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## **The global labour standards controversy: critical issues for developing countries**

Singh, Ajit and Zammit, Ann

University of Cambridge, South Centre

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## **Rough/Incomplete Draft on Labour Standards 11 June 2000**

### **“Punishing the Victim” or ....**

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#### **Bibliography**

## I. Introduction

**(\*\*Section to be finished once the main text has been completed.)**

There has been a keen policy debate for some considerable time now in the International Labour Organization (ILO), the World Trade Organization (WTO), the 1995 Copenhagen Social Summit and elsewhere on whether the rules governing international trade should include provisions in the social field, covering a number of core international labour standards (more on which see below).<sup>1</sup> Whatever the reasoning or the professed intentions of those urging or backing such proposals, the matter is highly contentious. The introduction of labour standards considerations into the trade field would facilitate the use of trade weapons when developing countries were deemed to be failing to comply with core labour standards. Adherence to such a “social clause” would end up becoming a condition of participating in the multilateral trading system.

The latest initiative in the WTO needs to be seen in the context of wider measures embodied in the WTO Uruguay Round Agreements which have the effect of curbing the competitive capacity of developing countries or circumscribing their choice with regard to the policy instruments they may adopt to achieve development, all within the context.

The efforts to introduce punitive measures to try to raise core labour standards throughout the world have rightly met firm rebuttal by the bulk of developing countries and they have not found favour among most of the advanced industrial countries. Nevertheless, the issue is by no means dead. Developing countries reject a labour standards/trade link on the grounds that it would be protectionist. This response is widely interpreted either as evidence that developing country governments wish to keep labour costs artificially low in order to pursue a ‘cheap labour’ development strategy, or that they have no regard for the rights of workers.<sup>2</sup>

It is important to note that the case for universal labour standards is now more frequently framed as one concerning universal human rights. For example, workers’ groups in the ILO contend that that the issue is one of a “human rights social clause” whereby human rights standards should be observed irrespective of the level of development. Eight ILO Conventions are now considered to be fundamental to the rights of human beings at work and are now referred to as Fundamental ILO Conventions. In the words of the ILO “The bottom line is that this process of freer trade and improved living and working conditions can only hope to develop if there is a ‘universal respect for fundamental human rights in the work place’.” (ILO, 1997) At

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<sup>1</sup> Much of the public debate is rather diffuse due to the fact that it takes place without agreement on which labour standards are at issue, nor there is much precision regarding the nature of the social clause being urged or how a trade sanctions mechanism would operate.

<sup>2</sup> The production and export of labour intensive products has essentially been the strategy recommended by the World Bank and others who have advocated a shift away from the import substitution strategies and reliance on the development of the domestic market. It is based on the recognition that developing countries can build on their comparative advantage of relatively cheap labour in the production of certain products.

the 1998 ILO Conference a Declaration on Fundamental Principles and Rights at work was adopted.

This conceptual and terminological shift has particular implications for developing countries. Although the ILO has stated that it is not intended that the same standards and approaches are to be applied to all countries and peoples irrespective of levels of development and types of economic structure, the pronouncements of labour standards protagonists are often such as to suggest that this were the immediate objective. Since it is clearly not feasible for developing countries to do more than introduce meaningful and effective labour standards corresponding to their level of development, almost by definition, those opposed to efforts to use trade leverage to gain compliance with labour standards will be deemed to be opposing the furtherance of human rights and hence castigated as moral retrogrades or devoid of humanity.

In view of the continued pressures for a labour standards/trade link, a careful analysis is required of the empirical, conceptual and practical aspects of the subject. As the following review of the hypotheses and implicit assumptions underlying the arguments and proposals to achieve global labour standards by punitive measures indicates, there are a number of significant weaknesses in the protagonists' arguments.

The analysis concludes that the proposal for a labour standards/trade link is indeed protective in intent and it would not guarantee any substantial improvement in labour standards in developing countries. Such a measure may in fact be counterproductive. Moreover, the overall conclusion of this analysis is that, if the aim is to achieve a significant improvement in labour standards in developing countries and to protect labour standards in the North, then a quite different policy approach is required.

This would involve changes in the current "globalization" paradigm which would involve different international rules of the game so as to foster growth, employment and development in the South. It would also involve developing a new framework to condition the conduct of multinational corporations, whose mobility has a significant impact on key labour standards. Such a policy shift would have economic benefits for the economies of the North and reduce resistance in the North to the greater participation of developing countries in the global economy.

## **II. Why a Social Clause?**

### **The case made by labour in the North**

Collective bargaining arrangements and national legislation regarding the terms and conditions of work developed in response to worker's long and often painful struggles to obtain decent work and common labour standards within national product markets. As these markets have become less and less insulated with the growth of international trade, workers have tried to extend the reach of labour standards more widely in the world, so as to protect the level of employment, their jobs and work conditions. These efforts have become more persistent as the impediments to international trade have been dismantled and as capital markets have become increasingly liberalized, enabling

some firms to become internationally mobile in order to take advantage of new markets and the differences in labour standards.

The pressure from groups militating in favour of a link between labour standards and trade has grown stronger as the pattern of international trade between advanced and developing countries has changed, consequent on developing countries' greater capacity to produce and export manufactured goods and the increase in their share of world trade. Indeed, labour in the North associates the high levels of unemployment in the North and increasing wage disparities and the stagnant real wages of low skilled workers with rising South exports of manufactures.

