Chapter 27
Trade Liberalization and Globalization[1]

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Trade liberalization is the reverse process of protectionism. After previous protectionist decisions, trade liberalization occurs when governments decide to move back toward free trade. Trade liberalization may take place unilaterally. Extensive trade liberalization that occurred among the richer countries in the second half of the twentieth century was however reciprocal and multilateral. Many governments reciprocated each other's liberalization decisions, and the liberalization was non-discriminatory in applying to all liberalizing trading partners. The trade liberalization was accompanied by liberalization of international capital markets and by substantial international migration, both legal and illegal. International agreements and conventions also unified rules of conduct concerning protection of property rights, including intellectual property rights related to proprietary knowledge. The outcome of these liberalizing and integrating processes is known as globalization. The issues are why or how did globalization occur, and whether the outcome has been good for humanity.

Reciprocal Liberalization

A government can transfer income to an import-competing industry through unilateral protection. Incomes in export industries can be unilaterally increased through export subsidies. The articles of the pre-1995 General Agreement on Tariffs and Trade (GATT) and the rules of the successor World Trade Organization (WTO) do not view export subsidies favorably, and allow duties to be levied to counter export subsidies. If there has been past protection, income can instead be transferred to an export sector by unilateral liberalization, provided that exporters have access to foreign markets. Foreign protectionist barriers may limit access to foreign markets to exporters. When foreign import quotas limit exports, exporters need to be included in the quota to have market access and cannot sell more than the allowed quantities. Foreign tariffs impose additional costs of selling in the foreign markets. Exporters

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will regard the elimination or reduction of foreign import quotas and tariffs as providing them with market access, or market access under more favorable conditions.

Policy makers dealing with trade liberalization are, in practice, vitally concerned with such notions of market access. By exchanging market access for each other's exporters, governments hope to be seen as reciprocally providing benefits for each other's export sectors with an effectiveness, or a visibility, that may not be possible through unilateral liberalization. Each government benefits politically from the market access provided for its export industries by the other reciprocating government (Hillman et al. 1995; Hillman and Moser 1996).

This practical concern with the exchange of market access reflects a mercantilist view of international trade by policy makers. The mercantilist view is that granting of access of foreign goods to the domestic market is not a socially beneficial policy for the liberalizing economy. Rather, allowing foreigners to sell in the home market under more favorable conditions of market access is a "concession" or "favor" that compromises the rights of domestic producers to their own market and requires a reciprocal favor of foreign market access in return.

How much protection each government retains after providing and receiving market access for exporters depends on the relative political influence, or political importance, of export and import-competing industries. Politically optimal exchange of market access need not therefore result in an agreement to eliminate all trade barriers to implement free trade. Reciprocal liberalization will in particular be gradual, if governments are constrained in the magnitude of the income losses that can be imposed at any point in time on the import-competing industries that lose from the reciprocal liberalization (Ethier 2001, 2002).

Consider a country that is small relative to the world market. The world market consists of the combined national markets of all potential trading partners. With open access to the world market under conditions of free trade, exporters in such a small country have no problems of market access. They can sell all they wish at given world prices. If however the world market consists of segmented national markets with import quotas or tariffs, and if the small country is large in any of these markets, its exporters will benefit from improved conditions of foreign market access. This potentially provides governments of even small countries with incentives to participate in negotiations for reciprocal exchange of market access.

Any particular exporting firm in any country is likely to be grateful for perceived improvements in conditions of foreign market access, either through elimination or relaxation of quota restrictions or through reduced foreign tariffs. The firm may be able to receive a higher price for its exports, which from the country's perspective is an improvement in the terms of trade. Improved foreign market access is beneficial for the firm even if new export sales take place without price increases. The benefit is evident if the firm is not capacity constrained. If the firm has no immediate excess capacity, new investment can increase capacity. With the firm's selling price providing a mark-up of costs, providing long-run average costs does not significantly increase when production capacity is expanded; profits increase through increased export sales. If the expansion of firms is at the expense of the import-competing

sector, through diversion of investment and labor hired away from import-competing firms, incomes in the import-competing sector decline. A government that reciprocally liberalizes imposes losses on the domestic import-competing sector.

