

Trade AND Labor Standards



A STRATEGY FOR DEVELOPING COUNTRIES

Sandra Polaski

TRADE, EQUITY, AND DEVELOPMENT PROJECT



CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

Trade AND Labor Standards

A STRATEGY FOR DEVELOPING COUNTRIES

Sandra Polaski

TRADE, EQUITY, AND DEVELOPMENT PROJECT



CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

© 2003 Carnegie Endowment for International Peace

The Carnegie Endowment normally does not take institutional positions on public policy issues; the views presented here do not necessarily reflect the views of the Endowment, its officers, staff, or trustees.

For print copies of this report in English, and electronic copies in English and Spanish, visit www.ceip.org/pubs

ABOUT THE AUTHOR

Sandra Polaski is a senior associate at the Carnegie Endowment for International Peace. She served from 1999–2002 as the Special Representative for International Labor Affairs at the U.S. Department of State, the senior official handling labor matters in U.S. foreign policy.

Executive Summary

A debate has raged between developed and developing country governments for several years over whether or not to establish a global agreement on minimum labor standards that would be enforced at the international level through the World Trade Organization (WTO) or some other mechanism. That debate has become stale and ritualized. In the meantime the world has changed. For developing countries, the environment in which global labor standards must be considered was transformed in 2002.

First, China's accession to the WTO means that its exports cannot be blocked arbitrarily from any member country's market. With China's huge pool of low-wage labor, it can potentially out-compete export industries in virtually all other developing countries. This change will have even greater impact when the Agreement on Textiles and Clothing is phased out at the end of 2004, ending quotas that apportion market access among developing countries. These changes present developing countries with a much more difficult environment in which to plan their own development, growth, and export strategies.

In developed countries, a second set of changes has occurred that favors developing countries.

These include passage of new U.S. trade legislation that allows the president to negotiate new bilateral, regional, and global trade agreements, provided that he pursues commitments from U.S. trading partners to effectively enforce internationally recognized labor rights, on a par with other negotiating objectives. In return, trading partners would gain greater access to the huge U.S. market. The European Union (EU) adopted a new Generalized Scheme of Preferences in January 2002 that doubles the tariff reductions available to developing countries on a wide range of products if the EU determines that applicant countries effectively protect basic worker rights.

These developments create a new strategic opportunity for developing countries to link trade liberalization with labor standards to both reap gains and avoid harm. For those countries that already protect their workers' rights, there are major trade advantages to be gained in the short and medium term. For those that do not, it is time for them to reconsider their position, because labor-unfriendly states will no longer be able to compete with China simply by allowing greater abuse of their workers. At the same time, they risk losing market access advantages to other

developing countries that do provide basic protections for their workers.

Beyond these recent changes in the global trading equation, there is an ongoing, underlying reason for all developing countries to protect their workers' basic rights. Minimum protections for workers—including the right to organize unions and bargain over wages, freedom from discrimination, policies to keep children out of the work force and in school, and acceptable minimum working conditions—are all policies that directly help alleviate poverty and produce more equitable income distribution. Countries that have pursued labor market policies to guarantee worker rights have not only enjoyed greater income equity and faster poverty alleviation but in many cases have grown faster overall than those that have not. Protecting workers' rights is a winning development strategy in itself, and one that becomes

win-win if it also produces greater market access for developing country products, as is now possible with the United States and EU.

If all developing countries were to cooperate on a strategy of constructing a global labor standards regime that they themselves could help to enforce, they would all gain. It would significantly shift the terms of trade in their favor, since the value-added of their exports—and therefore their income—would increase relative to the cost of their imports from high-wage countries. They would continue to enjoy the comparative advantage of low-cost labor compared to more developed countries, but they would not face the beggar-thy-neighbor strategies whereby foot-loose investors, producers, and buyers play one low-wage country off against another, putting continued downward pressure on wages and working conditions.

Introduction: A Problem That Won't Go Away

Developing countries have complained in recent years about what they see as unfair rules governing trade, aid, and global capital flows. Their complaints have considerable merit. Round after round of global trade negotiations have produced disappointing results for the developing world's main exports. Development aid has dwindled, and policy prescriptions attached to such aid by multilateral financial institutions often have done more harm than good. After liberalizing financial markets to attract foreign investment, these countries watch in frustration as international investors engage in currency speculation or "expectation" contagion, or play one developing country against others to gain terms that benefit rich investors more than poor countries. The result, too often, has been persistent, even increasing, poverty among their populations and widening income gaps at the global level and within their countries.

In one area, however, developing countries themselves own full responsibility for the failure. Almost all G-77 countries have resisted linking trade and labor rights. Rich countries have offered greater access to their markets to develop-

ing countries, if the latter will guarantee better enforcement of existing labor laws and improve respect for basic, internationally recognized worker rights. Accepting this offer would be a win-win proposition for developing countries: They badly need access to rich markets for their products, and basic labor rights will promote more equitable, broad-based development and greater distribution of the gains from trade to the poor.

Part one of this paper addresses the changed strategic environment that should cause developing country strategists to rethink the trade-labor connection. This section suggests practical ways in which developing countries can exploit this new environment. Part two addresses the direct contribution of each of the basic labor rights to development, equity, and poverty alleviation. The labor rights generally proposed for inclusion in trade agreements are freedom of association and the right to bargain collectively; elimination of forced labor; nondiscrimination in employment; acceptable minimum conditions of work; and removal of children from work, especially that which is dangerous or degrading.

I: Thinking Strategically about Labor and Trade

WHY USE TRADE AS A VEHICLE FOR IMPROVING LABOR RIGHTS?

As global economic integration has increased—the result of reduced tariffs, dismantling of barriers to capital flows, lower transportation and communication costs, and other factors—many classes of unskilled and semi-skilled labor have become more readily substitutable across national boundaries. Therefore it is difficult for one developing country to fully protect basic worker rights and decent working conditions if others at similar wage levels undercut them.