As outlined in the next section, in addition to efforts to achieve improved labour standards throughout the world through the ILO, parallel initiatives have been taken to try to introduce global rules of the game into the WTO permitting trade sanctions to be imposed on countries failing to uphold certain labour standards.

The main pressure for such measures has come from workers in the North who complain that their terms and conditions of work and their very jobs are threatened by competition from imports produced by 'cheap labour', that is by low-paid labour which has none of the protections afforded to workers in more economically advanced countries. They fear that unless labour standards are observed in all nations there will be a "race to the bottom" in terms of the terms and conditions of work. (ICFTU, 1999.)

The argument is now couched in terms of the need for mechanisms to ensure greater adherence to "core labour standards" such that there are global labour standards and for a "social clause" to be incorporated into the international trade regime.<sup>3</sup>

More specifically labour in the North contends that the generally lower labour standards in the South pose three direct threats to their own employment, wage levels and bargaining position, firstly by facilitating greater market penetration in the North, second by limiting the scope for trade union activities to improve the terms and conditions of work in the North and third by providing an incentive for North-based enterprises to shift production to the South. Regarding the perceived problem of competition from cheap labour, a particular complaint is that the employment of forced labour and child labour facilitates the payment of extremely low wages, if any, thereby putting pressure on other segments of the labour market to accept low wages.

The lack of the right of workers in developing countries to organize and to engage in free collective bargaining (as specified in ILO Conventions 87 and 98) is said to keep wages artificially low by preempting workers' pressures for improved wages and

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<sup>3</sup> Thus Northern trade unions counter the allegation that linking compliance with labour standards with trade is protectionist by arguing that a social clause is the opposite of protectionist, as "it would raise living standards and purchasing power and increase commodity trade worldwide." (Letter to the FT by Malentacchi, The International Metal Workers' Federation.)

conditions, and preventing them from obtaining a fair share of the product of their labour. As one trade unionist put it “Unfair competition does not lie simply in the fact that labour costs (pay, health and safety requirements, social spending, etc. are extremely low compared with those prevailing in most of Europe; it is also that the state is often acting to keep wages low, by denying workers the rights necessary to improve their conditions and by failing to enforce even such legislation as may be on their statute books.” (Bill Morris, TGWU letter to FT)

Particular targets for criticism, therefore, are those “countries with development models based on Export Processing Zones – where cheap labour, use of young female workers and, often, lack of union rights are among the main selling points.” (ICFTU, 1999.)

These in broad terms are the perceptions and fears that underlie the case made by Northern trade unions for a mechanism to link core labour standards to the world trading system by such means as a workers’ rights clause, or a social clause. Despite their struggles to improve labour standards in their countries, worker organizations in developing countries have not mobilized in favour of linking labour standards and international trade, preferring to rely on their own and other national efforts to advance labour standards.

While some civil society groups (North and South) have allied themselves with such initiatives, on the grounds that, in a more connected world, labour standards are essential if the rights of workers North and South are to be respected and also on the grounds that labour standards are a human right, the recent increased mobilization of NGOs and citizen-based groups has been focused on highlighting the detrimental social and economic impact of “globalization”. The stronger and more vociferous South NGO networks have not given support to the idea of trade sanctions to encourage compliance with labour standards and emphasize national efforts to improve the situation, greater access to protected Northern markets for textiles and agricultural products and the need to achieve more rapid development through new global economic rules of the game and different multilateral trade policies.(Mehta, 2000.)

The US government has been particularly active in promoting the labour standards/trade link, having changed its position radically since its rejection of the labour standards/trade policy link in 1948. Particularly from the 1980s onwards it has been in the vanguard of efforts to introduce labour standards into trade agreements, both bilateral, regional and multilateral. This is partly an attempt to assuage powerful labour lobbies and anti-free trade business interests which feel threatened by increased competition, particularly from developing countries.<sup>4</sup>

The US efforts are also prompted by the fear that the mounting tide of criticism will eventually jeopardize the neo-liberal agenda for further international liberalization of

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<sup>4</sup> This is well expressed by Representative Brad Sherman: “Corporate America does not see China as a great place to sell things. They see it as a great place to make things and sell here.” (SUNS, 2000)

international trade and capital flows.<sup>5</sup> This latter agenda is particularly important to the interests of powerful industrial interests in the North which are keen and able to conquer markets and economic space elsewhere. Nevertheless, multinational enterprises, no doubt with an eye to their competitiveness, profit levels, and freedom of manoeuvre, have not shown themselves to be supportive of efforts to have labour rights enshrined in international trade rules, arguing that workers' rights are not a trade-related issue.

European governments, meanwhile, remain divided on the issue.

### **Evidence of declining labour standards in the North**

To understand the basis of northern trade union fears and complaints, it is important to appreciate the nature and dimensions of the labour market problems they face. For the purposes of this discussion, the most relevant aspects are:<sup>6</sup>

- Mass unemployment in many European countries;
- Slow growth of average real wages and, in the case of unskilled workers in the US, a decline in the real wages;
- Growing inequality in income distribution and greater wage dispersion, especially in the US, between the wages of skilled and unskilled workers;
- A weakening of trade unions and a change in their role in industrial relations.

### ***Unemployment***

Since the early 1970s the major industrialized have experience increasing levels of unemployment. The average annual percentage changes are given in Table 1. The average rate of increase for the G7 advanced countries rose from 3.1 per cent in the period 1964-73 to 7.1 per cent in 1990-1999 and for the OECD countries 3.0 to 7.4 per cent. In the EU the figures were 2.7 and 10.3. The result was that the average rate of unemployment in G7 countries was considerably higher in the period 1983-92 than between 1964-1973. (See Table 2).