Since new markets that allow increased sales without increases in price are valuable to exporting firms, the exchange of market access that reciprocally benefits export firms in different countries does not require improvements in the terms of trade. Indeed, with only two countries, it is impossible for liberalization through reciprocal exchange of market access to improve the terms of trade of both countries. Each country benefits from more trade at unchanged terms of trade because protection causes each to value imports higher than what it must pay to buy them from its partner.

Unilateral liberalization would however deteriorate the terms of trade of the liberalizing country (if the country's population can collectively influence the terms of trade). Reciprocal liberalization through exchange of market access avoids significant losses in the terms of trade for any country. Reciprocal tariff liberalization could, for example, leave the terms of trade unchanged. Export sectors in both countries will have however benefited from an increase in the relative domestic price of their products that is not neutralized, even in part, by a deterioration in the terms of trade.

Through reciprocal liberalization, two liberalizing governments forgo tax revenue to transfer income to their own exporters, while reciprocal liberalization prevents part of that revenue from being captured by foreign exporters. The reciprocal trade liberalization that occurs is also beneficial for society at large in each country, by moving countries closer to free trade. The social benefits of more liberal trade policies have come about, however, because of the political interest in opening foreign markets to export industries (Hillman et al. 1995; Hillman and Moser 1996).

Terms of Trade Changes

Trade liberalization as exchange of market access is consistent with the political-economy premises of a public choice view of policy determination, because of the focus on income distribution and political motives for policy decisions. An alternative view emphasizes the effects of terms of trade changes on social welfare. After governments have reciprocally imposed tariffs with the intent of improving the terms of trade, there are in general reciprocal incentives to liberalize trade. Countries can possibly be better off in the Nash equilibrium than in free trade (see *international trade policy: departure from free trade*), but losses incurred because of the tariffs through domestic inefficiencies and reduced volumes of trade more generally provide mutual gains from trade liberalization. Although mutual tariffs are the Nash equilibrium outcome in a single-move prisoners' dilemma game where governments impose tariffs with the intent of improving the terms of trade, applications of the theory of repeated games, and in particular the folk theorem of repeated games, show how mutually beneficial self-enforcing

contracts to move toward free trade can be an equilibrium outcome. It is typically assumed that such contracts are supported by the threat that any deviation by a government would result in reversion to the static Nash equilibrium tariffs. However, in actual practice, deviations normally trigger negotiations (which in the WTO are governed by an elaborate dispute settlement procedure) to determine what retaliatory tariffs should be imposed. This raises the possibility that renegotiation could undermine the threats on which the contracts are based, and when tariff contracts are restricted to being "renegotiation proof", free trade cannot be achieved (Ludema, 2001).

When negotiations however take place to liberalize trade, the issues actually on the agenda involve willingness to reduce protectionist barriers in order to exchange market access, rather than how trade liberalization will affect the terms of trade. The contingent protection (see *international trade policy: departure from free trade*) that accompanies trade liberalization agreements confirms the political sensitivity to income distribution consequences of trade liberalization.

Still, if terms of trade changes are significant, governments would have incentives to take terms of trade changes into account when formulating policies to achieve domestic income distribution objectives (Bagwell and Staiger, 1999, 2001). Because of changes in the terms of trade, a government may not be prepared to liberalize unilaterally to assist export sectors. If the terms of trade are not determined in a broader world market, prices received by home exporters fall when the terms of trade decline because of unilateral liberalization. There are therefore two influences on prices of the export sector's output when trade liberalization is unilateral. The export sector benefits with unchanged terms of trade. If however the terms of trade deteriorate, the sensitive problem for a government may not be the social loss, but the compromise of the objective of liberalizing to benefit the export sector. Reciprocal liberalization avoids or moderates the deterioration in the terms of trade that would disadvantage exporters.

While terms of trade effects influence incentives to negotiate reciprocal liberalization when terms of trade effects are significant, the incentives for reciprocal trade liberalization are present without terms of trade changes, through the mutual political benefits from increasing exporters' incomes through reciprocal liberalization to exchange market access (Hillman et al. 1995; Hillman and Moser 1996; Ethier 2001, 2002).