Trade agreements that include protection for labor rights can improve upon the outcomes that any single developing country could achieve. Bilateral trade agreements that include labor protections can produce important improvements in outcomes for the developing country party to the agreement, since the increased access to a rich country market and tariff reductions can offset incentives for producers or buyers to go to other countries that allow labor rights violations but have lesser market access. Regional trade–labor agreements offer similar benefits, but on a broader scale.

Ultimately, an enforceable multilateral worker rights regime at the global level would be the optimal scale to distribute the gains from trade more broadly across and within countries around the world. Such a regime would allow developing countries themselves to ensure that competitors did not cheat through unacceptable worker exploitation.

Until now, the debate over a trade–labor linkage has been cast primarily as a global-level issue, and has raged in multilateral institutions such as the World Trade Organization (WTO) and the International Labor Organization (ILO). But in fact real progress has already been achieved through this linkage at the bilateral level, through trade arrangements between the United States, the European Union (EU), and individual developing countries. Recent changes, discussed below, heighten the opportunities for further important developing country gains through bilateral negotiations. This suggests that developing countries should consciously develop both short-term and long-term strategies to extend beneficial trade–labor linkages to the bilateral, regional, and ultimately global level.

WIN-WIN OR LOSE-LOSE?

Linking labor rights with trade would build market-opening alliances between developing countries and politically influential groups in developed countries, such as progressive politicians, labor unions, and consumer groups. These groups have been ambivalent about trade, in large part because of concerns that liberalization can undermine working conditions in both industrialized and developing countries. By stepping forward in support of labor rights, developing countries can command the attention of these groups in a positive way and force them to examine the question of market opening in concrete, specific terms.

This has already happened at the bilateral level. Jordan, Singapore, and Chile approached negotiations with the United States with a stated willingness to include labor terms in bilateral trade agreements. U.S. trade unions, members of Congress, and others who had been skeptical of further trade liberalization engaged with the governments and their counterpart organizations in those countries. They ended up supporting the trade agreement with Jordan and have indicated they will do the same with Singapore and Chile if comparable terms are achieved.

Openness to trade-labor linkages also would give developing countries a basis for seeking support from pro-labor constituencies in industrialized countries on issues such as market access for developing country agricultural products and the need to roll back agricultural subsidies. Until now, most northern trade unions and pro-labor politicians have not focused on these vital development issues. Building alliances between parliamentarians, trade unions, and civil society groups in richer and poorer countries could open much greater political space for trade agreements with terms more favorable to developing countries (see inset opposite).

In negotiations for trade agreements that include labor provisions, developing countries could also credibly seek new technical assistance and aid

flows to support improved policy and enforcement of the labor rights covered by such agreements. It would be reasonable for them to propose that the developed country trading partner provide resources for improvement of enforcement regimes, transitional transfer payments to move children out of labor and into school, support for the construction of social safety nets to cushion the impact of economic adjustment as markets are opened, occupational safety and health technology and training, and so on.

Conversely, resisting a trade-labor linkage has been a lose-lose strategy for developing countries. When they refuse in trade negotiations to agree to enforce their own labor laws and protect the most basic worker rights, they reinforce the perception that they do not intend to compete on comparative advantage but rather by allowing abuse of workers at levels of exploitation that are unacceptable to the international community. Such extreme labor exploitation undercuts employment conditions elsewhere, both in industrialized countries and in other developing countries. This further weakens support for trade and market opening, creating a vicious cycle.

Beyond the loss of access to rich-country markets, developing countries also lose an important opportunity to alleviate poverty, reverse widening income gaps, and buttress rule of law in their own societies. Domestic or foreign employers often are the most powerful source of poor-country resistance to improvement and enforcement of labor laws and other pro-equity policies. International trade agreements with labor provisions can help developing country governments balance the power of their least-worker-friendly interest groups.

NEW STRATEGIES CAN'T WAIT

Why revisit the question of linking trade and labor when it has proven so contentious over recent years? The reason is that the stakes are so

Too Good To Be True? Why Should Developing Countries Trust Rich-Country Trade Unions and Legislators?

There is considerable truth to many developing countries' views that most trade negotiations are run as mercantile exercises in which the rich countries have all the advantages. Powerful governments bargain for terms that will improve their own overall economic advantage and for the specific commercial and investment interests of their best-organized business sectors. In return, they offer their bargaining counterparts access for products that do not challenge the powerful country's domestic producers.

Why should developing countries believe that including labor provisions in trade talks can change the dynamics of negotiations and, most important, change the bottom line outcome on market access? The key reason is that a labor-trade linkage strategy allows a developing country to engage with organized groups other than business in the rich country, groups whose interests, values, and preferences go beyond the commercial interests of particular business sectors. If those groups have significant political power, this engagement can change the dynamics of the overall negotiation, including with regard to market access questions. In the United States and EU, trade unions and pro-labor politicians are just such groups, because they have considerable political power and their interests sometimes differ substantially from those of business. Depending on the sector and the particular pro-labor organization, developing countries' interests might align much more closely with labor interests than with business interests in the rich country.

Until now, most northern unions have opposed unbridled free trade. They have also opposed particular trade agreements because labor rights were not included. Some agreements, however, have fared better. The American Federation of Labor and the Congress of Industrial Organizations (AFL-CIO) supported the U.S.-Jordan Free Trade Agreement and has stated it will support free trade pacts with Chile and Singapore, provided that adequate labor provisions are included. Moreover, northern unions' positions have shifted, especially since Seattle, where they were stunned to find many developing countries reacting negatively to them.

