reform of the World Bank and the IMF.

In other words, segments of civil society seem ahead of U.S. pol-



Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

icymakers in comprehending that the widening inequalities within nations and between North and South pose crucial challenges that are in our enlightened self-interest to meet. Working conditions in a number of Third World countries have an increasing impact on working conditions in the United States. Growing inequalities in the South are increasing the flow of people, drugs, and environmental problems into the North. The rapid rise of the rich and the emergence of a middle class in the big emerging markets increase instability and tension vis-à-vis the vast numbers of people left behind—witness the growing labor unrest in China, Indonesia, and Mexico, as well as the continuing rebellion in Mexico's Chiapas state.

While the Clinton administration can continue to respond belatedly to crises and fall back on its faulty assumptions about the North-South economic reality, the attendant problems of the post–Cold War global economy will inevitably become clearer as an increasing number of people in the North and South are hurt. There is no way to get around the need for a fundamental rethinking of the North-South agenda. The question is simply whether the United States will take the lead in resolving these problems or will instead wait and be led.



Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.