During the 1990s European economies experienced very high rates of unemployment. In 1995, France, Italy and the UK the rate was 10 per cent of the labour force, in Spain and Finland over 15 per cent. Even in Sweden, which previously had maintained a high level of employment, the rate rose rapidly from 1.5 per cent in 1990 to over 10

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<sup>5</sup> that failure to take action on this matter will generate even greater organized action by trade unions, consumers and protectionist elements of the business sector, and

<sup>6</sup> The problem of de-industrialization in the North, that is, the decline in the proportion of the labour force in the manufacturing sector, which is also attributed to the South, is not discussed as such in this document. Nevertheless, since the problem partly manifests itself in unemployment, low growth in or stagnant average real wages and in increasing wage differentials between skilled and unskilled workers, this issue is not in fact ignored. On de-industrialization see Howes and Singh, forthcoming.

per cent in 1995. (Singh and Zammit, 1995.) The rate of unemployment in the USA was, however, somewhat lower than for other G7 countries.<sup>7</sup>

Another matter for serious concern has been the fact that in some European countries a very high percentage of the growing numbers of unemployed have been long-term unemployed. There is also evidence that the unemployment rate has been higher among low skilled workers in the OECD as a whole and among young workers, particularly in the case of the US and the UK. (See Table 3.)

### *Low wages and increasing wage dispersion*

#### **\*\*This section requires substantial improvement**

When one considers the question of wages and income distribution, developments over the last decade or so were also such as to cause workers to fear an erosion of their living standards.

If earnings dispersion is taken as an indication of the wage gap between skilled and unskilled workers, then the increase market income inequalities registered in the 1980s could indicate slow or zero growth in the wages of less skilled workers. (See Tables 4 and 5.) In the US, the wage gap between skilled and unskilled workers increased substantially during the 1980s for the economy as a whole, rather than in the manufacturing sector. (Collins, 1998 and Freeman, 1998.)

\*\* Insert the reason, lower productivity and wages in services brings down the average.

Since the early 1970s average real wages in the US have hardly increased, with the average real compensation per US worker being only 6 per cent higher in 1991 than it had been in 1973. Compensation rose only for highly educated workers, while that for unskilled workers fell in most years since 1973. (Source: \*\*?)

Particularly in Europe, feelings of insecurity among many workers due to high levels of unemployment and stagnant or declining wages have been compounded by an erosion of the non-market benefits they received in terms of social welfare payments as conservative governments introduced measures to encourage greater labour flexibility and to reduce government social expenditures.

### *Trade unions and collective bargaining*

The dismal situation regarding employment and/or wages for many workers in the North has been paralleled by adverse developments with regard to institutions and practices which allow workers to have some say in the terms and conditions of work.

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<sup>7</sup> This is partly explained by the fact that welfare provision for the unemployed is not as extensive as that in Europe, so that many people are obliged to seek work however unremunerative the wage. The higher level of unemployment in the EU compared with that in the US is the source of a vigorous academic and policy debate on labour market flexibility.



While the freedom to associate largely remains intact in Europe, the actual strength of trades unions in terms of membership and spread has become drastically diminished and their role in collective bargaining and defending the interests of workers has been eroded in the last twenty years.

In 1993, trade unions claimed about 40 per cent of the work force in Europe, the number having declined considerably during the 1980s and has continued to do so since. In France, trade union membership dropped from 19 to 12 per cent, in Italy from 50 to 39 per cent and in the Netherlands from 40 to 26 per cent. In the UK trade union membership fell from over 50 per cent to about 33 per cent. From a peak high of 13.2 millions in 1979 it fell to 8.7 millions in 1993 (one in three employees), the lowest level since 1946. (Milbank, 1993) Despite the fall in union membership, 48 per cent of employees still worked in places where unions were recognized for collective bargaining purposes. (Taylor, 1995.)

The bargaining position of labour and trade unions has been weakened both at the work place and at national macro-economic level in Europe, particularly in the UK, where attempts to introduce neo-liberal policies of deregulation of the labour and capital markets went furthest. There, for example, the Conservative government took a number of measures to deregulate the labour market and reduced union protections. The government outlawed compulsory union membership and secondary picketing and strikes, and set new obstacles to union balloting. Government measures to reduce the power of trades unions in disputes were introduced elsewhere. In Germany, social security payments for strikers were withdrawn (\*\*reduced) and winter layoff payments for building workers were withdrawn. Other labour market changes Europe included greater ease in hiring and firing, and the increasing practice of employing labour on the basis of short term contracts with less rights and more flexible hours also reduced the influence of unions. These changes were part and parcel of the post-1980 change in economic order based on different social norms and which involved the unravelling of the social pacts between government and labour and a weakening of the welfare state. These purposeful efforts to reduce the bargaining power of labour took place against a backdrop of rising unemployment.