Multilateral Liberalization

Trade liberalization has not been bilateral, but negotiated in a sequence of multilateral agreements. The multilateral agreements were based on a most-favored nation clause (MFN), which required any market access for exporters from one country to be provided to exporters from all countries (Horn and Mavriodis 2001). MFN is a means of confronting opportunism in the exchange of market access in a multi-country world (Ethier 2001). Market access can be simultaneously exchanged with many countries, in principle at different terms. For example, two countries might

negotiate trade liberalization and agree to levy tariffs of 20% on each other's trade, when trade with other countries is subject to higher tariffs. Afterwards, one of the two countries can proceed to negotiate further liberalization with a third country with (for example) reciprocal 10% import duties. The market access provided to the first trading partner is thereby devalued, since the first trading country still confronts the 20% tariff while the new trading partner is advantaged by the superior market access of a 10% tariff. The way to avoid such devaluation of benefit of negotiated market access is to insist that whatever "favors" are granted to one country are also granted to all other countries with whom trade agreements are in place. The outcome is multilateralism in trade liberalization.

Non-discrimination in trade liberalization through the MFN clause was therefore not due to principles of "fairness" and enlightenment in seeking equal treatment to establish a liberal international trading environment. The universal openness of multilateral liberalization was rather the equilibrium outcome of the non-sustainability of bilateralism in the face of potential opportunism in exchange of market access. Multilateralism protected the prior benefits of producers that had been negotiated by exchange of market access (Ethier 2001, 2002).

Liberalization and Contingent Protection

Contingent protection (see *international trade policy: departure from free trade*) allows governments to protect selected industries even though prior commitments were made that trade was to be liberal. Contingent protection encourages ex-ante agreement on trade liberalization, since liberalization agreements do not have to be complete in covering all possible contingencies regarding future changes in international comparative advantage.

Contingent protection is therefore a form of political insurance when trade liberalization is negotiated. Future outcomes that are politically non-tenable can be addressed if the need arises through the provisions of contingent protection. Multilateralism adds a further dimension to the insurance role of contingent protection (Ethier 2002). Countries negotiate trade liberalization realizing that, ex post, no sovereign government will do anything that is against its own interest. Negotiated liberalization therefore cannot exceed the liberalization preferred, ex post, by the country most reluctant to liberalize. When negotiations take place, it is not known how future changes in comparative advantage will affect exporters of different countries. Future outcomes can result in leaders (whose exporters are the most efficient), followers (whose exporters compete abroad with those of the leaders), and laggards (whose import-competing firms compete with exporters from both the leaders and the followers). The leaders will capture export markets from the laggards, and also from followers who export to the same markets. The followers, whose goods are less attractive to buyers for price or quality reasons, will then lose sales in export markets. Discriminatory protection by laggards against leaders through anti-dumping duties or voluntary export restraints protects the laggard's own home market and also protects followers from the advantages of the leaders.

This form of protection however, provides the leaders with compensatory rent transfers. Adequate compensation provides leaders with incentives to accept the protection of the laggards without retaliation. Governments know at the stage of negotiation of liberalization agreements that, should their exporters in the future be followers rather than leaders, protection by the laggards will discriminate against the leaders. Under conditions of uncertainty about whose exporters will be leaders, followers, or laggards, contingent protection therefore makes liberalization more attractive than if the discriminatory contingent protection were not part of future policy possibilities. Thus, ex ante, more liberalization can be negotiated. In a multilateral context, the insurance against adverse comparative advantage outcomes provided through contingent protection is, therefore, also multilateral (Ethier 2002).

Preferential Trading and Regionalism

Preferential trading arrangements (Pomfret 1988) depart from MFN treatment in providing selective discriminatory exchange of market access to participating countries. While discriminatory preferences contradict the MFN treatment, the arrangements are permissible in the GATT—WTO framework, provided the participating countries substantially reduce internal trade barriers among themselves and trade barriers against other countries do not rise on an average.

