

Lifting labor

Trade sanctions are blunt instruments that usually fail to improve labor conditions in developing nations. The surest route to higher living standards is through trade-assisted economic growth, combined with more subtle policy tools.

by Jenny Bates

The street protests during the ministerial meeting of the World Trade Organization (WTO) in Seattle in late November drew the world's attention to the "new alliance" of labor and liberal interest groups opposed to trade expansion and globalization.

To be sure, these groups often have laudable aims, such as protecting workers and environment. Yet the developing countries they supposedly want to help oppose them on almost every count.

Take, for instance, the debate over whether to condition trade expansion upon improvements in worker rights. American labor, environmental, religious, and other groups want the WTO to allow moves by the United States to restrict trade with nations possessing weak labor standards. Developing countries oppose the concept so vehemently that they don't even want the WTO to discuss the matter.

That's not to say that all developing countries oppose stronger labor standards. Rather, they oppose anti-globalization activists' preferred means of raising such standards. They fear that developed nations will use the labor-standards issue as a convenient excuse to close their markets. And that would only worsen economic matters and workplace conditions in developing nations.

Developing nations cannot leapfrog

traditional stages of economic development and adopt Western labor practices overnight. As was the case for Western nations, the surest route to higher living standards for them is through economic growth fueled partially by trade. History shows that trade sanctions are blunt instruments that often fail to change, and that sometimes even reinforce, the behavior of targeted nations. They should be reserved only for extreme situations when we can do little more than express our outrage about conditions overseas.

The United States should adopt a more subtle, multifaceted approach to improving labor standards in developing nations. It should be organized around the following principles:

Promote economic growth and development. This is the surest way to improve working conditions and raise standards of living in poor, underdeveloped countries.

Set core labor standards multilaterally. The International Labor Organization (ILO), a United Nations agency, is the proper forum for discussing, setting, and monitoring global labor standards.

Harness market forces to promote change. Rather than demand new trade barriers that retard economic growth and living standards, activists, and others concerned about labor practices abroad should use the power of consumer choice to encourage positive

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MEXICAN AUTO WORKER:
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change. They can do so, for instance, by boycotting firms that fail to meet core labor standards and patronizing those that produce “socially responsible” goods and services.

Highlight chronic abusers and target enforcement actions. To make informed decisions, policymakers and consumers need specific examples of labor rights abuses in developing nations, not simply blanket claims against whole countries or regions. Armed with detailed information, policymakers and consumers can target their actions more effectively.

Provide resources and assistance to developing countries. Developed nations must back up demands for improved labor standards and conditions with grants and loans, technical assistance, and other forms of development aid.

Defining Core Labor Standards

The term “labor standards” loosely refers to a range of employment laws, rules, and practices including the right to form trade unions and practice collective bargaining; prohibitions on child, forced, and slave labor; and measures pertaining to wages, conditions of employment, and the like. Players in the trade debate, however, often blur important differences among such standards, for example those between:

Core and developmental standards. Core standards encompass certain universal rights (e.g., the right to form unions) and liberties (e.g., freedom from coerced labor). Developmental standards, in contrast, encompass rights (e.g., minimum wages and overtime pay) that vary from nation to nation on the basis of national wealth, productivity, and other factors. The imposition of a global minimum wage, as some U.S. trade skeptics advocate, would hinder the ability of many developing countries to provide their citizens with any jobs, let alone safe and stable ones.

Unilaterally imposed and multilaterally agreed-upon standards. Some U.S. trade skeptics want the United States to pressure other nations to adopt our developmental labor standards in exchange for access to our markets. (For example, members of the group United Students Against Sweatshops pressure their universities to sever ties with businesses

that do not pay their employees a “dignified living wage”; that exceed a 48-hour workweek; that do not offer vacation leave or overtime pay at a rate above the regular wage; and that fail to meet or exceed U.S. workplace health and safety regulations.) Not surprisingly, many developing nations flatly reject such unilateral attempts to impose American views and norms upon them, just as Americans would reject attempts to impose the values of the European welfare state upon the United States. Multilaterally agreed-upon standards, on the other hand, are internationally designed and reflect an international consensus on core labor standards and practices. The most well-known are those adopted by the ILO in its numerous conventions. These ILO conventions reflect the views of representatives from government, business, and labor in 174 nations and are a more legitimate basis for a discussion of the linkage between trade expansion and labor standards.