In the US, the freedom to associate is considerably constrained. While the fact that the US Constitution precludes US ratifications of ILO Conventions is said to be no impediment to the pursuit of labour standards, the legal impediments to unionizing in the agricultural sector persist and many states in the US have legislated for “the right to work” -- legislation which encourages non-union plants. Indeed, in the field of comparative international industrial relations, the United States is considered to have a relatively unregulated regime with regard to labour market issues and has what is referred to as a “union-avoidance culture.” (Brown, \*\*199?? p. 2). By the early 1990s US trade unions had lost much of their strength, embracing only 15 per cent of the labour force. (\*\* though there has been signs of a small recent resurgence?) and striking industrial and service workers may be dismissed and replaced by others, and the dismissal of workers for allegedly wanting to join a union is not unknown.<sup>8</sup>

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<sup>8</sup> For example, the long-distance US telephone company dismissed Hispanic workers at its San Francisco plant allegedly for wanting to join a union and following union action by the Postal, Telegraph and Telephone International, the plant was closed.

In a context of higher levels of unemployment and increasingly mobile capital, labour has been forced to moderate its wage demands and try to protect jobs, though not without considerable industrial conflict.

Evidence for this is provided from two different sets of information. In Europe, alongside the weakening of nationwide trade union organization, there has been shift to enterprise level bargaining. In the face of increased international competition and mobile capital unions are increasingly adopting a defensive strategy which is in the nature of an employment pact, in which unions help employers to make their local businesses competitive by agreeing a range of concessions in pay and job flexibility in return for increased job security. (Brown, \*\*19?? 2000??) (pp 4). Workers in the US are also caught up in similar process, but there, in view of the frequent employer policy of ‘union-avoidance’, unions are not there to mediate on behalf of the workers.

This decline in union power may have contributed to labour’s declining share of business (private sector) output registered in the last two decades in the G7 countries. (Singh and Dhumale, 2000.)

### **Clear cause for concern**

The development described above demonstrate clearly there has been a significant decline in key aspects of the labour standards of Northern workers giving them solid grounds for concern and complaint. While these developments have to be taken seriously, it cannot be assumed that increasing imports from developing countries and low labour standards in these countries are responsible. In what follows, there is a brief review of relevant facts in order to assess whether there is indeed any causal connection and what policy conclusions one can draw.

## **III. Multilateral “fair play”: Global Labour Standards**

### **Initiatives in the ILO and the WTO**

The issue of protecting labour standards in the context of increasing international trade has been at the core of labour struggles and political debate both at the national and the international level for decades, if not centuries. Early this century the founders of the Covenant of the League of Nations of 1919 agreed to endeavour to secure fair and humane conditions of labour, both at home and “in all countries to which their commercial and industrial relations extend.” (Treaty of Versailles, Part I, Art. 23(a) ). The Preamble of the Constitution of the ILO states that “ the failure of any nation to adopt humane conditions of labour is an obstacle in the way of other nations which desire to improve the conditions in their own countries.” (Sengenberger and Wilkinson, 1995.) These represented the first of what the ILO has referred to as efforts to establish “multilateral fair play” based on the legitimate concerns of workers regarding job security, pay and working conditions.

Subsequently, when attempting to establish an International Trade Organization (ITO) in 1948, the founding Havana Charter incorporated an explicit link between link labour standards and trade. The US found this unacceptable and refused to ratify, and efforts to establish and ITO foundered.<sup>9</sup> The GATT (General Agreement on Tariffs and Trade) which was established instead does not permit trade reprisals in case of breach of labour standards, though Article XX on general exceptions allows any contracting party to adopt or maintain restrictive measures relating to the products of prison labour.

Over the decades a number of international Labour Conventions and Recommendations have been adopted. These are international treaties subject to ratification by ILO member states and, once ratified by national institutions, these ILO Conventions enter into national law and are subject to national judicial systems and enforcement procedures. Thus international commitments become binding by virtue of voluntary ratification and incorporation into national law. Complaints concerning the implementation of the laws can be lodged with ILO's supervisory machinery, which can adjudicate disputes over the application of the ratified Conventions.

Seven ILO conventions constitute what are called its core conventions (See Box 1). These are often grouped in three categories, (referred to as basic principles by the ILO), namely freedom of association and collective bargaining (Nos. 87 and 98); freedom from forced labour and discrimination (Nos. 29, 105, 100, and 111) and the abolition of child labour (No. 138).<sup>10</sup> It is these core labour standards which are usually being referred to in discussions on the introduction of a labour standards/trade link or of a social clause into the international trade rules.

## **ILO's Core Conventions**

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<sup>9</sup> Article 7 of the Havana Charter read as follows: "1. The Members recognize that measures relating to employment must take fully into account the rights of workers under intergovernmental declarations, conventions and agreements. They recognize that all countries have a common interest in the achievement and maintenance of fair labour standards related to productivity, and thus in the improvement of wages and working conditions as productivity may permit. The Members recognize that unfair labour conditions, particularly in production for export, create difficulties in international trade, and, accordingly, each Member shall take whatever action may be appropriate and feasible to eliminate such conditions within its territory. 2. Members which are also Members of the International Labour Organization shall co-operate with that Organization in giving full effect to this undertaking. 3. In all matters relating to labour standards that may be referred to the organization in accordance with the provisions of Articles 94 or 95, it shall consult and co-operate with the International Labour Organization. "

<sup>10</sup> The freedoms associated with two of these conventions are important in that they can generate further pressures by working people for the wider practice of and respect for these freedoms and principles.