A preferential trading agreement can take the form of a customs union such as in the case of the European Union, or a free-trade area as in the case of NAFTA (North American Free Trade Agreement). The members of a customs union have a common foreign trade policy. A free-trade agreement permits each member country to maintain an independent trade policy with other non-member countries.

A free-trade agreement therefore requires internal border policing to certify the origin of goods and to prevent goods entering the free-trade area through the least protectionist country and then moving to more protectionist countries. Preferential trading arrangements are usually regional, and are part of a liberalizing process that has been called regionalism. A free-trade agreement avoids opportunist behavior in exchange for market access. By completely liberalizing all the way to free trade, the countries in the regional agreements are left with no scope for depreciating the value of the agreements by offering better terms of market access to others.

There is no assurance a customs union is on balance beneficial for a domestic population. A customs union provides benefits through liberal internal trade among member countries according to comparative advantage, and also provides benefits through a greater variety of products available to consumers in the expanded market (Levy 1997). These gains are balanced against losses from trade diversion.

Trade diversion occurs when, because of the preference in market access to member countries, the customs union makes more expensive goods seem cheaper to a member country’s consumers. For example, a good from the cheapest foreign source may cost $00, but the country is outside the customs union and an import

duty of 50% is levied on the good. Consumers would therefore pay $150 if they purchased imports from the cheapest foreign source. Producers from a country within the customs union can supply the same good for $140, and there is no duty because of the free market access of the member country. Consumers therefore buy from the cheaper member country's producers. There is therefore a $40 loss on every unit of the good imported. If domestic consumers were to buy from the cheapest foreign source, the cost would be $100 paid to the foreign producer, and an import duty of $50 paid to the home government. A benevolent government would however return the $50 to consumers through public spending or reduced taxation, leaving a net cost to consumers of $100. In these circumstances, a country's consumers confront a multi-person prisoners' dilemma (Hillman 1989). The country's consumers would all be better off if they collectively ignored the privately cheaper duty-free good, and bought the privately more expensive good that is less expensive at world prices.

Trade diversion can occur when a customs union complies with the GATT/WTO restriction that trade barriers against non-member countries do not increase. Under a first-best policy of non-discriminatory free trade, losses from trade diversion could not occur. A customs union is a case of the second-best, because free trade is not with everybody (Viner 1950). Because of trade diversion, the question whether joining a customs union is beneficial for a country's population requires an empirical answer.

A free trade agreement allows each government to set import duties to avoid losses from trade diversion. If external duties in a customs union are low, prospects for trade diversion are also low: free trade within the European Union emerged in the latter parts of the twentieth century in the aftermath of extensive multilateral trade liberalization that reduced the scope of anticipated losses from trade diversion. Changes in political will to protect after entry into a customs union can also diminish trade diversion (Richardson 1993).

Although the formation of a customs union can result in net losses because of trade diversion, in principle every move towards world free trade through membership of countries in customs unions can be manipulated to be beneficial for members of the customs union without loss to other countries (Kemp and Wan 1976). Whenever a group of countries forms a customs union, it is possible to find a common external tariff for the customs union and compensating lump-sum payments between members of the union, such that no person, whether in the customs union or not, is worse off than before the formation of the union. The lump-sum transfers here are among the governments of the countries, in the first instance. Further lump-sum transfers would distribute the compensating payments to individuals. With the provision that lump-sum transfers among individuals are feasible, the path to world free trade through the formation of groups of countries into customs unions can be made Pareto-improving (that is, some people could always be made better off in each step without anyone being made worse off). A problem is that members of a customs union need have no particular incentive to constrain themselves to adopt a common external tariff that does not harm outsiders.

Non-Economic Motives

The motives for preferential trading agreements are often non-economic. Regional governments do not usually commission measurement of gains from trade creation and losses from trade diversion. The motives for formation of the European Union were not principally economic. The intent of the founders was to end the European conflicts that had been due to past animosities among nation states, and to provide a counter to the United States. There was also a prescience that a united Germany would fit better within a united Europe.