Agriculture is one sector for which most developing countries have sought greater market access. They also have opposed rich-country subsidies to agricultural producers, because the subsidies drive down world prices for commodities in which the developing countries should have a natural comparative advantage. The developing

world has had very limited success to date in achieving its goals in this sector. Most northern unions have not yet stepped up to the challenge of taking a pro-poor, pro-development position on this issue. However, some, including the German labor federation DGB, have already called for elimination of developed country export subsidies and trade-distorting domestic subsidies that hurt developing country exports. Other northern unions should follow their lead. The prospect of increasing global prosperity and equity is in their long-term self-interest. It would help to build global solidarity among the poor and workers. An overture by a developing country in a bilateral context, or by the G-77 in multilateral forums, would force the unions to confront this issue, with a high probability of gaining their support.

Apparel and textile imports represent a middle case, where there are still union employees in the United States and EU who feel threatened by imports. But there is precedent suggesting that a serious commitment by a developing country to raise its own labor standards as part of a trade pact will win over the unions. UNITE, the U.S. textile and apparel union, supported the U.S.-Cambodia textile agreement. This was the first time the union had ever supported a trade pact, and it did so because of the labor terms that were included. UNITE has been involved with the Cambodian unions and Cambodian government during the negotiations and implementation of the agreement. A similar approach is likely to find support among unions in the electronics, footwear, and some other industries. U.S. and EU public sector unions also can be persuaded to support aspects of trade negotiations based on their impulse for global solidarity. Teachers' unions, for example, have supported developing country efforts to end child labor, while service sector unions support development policies that emphasize education and health care for the poor. Developing countries are well positioned to reap gains by seeking their support.

To be sure, there are sectors in which some rich-country unions are unlikely to support trade liberalization, even with labor-friendly developing countries. Steel is an obvious example. It is important for developing countries to disaggregate this question on a sector-by-sector basis and assess which of their products and industries might benefit from pro-labor support in rich countries. On balance, it seems likely that most products of great interest to developing countries will benefit from such a strategy. ■

high: Ways must be found to enable developing countries and the majority of their citizens to benefit from global economic integration. Current development and trade policies have not produced much progress in alleviating poverty and improving income distribution. World Bank poverty figures show that the number of people living in poverty (defined as those living on less than \$2 a day) has increased at the global level over the

*Terms of trade are worsening
for developing countries,
with the value of their exports
declining relative to the
value of their imports.*

past fifteen years and is rising in most developing regions of the world. Inequality has risen both within most developing countries and at the global level. Incoming WTO Director General Supachai Panitchpakdi and the United Nations Conference on Trade and Development (UNCTAD) have noted that terms of trade are worsening for developing countries, with the value of their exports declining relative to the value of their imports. This has happened despite the fact that the composition of their exports has moved steadily from raw materials to manufactured goods over the last two decades. Theoretically this move up the production ladder should improve developing countries' terms of trade and overall incomes. However, the manufacturing processes have been concentrated in low-skilled jobs, where highly mobile global producers and buyers have been able to drive labor costs to extremely low levels by playing developing countries against one another. Thus the move into manufactured goods has not produced the increase in incomes that was seen in earlier industrializing countries.

There is no reason to be surprised at these outcomes when one examines the thrust of current development and trade policies and their impact on poverty and equity. Many of the current development policy prescriptions lead directly to increased unemployment, which in turn increases poverty and inequality. For example, privatization of state-owned enterprises and fiscal cutbacks are explicitly intended to reduce payrolls. Layoffs typically occur in the absence of unemployment insurance or other social safety nets. Few if any programs exist to systematically help the poor out of poverty and into employment or to help laid-off workers find new jobs. Progressive taxation, or even adequate tax collection, is rare, although this is a *sine qua non* for governments to generate the funds necessary for social programs that can smooth structural adjustment without increasing poverty and widening income inequality.

On trade, the policy prescription has been to liberalize rapidly, even unilaterally. Many developing countries therefore have forgone the opportunity to gain important concessions in return for opening their markets. They have been stampeded into trade pacts—by fear of being excluded altogether—where the terms of trade benefit their wealthy trading partners far more than themselves.

There is no reason to think that trade liberalization in itself will alleviate poverty or lead to a broad distribution of the gains from trade. Empirical evidence suggests that such results are more the exception than the rule. However, provisions can be written into trade agreements that promote more favorable outcomes for income distribution and poverty alleviation. Protections for workers' rights and basic labor standards are just such provisions. They can improve the rules and institutions that determine the balance of rights and power between employers and workers, leading to better distributive outcomes. But instead, most existing trade and investment pacts have put in place elaborate protections for overseas inves-

tors/employers, but none for developing country workers. This imbalance in the rules written into trade agreements has aggravated the existing lopsidedness of bargaining power between mobile owners of capital and immobile workers who supply their labor.

Continued failure of development and trade strategies to help workers and the poor will undermine the viability of individual governments and retard international economic integration, with attendant dangers to international prosperity and security.

IS PATIENCE A VIRTUE?

Some development economists defend the poor results of current policies by claiming that only the first generation of reforms has been accomplished and that a second generation will address poverty, equity, and the terms of trade for less developed countries. In this view, the first generation has focused on substituting market mechanisms for activities that had been state owned or directed, allowing foreign investors into sectors that had been closed to them, and dismantling trade barriers. A second generation of reforms would then address tax reform, income distribution, social safety nets, access to health care, education, and so on. A “development round” of trade talks would improve terms of trade.

The problem with this notion of sequencing is that the first generation of reforms benefits those domestic and international actors who own capital and have well-organized access to power. These reforms are relatively easy to accomplish, precisely because powerful vested interests support and benefit from them. The second generation of reforms, which would benefit the poor and near-poor working populations, would redistribute income away from the powerful to the less well off and less well organized. In practice, this means that the second generation of reforms simply does not occur. In fact, the best way to achieve pro-poor

and pro-equity policies is not to *sequence* them but to *package* them with economic changes that the powerful support. Progress for workers and the poor can be achieved as a quid pro quo for changes sought by the rich and powerful, such as trade and investment liberalization.