1. Forced Labour Convention	1930	(No. 29)
2. Freedom of Association and Protection of the Right to Organize Convention	1948	(No. 87)
3. Right to Organize and Collective Bargaining Convention	1949	(No. 98)
4. Equal Remuneration Convention	1951	(No. 100)
5. Abolition of Forced Labour Convention	1957	(No. 105)
6. Discrimination Convention (Employment and Occupation) Convention	1958	(No. 111)
7. Minimum Age Convention <sup>11</sup>	1973	(No. 138)

In April 1994, during the final stages of the Uruguay Round, the proposal by some advanced industrial countries for the introduction of a social dimension into the international trade regime was the subject of intense debate and mutual recriminations (the US, the main protagonist, referring to “social dumping” by the developing countries and the latter claiming that the proposed measures constituted “disguised protectionism”). As a result of developing countries’ firm opposition to the idea, the final ministerial declaration did not include proposals for a social clause. Nevertheless, a compromise paragraph (8( c )iii )of the Decision on the Establishment of the Preparatory Committee for the World Trade Organization committed the WTO to discuss “suggestions for the inclusion of additional items on the agenda of the WTO’s work programme” and, in the conclusion of the Chairman of the Trade Negotiations Committee, reference was made to the importance attached by certain delegations to the relationship between the trade order and internationally recognized labour standards. (ILO, 1994.)

Parallel to US-led efforts to introduce a social clause in the GATT Uruguay Round negotiations, worker initiatives were underway in the ILO. The 1994 ILO Labour Conference (the ILO assembly) discussed a proposal submitted by ILO Director-General Michel Hansenne for the inclusion of a “social clause” in the new WTO, such that countries which did not implement certain ILO conventions should be subject to trade sanctions or be excluded from the WTO.<sup>12</sup> However, the proposal encountered firm opposition from developing country government representatives and a compromise was reached on the basis of the latter’s proposal which involved inviting the Governing Body at its June 1994 meeting to consider the issue taking into account the conference discussion.

The Director General’s own proposal for a social clause was presented to the Governing Body for consideration and it decided to set up an open-ended Working Party of Governing Body members on The Social Dimensions of the Liberalization of International Trade to “discuss all relevant aspects of the social dimensions of the liberalization of international trade”. The subsequent November 1994 meeting of the

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<sup>11</sup> This was subsequently amplified by the Convention Concerning the Elimination of the Worst Forms of Child Labour.

<sup>12</sup> The issues had been before the ILO on two earlier occasions and rejected. The first was at the time of the 1944 Philadelphia Convention which resulted in the incorporation of the Philadelphia Declaration into the ILO constitution and thus broadened its mandate from concern with “injustice, hardship and privation” relating to labour conditions to include more general, but related, social policy, human and civil rights matters. The second was in 1960 .. *complete??*.)

ILO governing body debated an ILO Office document containing a proposal for a system which allowed GATT/WTO Contracting Parties to apply trade restrictions on the basis of an ILO mechanism for supervising compliance with the Conventions. (*check this.*) . (ILO GB.261/WP/SLD/1).

The discussions in the Governing Body Working Party meeting revealed sharp divisions between employers and workers and between North and South such that the debate was not concluded in time and the issue remained on the agenda for the subsequent March 1995 working party, with no decision on further work on the subject or any new mandate, though the ILO office was asked to prepare an outline for a study on the subject which, on developing country insistence, should focus not just on trade liberalization but also on economic development. (*Find the study:* commented on by SUNS 30 March 1995)

The social clause issue featured in discussions at the 1995 UN World Summit for Social Development in Copenhagen but developing countries again acted vigorously to prevent any statement on the matter that could be used as an argument for universal enforcement. Thus the final Declaration and Programme of Action contains a commitment by governments to “freely promote respect for relevant ILO conventions” including those on the prohibition of forced and child labour, the right to organize and bargain collectively, and the principle of non-discrimination. It also included a recommendation to “consider” their ratification. The ILO’s seven core labour standards have thus become a notional benchmark for fundamental principles and rights at work or a “social floor for the global economy”. (Somavia, 2000.)

The issue as to whether social clauses protecting workers should be included in trade agreements was also discussed at the meeting of the G7 in April 1996. Opinions were deeply divided: France and the US were firmly in favour of including a social clause in trade agreements, Japan, Canada, Germany, the UK and the OECD were against.

At the WTO Singapore First Ministerial Meeting in December 1996 the United States and Norway proposed: “the establishment of a working group in the WTO to study the relationship of trade and labour standards.”

*The Singapore Ministerial meeting concluded that: CHECK and rewrite the following:*

- a) that the WTO should not deal with labour standards;
- b) renewed the commitment of member states “to the observance of internationally recognized core labour standards (and) recognised that the ILO was the competent body to set and deal with these standards” and expressed support for the ILO’s work in promoting them.
- d) proposed close co-operation between ILO/WTO

At a 15 January 1997 press briefing, shortly following the Singapore decision, the ILO Director-General Michel Hansenne posed the question “Will the statements of Singapore be translated into concrete action?” Concerned that the ILO has “sometimes

been accused of being a toothless organization” his view was that “With the emergence of a global market there was need for a mechanism to enforce respect of basic labour standards, even by those states that have not ratified the conventions.”

However, the June 1997 ILO annual Conference rejected Hansenne’s proposal that ILO engage in regular monitoring and international inspection of member states with a view to according “social labelling” to certify countries which respected core labour standards. based on international inspection. In addition to being opposed by developing countries, the proposal gained only a lukewarm response among developed countries. The ILO Director-General stated his intention that to ensure that respect for the principles of the seven core standards would be implicit in membership of the ILO. This was to be done by persuading members to adopt an ILO Declaration of respect for the principles of the 7 core standards, by means of a solemn Declaration to that effect. This would be binding on all member states whether or not they had ratified the relevant Conventions. (*ILO WoW No. 20 1997*) At the 1998 ILO Conference, the Declaration on Fundamental Principles and Rights at Work was unanimously adopted by member states, who thereby accepted the obligation to pursue these principles and rights by virtue of their membership of the ILO, without necessarily ratifying the Conventions themselves.