Foreign Investment and Migration

Regional preferential trading arrangements are a means of poorer countries competing for foreign direct investment from richer countries (Ethier 1998a, 1998b). The attraction for foreign investment is that a free-trade agreement allows duty-free import of inputs and duty-free export of goods produced in poorer countries to markets of richer countries. For example, the exchange of market access through NAFTA was one sided, with low-income Mexico eliminating more protectionist barriers than the United States and Canada. In mercantilist terms, Mexico made more concessions or gave up more than it received, since it already had quite free access to the U.S. and Canadian markets. NAFTA however provided incentives for foreign investment to go into Mexico, rather than into other countries like Mexico, because of the marginal increase in market access to its northern neighbors that NAFTA gave to Mexico. From the vantage of the United States, foreign investment in Mexico could reduce incentives for illegal immigration by increasing the demand for local labor.

Unilateral Trade Liberalization

Governments have sometimes liberalized trade policy unilaterally, without the strategic considerations of exchange of market access. By liberalizing unilaterally, a country's government places itself in a situation where there are no "concessions" left to exchange with foreign governments that have not likewise completely liberalized. Unilateral liberalization took place as a part of a process of development assistance to poorer countries, although evidence indicates that political influence affected the market-access concessions that were granted (Ray, 1987). Unilateral liberalization in poorer countries has also sometimes occurred as part of policy conditionality for World Bank assistance.

The most prominently researched case of unilateral trade liberalization is the repeal of the Corn Laws in nineteenth century England (Irwin 1989; Schonhardt-Bailey 1996, 1997). The Napoleonic Wars had provided natural protection for English agriculture. Afterwards, the natural protection was replaced by protection through government policy. One hypothesis is that repeal of the Corn Laws, as the

protectionist polices were known, reflected enlightened liberal trade policy responding to the case for free trade that had been made by David Ricardo through his theory of comparative advantage. A political economy view looks in the direction of political popularity and private self-interest to explain the unilateral trade liberalization. England imported food, and the real wage was determined in terms of food. Those who benefited from the protection provided by the Corn Laws had however successfully resisted trade liberalization for some decades to maintain their agricultural interests. The trade liberalization took place when the previous stringent opposition of agricultural interests had subsided. An investigation of the asset composition in the estates left by landowners reveals diversification of asset ownership out of land and into transport and industry (Schonhardt-Bailey, 1991). No one in a country would have an interest in protectionist policies and there would be national consensus for free trade, if domestic asset markets permit the population of a country to perfectly diversify asset holdings to reflect the composition of national productive assets or resources. Free trade, which maximizes national income, would then also maximize each individual's personal income. It is *asymmetric* domestic asset ownership that defines special interests, and which underlies the political-economy relation between income distribution and endogenous protectionist policies. The asset diversification of prior landed interests is consistent with a change from previous support for protection to support for trade liberalization.

More generally, amenability to trade liberalization can be linked to development of domestic and global asset markets that have allowed diversification of personal income sources (Feeney and Hillman 2001). The asset diversification moderates or eliminates the association between individuals' incomes and special-interest industry identities. Industry-specific factors of production continue to exist, but the income from the industry-specific factors is spread by opportunities for diversification in asset ownership. As asset markets became more developed in the second half of the twentieth century, the asset diversification reduced industry-specific associations and changed personal interests to be more supportive of trade liberalization. When governments negotiated trade liberalization, asset markets moderated prior domestic opposition to liberal trade policy, and there were more beneficiaries of the expanded national income from exchange of market access.

Markets allowing people directly to diversify their human capital holdings do not exist, and there is a question whether opportunities for diversification of physical capital allow a fully diversified portfolio to be achieved by balancing non-diversifiable human capital against diversifiable physical capital. There will also be principal-agent problems when individuals are completely diversified. Risk-averse investors invest in mutual funds to diversify their asset portfolios, and, if fully diversified, have an interest in trade liberalization. At the same time, stock option schemes, which are intended to give managers an interest in the profitability of individual firms, also give managers an interest in lobbying for industry protection that increases the value of the stock options. Solving the shareholder—manager principal—agent problem through stock options therefore gives rise to another principal—agent problem where managers resist the liberal trade policies that benefit diversified shareholders (Cassing, 1996).