The Trouble With Sanctions

The use of trade sanctions to punish countries that do not adhere to core labor standards is at the center of the U.S. debate over trade expansion and globalization. In a recent policy manifesto, for example, the AFL-CIO calls on the WTO to “ensure that governments at all levels can continue to protect human and labor rights by withdrawing benefits from governments that fail to guarantee these rights.” In other words, the labor federation wants the WTO to amend its rules so that members may raise trade barriers against nations that do not protect labor rights.

There are several problems with this approach. Trade sanctions, and in particular barriers to imports, impose high costs on both the United States and targeted nations. Sanctions retard economic growth and exacerbate poverty in exporting nations, hindering the very development they so desperately need. Sanctions reduce choice and increase prices not only for U.S. consumers but for U.S. businesses as well, reducing their competitiveness. Even well-intentioned

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Trade is the solution, not the problem

Open economies raise living standards for workers

The common case made against trade and globalization in the area of labor standards is based on two related arguments. First, groups such as the AFL-CIO argue that increased trade and investment will result in lower standards both here and overseas as countries engage in a "race to the bottom" in the global economy. Second, these groups argue that it is unfair (and potentially damaging) for American workers to compete with low-paid workers in poor countries, many of whom work in unregulated environments with lax standards. Both of these arguments are false, and they portray trade as the problem when it is really part of the solution.

First, there is no compelling evidence that countries that have opened their economies to international trade and investment have lowered their labor standards. A recent OECD study of 44 developing countries that had significantly liberalized trade between 1980 and 1994 concluded "there was notably no case where the trade reforms were followed by a worsening of association rights." Indeed, freedom-of-association rights improved in 32 of the countries studied, albeit with some of the labor rights improvements coming before trade liberalization, some during, and some after. This reflects a result found in other studies — namely, that there is a small, but positive, correlation between openness to trade and higher labor standards. It seems that the two often go hand-in-hand as countries engage in a broader process of reform, although the direction of causation is often unclear. More important, there is well-documented and strong correlation between income levels and high labor standards: Rich countries, such as the OECD members, tend to have both high labor standards and high levels of income.

Second, the main cause of lower wages in developing countries is not a

specific ploy by their workers to undercut American wages or unfair competition from unregulated firms. Rather, lower wages reflect the lower levels of productivity found in developing countries. For example, while manufacturing wages in the United States are significantly higher than those in South Korea, American

output per worker is double that of Korean workers. Hence, American workers receive higher wages and benefit from better working conditions because their higher wage costs are more than offset by their higher productivity. They work in highly productive factories and offices, with the best equipment and with high levels of education. In contrast, developing countries have much lower levels of productivity and desperately need access to new technologies, new ideas, and new markets.

Finally, increased economic integration yields many direct benefits to foreign workers and raises labor standards overseas. For example, a recent, detailed study of foreign companies operating in China by Daniel H. Rosen of the Institute for International Economics noted that "the relatively high salary and benefits, intensive training efforts, home financing experiments, and corporate culture of many (especially Western) foreign-invested enterprises have a virtuous impact on workers in China. ... Indeed, probably only the withdrawal of foreign participants from China's marketplace could reverse the current positive trend." Similarly, the Business Roundtable recently produced a catalogue of examples of the wide-ranging benefits received by foreign employees of



FACTORY WORKER IN CHINA: Foreign-invested enterprises raise standards for overseas workers.

U.S. multinational firms operating overseas. These include higher wages, a wide range of supplemental benefits (such as child care), and significant investments in education and training.

The debate surrounding trade and labor standards is essentially a development question. That is, how do we ensure that developing countries achieve the economic growth necessary (though possibly not sufficient) to raise the standard of living for their populations? The approach adopted by groups such as the AFL-CIO ultimately implies that rich countries should limit (and even eliminate) trade with, and investment in, every country with lax labor standards. This would cut off U.S. trade with the very countries that most need it to expand their economies — the poorer developing countries. Such a policy is clearly misguided, and most developing countries are opposed to this approach. Indeed, the countries of sub-Saharan Africa are currently lining up to increase trade and investment ties with the United States, through the Africa trade bill being considered by Congress. The United States should encourage policies to increase trade and investment with the world's poorest countries (along with other pro-development policies), as this will be a key factor in improving conditions for their workers.