The best way to achieve pro-poor and pro-equity policies is not to sequence them but to package them with economic changes that the powerful support.

For developing country governments that care about reducing poverty and improving income distribution, it is time to consider policies that have the potential to address poverty and inequality directly, without further delay. Strengthening basic worker rights through labor clauses in trade agreements is one of the most promising avenues in this regard, because it directly improves policy toward the poor and improves income distribution mechanisms. In return for these pro-worker reforms, producers and investors gain market access.

NEW OPPORTUNITIES FOR PROGRESS

Recent developments in the United States and the EU suggest that this policy path is now available to developing countries that seek it. In the United States, Congress has just given the president power to negotiate new trade agreements over the next three years under an expedited “fast-track” approval process. However Congress set as a chief negotiating objective that the United States win agreement from its intended trade partners that they will effectively enforce their labor laws and avoid reducing workers’ rights. This approach had already been implemented in the U.S.–Jor-

dan Free Trade Agreement negotiated in 2000. The new law basically calls for the U.S. Trade Representative to follow this model in future trade negotiations.

The EU has also strengthened its trade-labor linkage. In January 2002, the EU improved its Generalized Scheme of Preferences (GSP) for developing countries by doubling the tariff reductions available to countries that ensure respect for core labor standards. Under the new scheme, tariffs that would otherwise apply under the WTO on a wide range of products will be reduced by 7 percent for countries that apply for this benefit and meet international labor rights criteria. This compares to 3.5 percent reductions for countries whose labor practices do not qualify. The new EU scheme also provides that *all* GSP tariff benefits can be denied to countries that commit “serious and systemic” violations of core labor standards. This includes both the 3.5 percent standard GSP benefit, as well as tariff-free access for products of least developed countries under the “everything but arms” program. The EU GSP tariff reductions now cover a number of sensitive products, including textile and agricultural products that are important to developing countries. For many developing countries this scheme provides the only preferential access to the EU market. The doubling of tariff reductions provides a sizable incentive for countries to apply for the special labor standards preferences.

In a related development, the member states of the EU recently agreed to seek ways to promote labor standards through bilateral and regional trade agreements that will be negotiated over the coming months and years. This issue should be on the agenda for negotiations launched in September 2002 between the EU and the African, Caribbean, and Pacific Group of States (ACP). The framework for those negotiations, the ACP-EU Partnership Agreement signed in Cotonou in June 2000, already includes general commitments to respect core labor standards. ACP countries, how-

ever, could bargain for additional advantages in exchange for stronger commitments regarding worker rights in the “economic partnership agreements” that will be negotiated. They could also seek further technical and financial assistance from the EU for improvements in labor rights. ACP member states would likely find support for such efforts among many EU member states. For example, the German Bundestag’s Globalization Commission recently issued a report urging that labor rights be included in trade agreements. ACP parliamentarians and trade unions could strengthen this support by engaging with their counterparts. Developing countries other than ACP states could also pursue this strategy in trade negotiations with the EU.

Developing countries are in a position to achieve “economies of scale” by implementing good labor policies now.

Another propitious development in recent years is that a number of private firms, operating at the global level, have adopted codes of conduct with respect to labor standards. This sensitivity to labor conditions stems from public and consumer pressure in the corporations’ home countries. In many cases, the codes of conduct reference the same labor standards discussed in this paper or closely conform to these basic worker rights. Such firms often verify compliance with these codes through independent monitoring organizations that can bring an arms-length credibility and transparency to the oversight of corporate behavior in far-flung labor markets. These firms and monitoring organizations can act as benchmarks, trendsetters, or catalysts for other employers in developing countries. Developing country governments should encourage credible efforts along these lines and

point other firms to these demonstrations of good practice, as a way of reinforcing their own enforcement efforts.

These recent policy decisions and trends in wealthy countries mean that developing countries eager to reap the win-win gains of good labor policies *and* improved access for their products to rich-country markets now have more leverage to do so. Given the multiple opportunities that exist with the United States and EU, and with private employers and buyers concerned about their reputations, developing countries are in a position to achieve “economies of scale” by implementing good labor policies now. Countries that already respect basic worker rights should aggressively seek the benefits of these opportunities. Effective government strategists in such countries will devise plans to get to the head of the line to exploit this potential development windfall. For countries that have had difficulty in enforcing labor rights, the advantages to be gained by doing so now should make it somewhat easier to align the interests of private sector employers with those of the government to make progress in this area.

WHY HAVE DEVELOPING COUNTRIES RESISTED THIS LINKAGE?

In debates at WTO ministerials and other meetings, only a few developing countries have vocally opposed a trade-labor linkage. But other G-77 members have acquiesced through silence. Opponents of labor standards in trade agreements argue primarily that rich countries could use such provisions for protectionist purposes. According to this rationale, industries in developed countries with higher wages would attempt to keep competing developing countries’ products out of their markets by claiming the latter have failed to protect core labor standards. This defense, while widely cited, fails to withstand scrutiny.

Most manufactured products of developing countries do not compete with products of in-

dustrialized countries. Textile, apparel, footwear, electronics, and toy producers have already decamped from high-wage to low-wage countries, except for a few, high-end specialty products. The competition to produce most products in these industries is among developing countries themselves. Thus a trade agreement that requires respect for worker rights will protect a developing country that chooses to enforce such rights from being undercut by poorly governed countries that fail to protect these rights for their citizens.

Linking trade and labor is not terra incognita for developing countries. It is terrain on which most have extensive experience through the GSP regime, and where the experience has been fair and advantageous to them.