Globalization

Liberalization of international trade, and also of international capital transactions, resulted toward the end of the twentieth century in a phenomenon known as globalization. The term globalization refers to the integration of national markets into global markets. Globalization occurred as multilateral trade liberalization and the regional agreements reduced trade barriers among the richer countries, and as restrictions on international capital market transactions were lifted. Globalization was also facilitated by the new ease of international communications. Trade patterns, which had previously been based on the richer countries trading among themselves and importing raw materials and low-valued goods from poorer countries, changed. In the United States, the proportion of imports from the poorer countries increased from 14% in 1970 to 35% in 1990. In Western Europe the increase was from 5% to 12% in the same period (inclusive of intra-European trade). The types of goods exported by the poorer countries also changed. By 1992, 58% of the exports from the developing countries to the developed world were light manufactured goods, compared with 5% in 1955 when many of the poorer countries were still colonies of European countries. The change in the volume and composition of the international trade of poorer countries was accompanied by increased international mobility of capital. Political risk was reduced in those poorer countries where the rule of law prevailed and private property rights were protected. Adherence to the rule of law provides assurance for foreign investors that their ownership rights were protected. At the same time, domestic changes in the poorer countries led to improvements in education and health of the local populations, which permitted domestic labor to be mobilized for organized market activity.

The changes affected domestic income distribution. Economic theory predicts that, without international investment and migration, free trade in goods in the long run equalizes real wages internationally or at least reduces wage differences. When liberalization of capital movements and foreign investment equalizes risk-adjusted returns to capital across countries, real wages tend to be equalized in the short run. As trade liberalization proceeds, domestic changes are in particular predicted to take place in income distribution to the detriment of the unskilled low-human capital workers in the richer human-capital abundant countries of the world. The equalizing tendencies in real wages become more pronounced when substantial migration from poorer to richer countries takes place, legally and illegally. When income distribution becomes globalized, personal incomes tend to depend more on individuals' personal capabilities and education rather than on where they live. Thus, in the latter part of the twentieth century, real incomes of unskilled workers in richer countries declined absolutely, and also relative to skilled workers' incomes. For example, the U.S. male college-education high-school premium was 40% in 1979 and 74% in 1996. During the same period, the male college premium for completion of high school increased from 73% to 157%. For women, the college-high school graduation premium increased from 50% in 1979 to 72% in 1989, and then remained more or less constant throughout the remainder of the century.

Inequality also increased in the relative incomes of younger and older workers: the mean annual income premium for male workers aged 45–54 relative to those aged 25–34 rose from a ratio of 1.15 in 1979 to 1.27 in 1989, and then to 1.35 by 1995 (Brauer 1998). Such changes in income distribution in the United States have been described as an "economic disaster (that) has befallen low-skilled Americans, especially young men" (Freeman 1995). In the "social markets" of Europe, the adverse effects for people with low skills were felt more in terms of unemployment levels rather than reduced market incomes.

Trade liberalization is not the sole reason for decline in incomes and employment of unskilled workers in the richer countries. Technological change also reduced demand for unskilled workers. The liberalization of international trade occurred simultaneously with a technological revolution in information technologies that required complementary skills and education (Krueger 1993; Burtless 1995). There were also new standards of employee responsibility, since capricious or inept employee behavior became extremely costly for employers. The changes in income distribution are a consequence of influences of both trade liberalization and technology. An approach to identifying the contribution of trade liberalization is to look for possible relative price changes that would have given rise to the income changes. Yet reciprocal and multilateral liberalization through exchange of market access also neutralizes or dampens any terms of trade changes that would be associated with unilateral liberalization.

Unskilled workers were disadvantaged by incentives for the introduction of the new technologies associated with trade liberalization (Wood 1994). Through the new technologies, producers in high labor-cost countries sought ways to compete with low labor-cost foreign goods by substituting domestic unskilled labor with domestic skilled labor. Because domestic unskilled labor could not compete with the cheaper foreign unskilled labor used to produce lower-quality imports, a change to higher quality production also took place.