Importantly, this Declaration states explicitly that labour standards should not be used for protectionist purposes, and that the comparative advantage of any country should in no way be called into question by the Declaration. The Convention also provides for yearly reports on the efforts and achievements with respect to the practical implementation of these rights, and on the problems encountered, with worker and employer representatives, in addition to governments having the right to express views on progress in implementation. The follow-up procedures also provide the possibility for mobilizing finance to enable progress in practical implementation.

Under its new leadership, the ILO, has adopted the concept and objective of “decent work”, built around four strategic objectives – fundamental rights and principles at work, employment, social protection, and social dialogue. (ILO, 1999). Statements so far would indicate that to make the decent work concept operational the Director-General favours advocacy, persuasion and working with countries, “by building on the social floor” established by the Declaration on Fundamental Principles and Rights at Work. Referring to the matter of a labour standards/trade link, the Director-General in a recent New Delhi speech, made the following comments: (Somavia (a), 2000.)

“I have expressed concern that the debate on labour standards and trade dominated public attention and overshadowed all the efforts under way through the development approach. ...

It has also tended to cast doubt on the legitimacy of a social floor itself. Many countries are afraid that an honest exploration of their problems and a transparent statement of the shortfalls in achieving the floor might be used as a basis for protectionist action against them in the trade field. In addition, certain vested interests within countries could utilise the protectionist threat as a handy excuse for inaction. In short, the trade link debate provides a convenient shelter for both protectionists and for socially retrograde elements in all countries.

We cannot afford to abandon the need to create a floor for the global economy in ways which are acceptable to both developing and developed countries. Regardless of the course of the debate in the WTO, the ILO is determined to reinforce its own action, in terms of its own action, in terms of its established mandate and procedures, and to develop partnerships in the world to put in place a social floor for the global economy.”

### **Other US and European initiatives**

While there is no agreement at the multilateral level that trade should be subject to conditions relating to compliance with labour standards, two of the world’s major economic powers have taken steps to introduce such a link in their trade relations with developing countries.

In May 1998, European Union Trade ministers agreed to adopt what they called an incentive-based approach, involving reduced tariffs (ranging from 15 per cent to total exemption) for imports of manufactured goods and processed agricultural products into the EU from countries which already benefit from the EEC’s Generalized System of Preferences and which allowed trade unions and collective bargaining and aimed to eliminate child labour. (Compliance with the standards would be monitored by Brussels and the ILO, (\*\*ITTO=?), unions, NGOs and other groups from within the countries concerned would be allowed to comment before any additional tariff concessions could be granted.

Under US law, in order for a developing country to be eligible for the US Generalized System of Preferences, which allows products from developing countries to enter the US market free of duties, it must take steps to meet international labour norms.

At the Singapore WTO First Ministerial Meeting, in her formal statement on December 9<sup>th</sup> 1996 proposing that a WTO working group be established to study the relationship of trade and labour standards, Charlene Barshefsky, US Secretary of Trade, had tried to reassure WTO members concerning the US intent: “We are not proposing an agreement on minimum wages, changes that could take away the comparative advantage of low-wage producers, or the use of protectionist measures to enforce labour standards”. (USIS *Geneva Daily Bulletin*, December 11, 1996.) Nevertheless, recent US legislation goes well beyond demanding improvements in core labour standards, specifying requirements concerning minimum wages, hours of work and measures relating to occupational health and safety.

This is illustrated clearly in the recently enacted US Trade and Development Act 2000 which embraces the African Growth and Opportunity Act (AGOA) and the U.S.-Caribbean Basin Trade Partnership (CBTPA). The AGOA “will: ...Protect African workers and U.S. jobs by requiring tough standards against trans-shipment ... and respect for internationally recognized worker rights and human rights. ...” Similarly the “ ... CBTPA (The Caribbean Basin Trade Partnership Act) will: ... Condition countries’ eligibility for these expanded trade benefits on fulfillment of WTO obligations ... and respect for core labour standards.” ... “The (Trade and Development Act of 2000) also ... Expands the list of worker rights criteria countries

must meet to be eligible for trade preference programs like GSP (Generalised System of Preferences) , CBI (Caribbean Basin Initiative) and AGOA to include the implementation of the recent International Labor Organization Convention banning the worst forms of child labor.” (Office of the Press Secretary, 2000.)

The US Africa/Caribbean Bill also contains a clause which, in addition to requiring adherence to core labour rights concerning the right to organize and to bargain collectively, also requires countries to establish minimum wage and maximum-hour standards for workers and bans the use of forced labour.<sup>13</sup> This would suggest that developing countries are likely to be subject to further external pressures to institute particular forms and levels of labour standards.

The North American Free Trade Area (NAFTA) has not yet embarked on efforts to develop a supranational body of labour laws. There is, however, a side agreement on labour which provides for complaints to be registered against labour conditions in the other countries and such complaints can go to an arbitration panel which can impose trade sanctions. To date, there has been no such case. (?)