Examination of historical experience under pro-labor trade agreements exposes a second flaw in the protectionist argument. In these agreements, the determination as to whether a party has failed to honor labor commitments is made by a neutral international dispute-settlement panel, in a manner similar to other trade disputes. Existing free trade agreements with labor provisions, such as the U.S.–Jordan Free Trade Agreement, preclude a party taking any action based on labor standards without a prior finding by neutral panelists. Thus, the potential for abuse is constrained in the same way for labor provisions as for any other trade disputes. The same rules-based, neutral, supranational dispute settlement approach that the global community has devised to address other trade disputes is applied in these cases as well. Some trade agreements that include labor provisions require

panelists to impose fines rather than allow trade sanctions, if violations are found. Examples include the North American Agreement on Labor Cooperation (part of the North American Free Trade Agreement) and the Canada–Chile Free Trade Agreement. In these agreements, only if a country refuses to pay such a fine may its trade benefits be revoked, and then only to the extent necessary to collect the fine. Thus, a country charged with failure to protect labor rights has full and final control of whether a tariff can be imposed, simply by complying with the determinations of a neutral dispute settlement panel.

There is also a body of empirical evidence that skeptics can examine to determine whether protectionism actually has occurred as a result of linking trade and labor. That body of evidence comes from eighteen years' experience with the U.S. Generalized System of Preferences (GSP), which requires that developing countries respect core labor standards as a condition for gaining tariff preferences. There is also experience with the newer EU GSP labor provisions; eight years of experience with the North American Free Trade Agreement; five years of experience with the Chile–Canada Free Trade Agreement; and shorter experience with more recent U.S. trade agreements and preference programs that require respect for core labor standards, such as the U.S.–Jordan Free Trade Agreement, the U.S.–Cambodia Textile Agreement, the Africa Growth and Opportunity Act, and the Caribbean Basin Trade Partnership Act. A review of cases in which claims have arisen about labor rights violations under these programs shows no evidence of protectionism whatever—whether in the nature of the charge, in the process for investigating the problem, in the nature of the remedy, or in the final disposition of the cases. It is important to note that with respect to the U.S. GSP program, almost all developing countries have applied for and received unilateral trade preferences by agreeing to be held accountable for their respect for worker rights. Only in the most egregious

cases have a few countries lost such benefits. None of the countries that lost benefits claimed that the action was motivated by protectionist reasons, nor can any trace of protectionist motive or benefit be discerned in those cases. Thus, linking trade and labor is not *terra incognita* for developing countries. It is terrain on which most have extensive experience through the GSP regime, and where the experience has been fair and advantageous to them.

This is not to deny that protectionism is a risk—and reality—of the global trading system. However, protectionism has been exercised not through trade–labor linkages, but rather through mechanisms such as anti-dumping, safeguards, and countervailing duties, by both developed and developing countries. Concerns about protectionism should be focused on the offending mechanisms, not used as a red herring against a constructive linkage of two complementary policies—improved market access and support for labor rights.

Another argument advanced by some G-77 countries against including labor rights in trade agreements is that such provisions will not extend to the most exploited workers, those in the nontraded and informal sectors. This argument does not withstand scrutiny any better than the protectionism bogey does. Nontraded sectors do not have worse conditions than traded sectors *per se*. Wages and working conditions depend on the market structure of the particular industry in question, as well as overall supply and demand in the relevant labor market and for the skills in question. On the other hand, informal sectors do typically exhibit worse wages and employment conditions than formal sectors, but this is true when they are compared both to traded and nontraded formal sectors. That labor provisions in trade agreements will not reach the informal sector is hardly an argument to cease trying to improve those parts of the economy and labor market where trade *can* have a positive impact on conditions. Further, it assumes a static view of labor markets, ignoring the dynamic effect that raising standards in the

The Role of Special Interests in Developing Country Resistance to Progressive Labor Policies

One important reason why some developing countries resist sound labor policies is that politically powerful domestic employers profit from exploiting labor beyond what is permitted by international standards. These powerful anti-labor interests “persuade” their governments to resist pro-labor terms in international trade negotiations. The challenge in these cases is to persuade more modern elements within the business community that they are being held back by the backward sectors. The prospect of gaining greater access to rich markets by meeting minimum international labor standards aligns the interests of exporting sectors with those of government policy makers who want to improve labor conditions and promote trade.

The sectors that stand to gain from trade agreements may not embrace the trade–labor linkage enthusiastically,

but they often will support it implicitly. This creates an export wedge between different employer groups on labor and trade policy, taking some pressure off governments and perhaps creating enough political space to pursue the strategy proposed in this paper.

On their own, many employers in the developing world are starting to rethink their positions on trade and labor. As they confront increasing competition from China, such producers realize that they can no longer compete on low wages alone. Losing orders and investment to China has led some employers to question whether they should seek market access or a niche among buyers based on good labor conditions. Such strategies are currently under discussion in countries such as Vietnam and Sri Lanka. ■

leading traded sectors can have in pulling up the lower standard sectors through labor market supply and demand mechanisms.

BEGGAR-THY-NEIGHBOR POLICIES IN THE DEVELOPING WORLD

That arguments against linking trade and labor do not hold up under scrutiny is not surprising, because the claims have always been spurious. Frankly, the strongest opposition to such linkage often has come from countries where there are serious abuses of workers’ rights—by domestic employers, foreign investors, or both. Such countries resist the linkage because they would not fare well under a regime that held them accountable. These countries—or powerful interests within them—do not want to be compared to other developing countries that, at the same level of economic development, have better labor laws and better rule of law. In other cases, the resistance to linking trade and labor comes from developing country governments that are not particularly democratic or transparent. In either case, the gov-

ernments that lead this charge are not effectively representing the interests of the vast majority of their own populations—namely, workers and the poor (see inset above).