Demand for low-skill labor also declined in richer countries as producers responded to trade liberalization through outsourcing. Imports from foreign cheap-labor sources thereby replaced domestic production of intermediate goods that used low skilled labor, contracting employment opportunities and wages of local unskilled workers then declined. Evidence suggests that outsourcing explains some 20% of the substitution toward skilled non-production workers in the United States in the 1980s (Feenstra and Hansen 1996). Outsourcing takes place when trade liberalization allows foreign intermediate goods to be used in place of domestic production without a penalty for use of foreign goods.

Opposition to Globalization

Low-skilled persons in richer countries have self-interested reasons to oppose globalization. Although low skilled, these people have had expectations of a standard of living that is due to them because they live in a country that is on an

aggregate, wealthy. After globalization, the principal difference between being low skilled in rich and poor countries is in the role of the state in richer countries as a provider of last resort (Rodrik 1998).

Trade liberalization and outsourcing increase incomes in the poorer countries of the world. Opponents of globalization have however pointed to adverse effects in the poorer countries through labor standards and the environment (Bhagwati and Hudec 1996; Anderson 1997). Where child labor is a social norm, trade liberalization increases the demand for child labor because of improved foreign market access for goods produced by children. The opposition to child labor as a matter of social conscience then becomes opposition to globalization (or trade liberalization).

Domestic industries in richer countries may confront competition from foreign goods produced by children or foreign investment may take place to take advantage of the low costs of using child labor. Higher labor standards in poor countries benefit domestic producers and workers in rich countries by increasing production costs in poor countries. Again economic and humanitarian objectives become intertwined (Hefeker and Wunner 2002). Protectionist policies in richer countries would also protect producers and workers in richer countries and protect foreign workers from low foreign labor standards by denying market access for the foreign produced goods. If foreign labor standards cannot be changed, foreign labor standards become the basis for a case for protection to keep the foreign goods produced with the foreign labor standards out of the markets of richer countries (Agel and Lundborg 1995). Coalitions composed of producers and groups seeking social policies can form to oppose globalization (Hillman and Ursprung 1992). Producers and workers seeking protection from import competition can be bed-fellows (wanted or unwanted) with groups seeking protection of the environment and seeking to improve working conditions and end child labor in poor countries. Opposition to globalization has been particularly fierce when multinational firms, whose owners are principally in richer countries, use child labor or employ foreign labor at prevailing market wages and conditions of the poorer countries.

Local employers in poorer countries have not been subject to the same scrutiny as multinational firms. Nor have local restrictions in poorer countries on the freedom and rights of women, nor practices such as genital mutilation of pubescent female children, been reasons for outrage with the opponents of globalization. Opponents of globalization have not protested the corrupt behavior of rulers in poorer countries and the policies that keep the poor in poor countries in sustained poverty. Nor is the observation heralded that the highest inequality is in the poorer countries of the world where the political elites rule the poor. The opponents of globalization have an agenda that blames poverty in poor countries on open world markets, rather than calling for change in the behavior of political elites in poorer countries who sustain poverty by failing to use aid resources to improve living conditions of the general population (Rowley 2000; Easterly 1991; Hillman 2002).

The environment is also an issue for opponents of globalization. Clearing of rain forests and destruction of animals and their habitats is linked to demand in international markets. The opponents of globalization blame open markets, rather than confronting the foreign political elites who sell rights to deforestation.

Preferences regarding labor standards, sending children to school and calling for environmental quality can reflect income differences rather than cultural attributes. As incomes increase in poorer countries, preferences can consequently be expected to become more uniform over time. Globalization furthers this objective by increasing incomes in poorer countries through market integration with richer countries, and is therefore pro-environment (Grossman and Kreuger 1993). Political rulers may however not be responsive to the preferences and wishes of their citizens who seek to end child labor and end clearing of rain forests and destruction of animal habitats. The source of the problems that concern social activists is then again not globalization, but governments in poor countries that do not provide adequate resources for schools and continue environmental degradation for personal profit. It is interesting that the opponents of globalization have preferred to blame markets rather than blaming governments and political elites in poorer countries for their exploitative labor standards and damaging environmental policies.

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