The permanent normal trade relations (PNTR) recently agreed between the US and China incorporates safeguards and measures including the establishment of a “high-level commission to monitor China’s human rights record and trade ...“ (SUNS 26/5/2000). In the US government’s public relations exercise to win votes and rebut criticisms of its weak stance on the human rights issue in this particular case the case was argued that opening up China through trade and investment was the best way to improve human rights in China. What this signals in terms of future US policy on a labour standards/trade link in the WTO or WTO/ILO is unclear.

One scenario is that what cannot be gained through multilateral channels such as in the WTO where consensus is required may well be achieved through bilateral and regional agreements in which weaker partners can be more easily pressured. However, this same development may give developing countries reason to think that a rules-bound multilateral agreement on a labour standards/trade link would be the lesser of two evils.

Whichever the tack taken by North governments on this matter under pressure from trade unions and protectionist business interests, it is essential that developing countries continue to resist such efforts. To do so, however, requires a detailed understanding of the reasons why developing countries’ labour standards and trade are not the source of the legitimate and significant problems faced by labour in the North. To that end, the next section briefly outlines the evidence which indicates that the case is not grounded in the facts.

#### **IV. Laying the Blame**

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<sup>13</sup> An amendment which required adherence to child labour standards recommended by the ILO was not included.



## Theoretical arguments (\*\*Needs much improvement)

Many mainstream economists argue that there is a causal link between the growth of developing country manufactured exports to the North and the growing gap between the wages of skilled and unskilled workers in the North and their rate of unemployment. Their argument derives from standard (\*\*neoclassical) theories of international trade based on the Heckscher-Ohlin-Samuelson-Stolper framework.<sup>14</sup> Essentially the argument is that the growth of developing countries' exports of labour intensive manufactured goods to developed country markets causes a decline in the demand for unskilled labour in the advanced countries. This is said to occur because the relative price of labour intensive manufactured goods decline, causing a fall in profits and lower investment. The result is a decline in the wages of unskilled labour (as in the US) or to a rise in unemployment if there are wage rigidities (as in Europe).

This general analytical approach has been the basis for a considerable amount of work by both labour and trade economists, among whom there is considerable disagreement over methodology to be employed in measuring the impact of trade on labour markets.<sup>15</sup> Nevertheless, the common finding among international trade economists and labour economists is that trade has only a small impact on wages and income inequality (\*\*and on employment levels?). (Slaughter and Swagel, 1997.)

Only one study concluded that the impact of developing country manufactures trade with the North was mainly responsible for the poor prospects for unskilled workers.<sup>16</sup> (Wood, 1994.) According to this author's calculations, around 80 per cent of unemployment and ??? was the result of competition from imports from developing countries. (based on evidence that between 1980 and 1990 those developed countries with the greatest growth in manufactured imports from developing countries were those which experienced the biggest increase in unemployment.) (\*\**what about USA?? And wage dispersion?* ) (\*\**Can you provide a short improved version of Wood's work?*)

The work of other mainstream economists using a similar general analytical approach to that of Wood agree that there has been a decrease in the demand for unskilled labour, and there is a "transatlantic consensus" which regards the reduced demand for unskilled labour as the main determinant of the observed income inequality in advanced countries. While both trade or technical change may explain the reduction in

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<sup>14</sup> This is a two factor model using capital and labour. For an exposition of this analytical framework which can be understood by non-economists, see Ghose, 2000.

<sup>15</sup> Labour economists focus on the volume of trade and analyse the factors embodied in these flows, whereas trade economists focus on product prices rather than trade volumes. The main issue between the two groups is whether trade prices or trade quantities as the principal channel through which international trade affects wages. On the methodological divide between labour and trade economists on this issue see (Davis (1998) and (1998a); Freeman (1995); Lawrence (1994); Richardson (1995); Wood (1995); Deardorff and Haikura (1994). See also Slaughter and Swagel, 1997 ?? for a comprehensive review of the literature on the effects of international trade on the wages and employment of skilled and unskilled workers.

<sup>16</sup> Wood's approach uses the traditional Heckscher-Ohlin model but the work is based on the two factors of skilled and unskilled labour, rather than capital and labour. He also uses the factor proportions of the South, a method which is highly controversial.

demand for skilled labour, the consensus view is that the latter is far more important than the former, accounting for as much as 80 per cent of the variation in observed inequality (**\*\*in Europe and the USA and of the unemployment in Europe?**).<sup>17</sup>

This by now conventional wisdom, in which income inequality is explained entirely in terms of the reduced demand for unskilled labour, is challenged by (a number of non-orthodox) economists, who suggest that other factors need to be taken into account. In particular they point to the need for a more unified framework of analysis which takes account of the supply as well as the demand for skilled and unskilled labour and which takes into account the contribution of capital to income, noting that the trend rise in profits and other non-wage incomes also need to be taken into account.<sup>18</sup> (Atkinson, 199 and Singh 19 ..)**\*\*complete the info.**

Clearly therefore there would appear to have been other more significant influences on unemployment and income distribution in the developed countries, which will be referred to later in the paper. Before doing so, however, it is useful to consider the empirical evidence regarding developing countries' manufactured exports to the North and the supposed threat that they pose.

### *The empirical evidence*

#### *Developing country exports*

In recent decades, developing countries have become increasingly export oriented and have increased their share of world merchandise exports, thus impinging on the share of industrialised economies. Moreover, during the last two decades the share of manufactures in merchandise exports increased at a faster rate in the case of developing countries than for the industrialized countries. Thus developing countries' share of world exports of manufactures increased from 12 per cent in 1980 to 25 per cent in 1996. However, the bulk of total developing country manufactured exports is accounted for by only thirteen developing countries, mainly in Asian, the percentage reaching 87.9 in 1996.<sup>19</sup> (Ghose, 2000.) The majority of developing countries have not been able to develop their capacity to produce and export manufactured goods and the share of exports (mainly primary products) to GDP remained unchanged between 1975 and 1995. (Ghose, 2000.)