Unfortunately, the fierce resistance by a handful of developing country governments to a trade–labor linkage has until now had two adverse effects on the posture of other developing country governments. First, it has silenced them in the multilateral discussion of trade and labor and allowed a few countries to block a promising avenue for progress. Second, and more ominously, it has undermined the ability of well-governed developing countries to protect their workers, raise labor conditions, and alleviate poverty. A competitive regional or global market without agreed minimum labor standards allows the countries with the worst policies, enforcement, and working conditions to set the floor in the competition for global investment and production. Thus, the seemingly abstract debate over linking trade and labor at WTO ministerials and in other forums has cloaked a beggar-thy-neighbor strategy on the ground in the developing world.

NEW THREATS AND NEW OPPORTUNITIES

The accession of China to the WTO and the phase out of the Agreement on Textiles and Clothing (ATC) at the end of 2004 are rapidly pushing other developing countries into a corner. As a WTO member, China now enjoys most favored nation status and, with its vast pool of low-wage labor, will be able to undercut virtually all other developing countries in labor-intensive products. In the textile and apparel sectors, only the ATC quota system currently shields other developing countries from the full brunt of Chinese competition. Increasingly, a low-wage, low-standard strategy will not work for other developing countries, because Chinese wages are lower still.

Developing country governments that are seriously concerned about reducing poverty and income inequality will have to break from the current G-77 stance against linking trade and labor standards. They will have to seek bilateral and regional trade agreements that give them greater access to rich markets based on their commit-

ment to protect workers' rights and working conditions. Alternatively, China's self-interest could persuade it to lead or join a developing country effort to establish a global agreement requiring respect for basic labor standards. Construction of such a global floor under labor standards would eliminate the option for international and domestic investors, producers, and buyers to treat workers in ways that are unacceptable by global standards. This would improve the terms of trade for all developing countries, including China.

The optimal strategy—in terms of maximum benefit for the developing world as a whole—would combine these two approaches. Those developing countries that presently ensure good labor standards would pursue bilateral or plurilateral agreements with the United States and the EU to gain market advantages in the short term, while joining with China and other G-77 countries to construct a global floor for labor standards over the medium term, working through the WTO, the ILO, and other relevant multilateral institutions.

II: Basic Worker Rights Foster Development

We have focused on how developing countries can win by leveraging their respect for labor rights to gain trade advantages. But the second half of this win-win strategy is equally important. It is based on the direct contribution that each of the basic labor standards makes to poverty alleviation, to more equitable distribution of income, to broader sharing of the gains from trade, or to other short-, medium-, and long-term development goals.

There are four “core” labor rights that virtually all countries in the world have agreed constitute fundamental human rights that should be accorded to all workers, regardless of the economic level of development of their country. These rights are freedom of association and the right to bargain collectively, elimination of forced labor, nondiscrimination in employment, and removal of children from work, especially dangerous or degrading work. It is enforcement of laws related to these basic rights that developed countries have proposed to include as an obligation in trade agreements.

THE RIGHT TO ORGANIZE AND BARGAIN

Freedom of association and the right to bargain collectively are enabling rights that give workers

the opportunity to influence decisions about their working conditions, wages, and other terms of employment. By organizing into unions, workers increase their relative strength in the employment relationship and as a result can realize a greater share of the efficiency gains that they help to produce. Collective bargaining over the distribution of profits between employers and workers is one of the most direct mechanisms that exist in market economies to achieve more equitable distribution of income. Unions also serve as an on-site backup to overstretched governments in ensuring that employers comply with relevant labor laws.

Beyond their direct role in bargaining and enforcement of collective contracts and laws, unions also play a role in political and legislative processes, advocating for policies that benefit the poor and near poor, including stronger labor laws, social safety nets, and public services. In many countries, unions have been the prime movers behind targeted poverty alleviation programs, minimum wages, universal public education, and equitable access to health care. Union support for such programs rests on a powerful combination of self-interest and altruism. Union members include the poor and the near poor, and at the same time the existence of a large pool of desperate would-be workers exerts

downward supply-side pressure on wages generally. Altruism arises from the very nature of unions, which owe their existence and strength to solidarity among workers. This is not to say that unions are immune from self-seeking behavior and even corruption, any more than other institutions of society such as political parties, religious groups, or nongovernmental organizations. But proper legal frameworks can minimize such risks and deal with any violations. The key in the case of unions is to give rank-and-file union members significant control of their unions, including the power to change their leaders and to vote on acceptance or rejection of collective bargaining agreements and strikes.

*Unions serve as an on-site backup
to overstretched governments
in ensuring that employers comply
with relevant labor laws.*

Critics of unions point to the possibility that unions will seek a share of “rents” in industries that are not fully competitive. Some critics seek to imply that unions thus divert resources from the poor. The existence of unions, however, does not create market structures that allow rents, nor does the absence of unions create perfectly competitive markets. Where monopoly or oligopoly power distorts product markets, direct reform or regulation of product markets is required. Weakening unions will do nothing to reform such industry structures or product markets and will in fact lead to even greater inequalities in income distribution as the monopolists or oligopolists pocket all of the available rents.

FORCED LABOR

Freedom from forced labor is the second universally agreed basic labor right. It is instructive to

recall that the world’s first battle over fundamental labor standards—the struggle to eliminate forced labor in the form of slavery—was won only a century ago. That struggle was waged on moral, economic, and development grounds, just as the debate over core labor standards is carried on today. Enslavement of developing country workforces by developed country entrepreneurs for use in labor-intensive industries was justified in the nineteenth century with many of the same arguments that are advanced today to defend bonded labor, forced child labor, and other violations of core labor standards. Those include the argument that the enslaved would face even worse alternatives if they were not sold into slavery (today read indentured or bonded labor). This of course ignores the fact that force would not be needed if such labor were the best available alternative for the workers in question.

From an economic point of view, forced labor retards development because it keeps capital in pre-modern industries that could not survive without it, thus sacrificing efficient allocation of scarce capital resources. Forced labor by children that keeps them out of school distorts not only current development but also sacrifices future development for the affected swath of the population, whose illiteracy and lack of education will condemn them to lives of poverty. Where these practices are extensive, as in parts of South Asia, they can retard overall rates of growth for entire regions or even countries.