—Jenny Bates

"Even well-intentioned sanctions are often manipulated by domestic industries that don't want foreign competition. And trade barriers only affect exporting industries. They have no impact on informal sectors such as subsistence agriculture, which often have the worst cases of labor rights abuses."

sanctions are likely to be manipulated by domestic industries whose only interest is to hamstring foreign competitors.

A second problem with sanctions is that they rarely achieve the desired outcome — in this case improvements in labor standards overseas. Trade barriers only affect industries engaged in exporting. They have no impact on non-traded sectors, and informal sectors such as subsistence agriculture, which often have the worst cases of labor rights abuses.

There are also significant barriers to reforming WTO rules to allow members to sanction countries accused of labor abuses. Given the current strong opposition from developing countries, it is difficult to envisage such a rule change ever gaining the necessary two-thirds support. Indeed, one of the key lessons from the Seattle WTO ministerial meeting is that developing countries are playing a more active role in international trade policy, and they can block policies that run contrary to their interests.

Even if the WTO modified its rules and permitted the United States to bring a case against a country with lax core labor standards, it would be very difficult to quantify the scope of the injury and determine a just remedy. Would the WTO allow the United States to ban all imports from the country concerned, or just a fraction? If the United States wanted to increase tariffs, by how much would it be authorized to do so?

Finally, the WTO dispute-settlement process only pertains to actions by one nation against another. In cases of egregious labor rights abuses, coordinated, multilateral action against the offending country is likely to be more effective than action by a single state. But such coordinated action cannot be organized through current WTO procedures.

In sum, while it may seem easy to restrict trade with a trading partner to force it to improve its labor standards, such action is likely to be both ineffective and counterproductive. Sanctions should, at most, be used as a last resort. Policymakers should recognize that the main outcome may simply be an expression of the United States' dissatisfaction with a certain practice, not its disappearance.

Alternative Policy Tools

Unions, interest groups, and others concerned about lax labor standards overseas should reject trade restrictions as the primary means for achieving their end. They should concentrate instead on promoting economic growth in developing countries through trade, investment, and other development policies; strengthening and targeting the ILO's work to improve adherence to its core labor standards, particularly in conjunction with the WTO; and developing non-government mechanisms such as partnership-based codes of conduct and social labeling schemes.

Strengthening and Reforming the ILO

While ILO reports provide a wealth of information about labor standards in its member countries, they are not particularly effective tools. A more useful approach would be a simple annual scorecard that ranks all ILO members on the basis of their adherence to core labor standards over time. The scorecard should be easily understandable by the layman and accompanied by a media and marketing strategy to promote widespread attention.

Under current ILO rules, little action can be taken against a member that violates core labor standards universally and egregiously. The ILO should create a new legal procedure under which persistent violators of its core labor standards can be suspended and even expelled. Actions under the new process should be widely publicized to embarrass the affected governments and encourage businesses to rethink their investments.

Forging Strong Links Between the ILO and WTO

The WTO already recognizes the ILO as the relevant body to set international labor standards. Yet little cooperation occurs in practice.

Currently, the WTO issues "trade policy reviews" for each member nation at least once every four years. In the future, these reviews should include a section written by the ILO describing a country's ratification and enforcement of the ILO's core labor standards. Such reports would shine more light on labor rights abuses by WTO members.

The ILO and WTO also should create a joint working group on trade and labor conditions. This group should consider ways to make the ILO's and WTO's work complementary and reinforcing, including new ways to leverage information about workers' rights abuses and noncompliance with ILO conventions. The group should also conduct research on trade and labor questions, such as the impact of foreign investment on labor conditions. In line with the European Union's proposal in Seattle, this group should explicitly rule out setting core labor standards and promoting trade sanctions to enforce labor standards overseas.

The WTO should recognize and promote core ILO standards, such as those regarding products made with forced labor. Under current WTO rules, member nations can restrict imports from other WTO members made with prison labor. The WTO should formally state that members can also restrict imports made with forced labor. This step would allow members to apply trade sanctions against specific firms and industries found guilty of exploiting workers in this way.