EMPLOYMENT DISCRIMINATION

Discrimination in employment means exclusion of workers from the labor force or from particular jobs based on their race, gender, religion, caste, ethnicity, or other reasons. The resulting exclusion of potentially productive workers from employment is a supply-side loss to the economy. Further, it entrenches poverty among excluded groups and makes it less likely that members of

those groups will invest in their own education and skill development. On both scores it has a negative impact on economic growth and development. Employment discrimination can also occur when workers from discriminated groups are hired, but at lower wages or under worse conditions than accorded other workers. Where such discrimination occurs it lowers wages among the discriminated group and can put downward pressure on overall wages. By allowing employers to hire workers at less than competitive market wages, discrimination can attract and hold capital in less productive sectors of an economy, thus slowing the efficient allocation of capital on which development critically depends.

It is instructive to recall that the world's first battle over fundamental labor standards—the struggle to eliminate forced labor in the form of slavery—was won only a century ago.

Discrimination can also allow employers to shift welfare costs from themselves to society as whole. For example, if employers are allowed to dismiss women who become pregnant, both the medical costs associated with childbirth and subsistence for mother and child will be borne by the state or the community, rather than the employer.

CHILD LABOR

It is now widely accepted that child labor harms medium- and long-term development in countries where it is prevalent, by impeding the accumulation of human capital that occurs through education; by retarding productivity growth that

depends on an educated and healthy workforce; and by distorting the allocation of capital to sectors where child labor is employed, which are less efficient than other sectors. The only defense offered for continued employment of children is that their income is essential in the short term to the subsistence of themselves and their families. However, the presence of children in labor markets increases the supply of labor and drives down wages for all, thus making it more likely that poor families will need to send their children to work, creating a vicious cycle. The illiteracy, lack of skills, and low productivity that result from children working rather than attending school then perpetuates this poverty to subsequent generations. The solution for countries interested in development is to find a way to intervene to break this cycle of poverty. Ways must be found to get children out of employment and into school, while not sending them and their families into even deeper poverty in the short term.

Fortunately, a number of successful and relatively low-cost strategies have been developed to accomplish this goal. They involve a multifaceted approach, in which parents receive a small but important stipend for each child who is kept in school, based on actual attendance; schools are built closer to pockets of excluded children, or transportation to schools is improved; and in the best models, adult family members are helped to achieve additional skills or employment, thus increasing the likelihood that family incomes will be adequate to maintain school enrollment of children. Programs such as these have been funded out of public budgets by some developing countries, such as Brazil and Mexico, or by international donors through efforts such as the ILO's International Program to Eliminate Child Labor.

OTHER LABOR STANDARDS

In addition to the core labor standards already discussed, the United States, in its trade laws, adds

a fifth category of basic worker rights to those described above. This is a requirement for “acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health.” This additional “internationally recognized worker right” has been part of U.S. trade law since 1984.

The requirement for acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health has in practice been judged on the basis of results. It does not presuppose any particular legislation or policy but looks at actual outcomes to determine whether they are acceptable, based on standards of human decency, economic level of development, and local conditions. Like the other labor standards discussed above, the requirement of acceptable conditions of work dovetails with good development policy. Minimum wages that do not allow adequate basic nutrition, shelter, and the possibility of keeping children in school will retard development. Excessive hours of work required of those already employed represent a missed opportunity to draw unemployed or informal sector workers into formal employment. Dangerous working conditions that result in high rates of death, dismemberment, injury, and illness are not only unacceptable from the perspective of human decency, but amount to hidden subsidies for the firms or industries that tolerate such conditions, since individuals and society are forced to absorb part of the true cost of production for such firms.

The U.S. list of workers’ rights has been used for eighteen years to determine whether a developing country qualifies for unilateral preferential access to U.S. markets under the U.S. GSP program, so substantial experience has been gained with the meaning and interpretation of these rights, including “acceptable conditions of work.” More recently, this list has been incorporated into a free trade agreement between the United States and Jordan. New trade legislation granting the U.S. president authority to negotiate trade agreements between now and 2005 includes as a “principle negotiating objective” that

U.S. negotiators secure commitments from trading partners to respect these worker rights as an enforceable term of all future trade agreements.

ECONOMIC DEVELOPMENT, HUMAN DEVELOPMENT, AND HUMAN RIGHTS

The labor standards discussed above are both fundamental human rights and the basis for good development policy. With the exception of the “acceptable conditions of work” standard included by the United States, all of these rights have been recognized and agreed as universal human rights by virtually all countries in the world, both through the United Nations 1948 Universal Declaration of Human Rights and the ILO’s 1998

Basic worker rights do not depend on expenditures, but rather on political will, principled leadership, and a culture that requires compliance with the rule of law by the strong as well as the weak.

Declaration of Fundamental Principles and Rights at Work. According to these global agreements, these rights may not be denied, regardless of level of economic development, because they inhere in human beings. They do not depend on expenditures, but rather on political will, principled leadership, and a culture that requires compliance with the rule of law by the strong as well as the weak.

At the same time, these rights also constitute good economic development policy. They provide important and effective channels for better distribution of income within societies, for achieving a country’s production frontier through full utilization of human resources, and for accumulating

Does It Work?

Some developing countries have pursued pro-poor, pro-equity, and pro-worker policies as part of market-based, globalizing strategies. These countries achieved some of the best records among all developing countries in terms of economic growth that was both rapid and sustained and dramatic advances in eliminating poverty. The development strategy was based on promoting labor-demanding exports, along with significant investments in education and programs that create conditions for reducing birthrates. Decent wages (in some cases set collectively by government, unions, and employers) distributed the gains from trade, expanded domestic demand (including for agricultural products), and gradually increased savings and investment by the broad working masses. Japan after World War II and South Korea and Singapore more recently followed such strategies. Respect for most of the basic labor standards was integral to the development strategy in these countries, although trade unions were repressed for a number of years in South Korea and limited in Singapore.

In the case of South Korea, efforts by workers themselves, changing political leadership, and external pressure applied as a condition for the country's membership in the Organization for Economic Cooperation and Development (OECD) eventually prevailed and genuine freedom of association was added to the successful policy mix. This recognition of the role of unions was critical to the country's management of the effects of the Asian financial crisis in 1997–1998. A tripartite commission (gov-

ernment, business, and labor) negotiated the distribution of costs and sacrifices needed for structural adjustment in response to the crisis. Through this mechanism the country achieved faster, fairer, and better results than most other affected countries.

Singapore steadily expanded the scope of trade union rights. In 1972 it set up an impressive tripartite wage-setting system involving government, unions, and employers that has contributed to very satisfactory income distribution and to political stability as well.

More recently, Cambodia has made dramatic progress in creating an export apparel sector under terms of a bilateral textile agreement with the United States. That agreement provides a basic level of access to the U.S. market for Cambodian apparel, with additional market access awarded on a yearly basis if progress is made in respecting worker rights. The arrangement has led to the creation of 200,000 jobs—almost half of total formal sector employment in Cambodia. These jobs are relatively well paid by local standards, and the agreement has led to noteworthy improvements in worker rights and working conditions. Freedom of association has been expanded, and unions are beginning to grow in number, competence, and responsibility. Cambodia may be on its way to developing the kind of institutional structures and peaceful dispute settlement mechanisms that have helped countries such as Singapore and South Korea to grow rapidly and to withstand and adjust to external shocks while sustaining broad-based development. ■

human capital for future development, by means such as keeping children out of the workforce and in school and by protecting workers' lives and health. They allow workers gradually to accumulate enough surplus income that they, too, can save, adding to the society's stock of capital.

Achieving full protection and enjoyment of fundamental labor rights poses difficult challenges for any government. But these challenges have been addressed effectively by every successful economy—because they are essential elements of broad-based development and economic growth, growth that can be sustained through both global *and* domestic demand and through domestic sav-

ing. European countries, the United States, and Japan all adopted labor market policies that included respect for basic worker rights. Some countries that have developed more recently have followed this approach as well (see inset above). This extensive experience has produced a wealth of lessons and mechanisms for how to go about implementing core labor standards, lessons that can be adapted by developing countries today. At the same time, the international community, through the ILO, has stepped up its financial support, technical assistance, and training to help developing countries make rapid progress on extending these rights to their citizens.

Conclusion: Seizing the Moment

There is a confluence of forces changing the global economic environment and creating new threats and new opportunities for developing countries. These forces include: the pressing need for more pro-poor, pro-equity development policies; the accession of China to the WTO and the looming phaseout of the ATC; and the recent developments among industrialized country governments and firms that put a premium on better labor standards in the global production chain.

As a result, new strategies have become available to developing countries to advance their own development and in particular to improve the prospects of their workers and their poor. We suggest that one of the most promising approaches available to developing country governments in the short term is to seek a labor-trade linkage in bilateral or regional agreements. In pursuing such

agreements, developing country governments would gain the support of labor unions, progressive legislators, and others. This support would make the conclusion of such agreements more likely and on terms more favorable to the developing country involved. They should also bargain for significant, dedicated new resources from their trading partners to promote and implement core labor standards.

Over the medium term, developing countries as a bloc should become the leading advocates for a global regime that builds a floor under basic worker rights. An enforceable regime that requires employers in all countries to respect core labor standards and provide acceptable minimum conditions of work is a means to improve the terms of trade for developing countries, distribute the gains from trade more broadly, and make real and lasting progress toward alleviating poverty.

ABOUT THE CARNEGIE ENDOWMENT

The Carnegie Endowment for International Peace is a private, nonprofit organization dedicated to advancing cooperation between nations and promoting active international engagement by the United States. Founded in 1910, its work is nonpartisan and dedicated to achieving practical results.

Through research, publishing, convening, and, on occasion, creating new institutions and international networks, Endowment associates shape fresh policy approaches. Their interests span geographic regions and the relations between governments, business, international organizations, and civil society, focusing on the economic, political, and technological forces driving global change. Through its Carnegie Moscow Center, the Endowment helps to develop a tradition of public policy analysis in the states of the former Soviet Union and to improve relations between Russia and the United States. The Endowment publishes *Foreign Policy*, one of the world's leading magazines of international politics and economics, which reaches readers in more than 120 countries and in several languages.

THE TRADE, EQUITY, AND DEVELOPMENT PROJECT

The current phase of global economic integration is marked by rapid advances in trade, investment, and production links between societies. At the same time, there has been a backlash against globalization by those who see unwanted side effects on the environment, jobs, and income distribution. In developing countries there are growing complaints that the anticipated benefits of liberalized trade and investment have not been realized.

Three key issues form the core of the current turmoil: whether increased trade is necessarily harmful to the environment; whether increased trade negatively impacts jobs and labor standards; and how the forces of trade and financial flows can be harnessed to achieve development, economic growth, and poverty alleviation. These issues must be addressed if we are to proceed to deeper economic integration that is widely embraced as a successful path for the twenty-first century, or even to ensure that globalization will not be reversed, as it was early in the twentieth century.

The Trade, Equity, and Development Project seeks to develop innovative, workable solutions to the tensions now plaguing trade and globalization in the key areas noted above.

Visit us online at www.ceip.org



CARNEGIE ENDOWMENT
for International Peace

1779 Massachusetts Avenue, N.W.
Washington, D.C. 20036
1-202-483-7600

www.ceip.org