Paying the Price for Improved Enforcement

Lax enforcement of core labor standards is often a problem of insufficient resources and government inability to monitor and enforce existing laws. Simply demanding higher labor standards will not yield positive results. Developed countries need to support their calls for tougher standards with significant resources, both unilaterally and multilaterally. In particular, the ILO, in conjunction with the World Bank, should increase its assistance to developing countries to improve monitoring and enforcement of labor laws.

Trade Preferences — a Carrot for Good Behavior

Rather than restrict trade with countries with lax labor standards, the United States should open its market more broadly to countries with good labor rights records. For instance, it should expand on the Generalized System of Preferences (GSP), under which developing countries that meet certain con-

ditions get preferential access to the U.S. market. By encouraging trade expansion, this approach would support economic growth and development in affected countries.

The GSP program expired in 1993. Since then, Congress has renewed it on an annual or biannual basis, often after letting the program lapse for several months. It is hard for developing countries to believe that the United States is serious about promoting their economic growth (and higher labor standards) when it annually disrupts their access to the U.S. market. Expanding and extending the GSP program would be an important step toward encouraging economic development in countries that respect core labor standards.

Conclusion

Discussion of international trade and labor standards has been and is likely to remain highly controversial. While it is tempting to promote the use of trade restrictions to force countries to raise labor standards, there is no magic bullet solution. Indeed, sanctions are likely to be both ineffective in achieving higher labor standards overseas and counterproductive (they may be captured by domestic interests and act to retard economic growth).

We need a more nuanced and multifaceted approach that comes largely from outside the traditional trade policy arena. It should have at least three components — promotion of economic growth in developing countries through trade, investment, and other development policies; a strengthening and targeting of the ILO's work to improve adherence to its core standards, particularly in conjunction with the WTO; and non-government mechanisms such as partnership-based codes of conduct and social labeling schemes.

None of these tools will alone solve the problem of labor rights abuses. But together they will help ensure that the benefits of the global economy are as widely shared as possible. ■



CAUGHT IN THE MUDDLE: At WTO headquarters in Geneva (above), an embattled bureaucracy wrestles with the competing demands of developed and developing countries, environmentalists, and labor organizations.

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Promote trade *and* help workers adapt

Americans balance their support for trade with concerns for workers, the environment, and human rights.

by Steven Kull

The issues raised last November at the World Trade Organization ministerial meeting in Seattle, and hotly debated in Washington this spring, are far from resolved. Shocked that thousands of Americans would pour into the streets over seemingly obscure trade issues, members of Congress are warily eyeing their constituents, wondering if anti-trade demonstrators are representative of the general population. Is there now a fundamental divide in society between those who want to see the process of globalization continue and those who want to put on the brakes?

Some answers may be provided by a recent study of American public attitudes on globalization conducted by the Program on International Policy Attitudes (PIPA) of the University of Maryland. The study included focus groups conducted around the country, a comprehensive review of all publicly available polling, and a new poll of 1,826 Americans conducted Oct. 21-29, 1999.

What the study found is that there is an emerging consensus in the public, but it is not on one or the other side of the Seattle barricades. On one hand Americans do resonate with the concerns of the demonstrators. They do have concerns about increased trade threatening American jobs, about sweatshop conditions overseas, about U.S. companies moving to foreign countries to avoid

environmental regulations, and about a mercantilist tendency to trade with other countries irrespective of their human rights records. But where the public diverges from the demonstrators is that only a small minority want to stop the growth of trade. In principle a substantial majority favor trade, though they have many concerns and reservations about how it has developed. But, unlike many of the demonstrators, what the majority of the public wants is to see these various concerns addressed in the context of the trade process.

This puts the public at loggerheads with the WTO. The WTO has emphasized that the growth of trade should not be bogged down by trying to bring other concerns into the trade process.

A good analogy is to think of trade as like a train. The goal of the WTO is to accelerate the train, and thus it wants to keep the train light. The demonstrators, meanwhile, tried to throw themselves in front of the train to stop it. The public's goal, though, is to load up the train with other concerns for labor, the environment, and human rights. If this has the effect of slowing down the train, the public says, so be it.

This appears to be why there is not majority support for fast track — it implies letting the train move down the track unburdened by any concerns other than trade.

But the majority does support the expansion

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