Nevertheless, despite the impressive rise in manufactured exports of some developing countries, the total imports by developed countries of manufactured goods from

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<sup>17</sup> Technological change in the North is deemed to be labour-saving and to lower the demand for unskilled workers.

<sup>18</sup> For example Atkinson (2000) finds that the reason for increased inequality in incomes is not that the bottom 10 per cent are receiving lower wages than before but that the top 10 per cent are getting more not only with respect to the bottom 10 per cent but also with respect to the average. These facts concerning income inequality do not fit easily with the explanation in which income inequality is explained entirely in terms of reduced demand for unskilled labour (\*\* and technological change)??. **\*\* correct and explain the last bit.**

<sup>19</sup> The thirteen major developing country exporters of manufactured goods to developed countries are: Argentina, Brazil, China, Hong Kong (China), India, Indonesia, Republic of Korea, Malaysia, Mexico, the Philippines, Singapore, Taiwan (China) and Thailand. The Republic of Korea and Mexico are now members of the OECD, regarded as the club of rich industrialized countries.

developing countries (excluding China) amounted to only about 1.5 per cent of the combined GDP of OECD countries. (UNCTAD, 1995.) This fact makes it difficult to explain how such imports could have such a large impact on the level of employment and wage dispersion. (\*\**indicate how it this could be explained.*) \*\**Find a source*

Despite, growing penetration of developed country markets by manufactured exports from the South, the North's manufactured exports to developing countries have still been greater than its manufactured imports from these countries. Even trade between the group of 13 principal developing countries exporters of manufactures to industrialized countries has been largely balanced since the mid 1980s. (Ghose, 2000) The North's positive trade balance with developing countries as a whole can hardly have contributed to deindustrialization and unemployment in the North.

A closer examination of the pattern of changes in the North-South manufacturing trade balance indicates that changes in manufacturing employment in industrial countries were associated with recessions in these countries (1973-74, 1980-82 and 1990-91) and also with a reduction in exports to developing countries in the 1980s, (due to the compression of their imports during the debt crisis) rather than to manufactured imports from the latter. (UNCTAD, 1995.)

Moreover, it should be noted that the import penetration of industrial countries between 1958-1975 and 1975-1992 and was on a roughly similar scale (though the exporting countries were different).<sup>20</sup> However, the earlier surge was not paralleled by mass unemployment in Europe or stagnant real wages and increasing income inequality in the US. These different labour market experiences can be attributed to differences in the rate of growth, growth being slower in the post 1973 period. (Howes and Singh, forthcoming.)

In sum, at the macroeconomic level, advanced countries have been helped by a positive trade balance with developing countries. Such trade has enabled developed country governments to run these economies at a higher rate of growth than would have otherwise been possible, as **\*\* explain more ...** and cheaper goods from developing countries has reduced inflationary pressures.

#### *Trends in labour standards and export performance*

A central argument of those who complain of unfair competition from developing countries is that not only is developing country labour cheap but that wages and the level of social protection are kept artificially low by depriving workers of their bargaining and other rights.

This argument tends to assume that wages and social protections for workers depends to a large extent on them being able to exercise freedom to associate and to bargain collectively. This itself is a tenuous assumption. However, more importantly, if relative labour costs are the core issue, it is important to focus on what one author has called 'labour outcomes' in addition to the level of compliance with institutions and legislation regarding labour standards. (Field, 1990.) Thus if there is more and

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<sup>20</sup> In 1992, the import penetration ratio, defined as **\*\*???**, was 4.3 per cent for the US, 2.8 for the European Union and 1.3 per cent for Japan. (UNCTAD, 1995.)

better work, and if remuneration improves, then labour standards can be said to have improved. And if the remuneration and labour standards of major developing country exporters increase, allegations of unfair competition lose their force.

Two issues are of central relevance here. The first is whether labour market interventions of the kind specified in the ILO core Conventions are an important factor in affecting labour costs. The second is whether labour costs and labour standards have indeed been kept purposely low to maintain competitiveness and attract foreign investment.

With regard to the first, there is little evidence to prove that workers' incomes (a varying element of labour costs) and other social protections will improve if, and only if, they have the freedom to associate and bargain collectively. Many other factors exert an influence, not least a country's macroeconomic policy. Furthermore, while high levels of employment and labour standards are central goals of development, the issue as to whether labour market interventions, through their impact on the rate of growth of output, employment and labour costs, help or hinder economic development is an unsettled issue, despite considerable research on the matter.<sup>21</sup> There is little evidence to support the "distortionist" view that such interventions constitute a major impediment to resource allocation, structural adjustment or stabilization programmes. But nor does the "institutionalist" that wage bargaining and related consultative mechanisms lead to better economic performance.<sup>22</sup> (Rama, 1995.)

Looking at the strength of trades unions in terms of membership in developing countries, the level of unionization is low (less than 10 per cent in the mid-1990s), though the difference with advanced countries is not as large as is often assumed. There are many reasons for this low union membership, not least the different nature

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<sup>21</sup> Labour market interventions refer to such matters as ILO conventions ratified, union membership rate, ration of minimum to average pay, annual leave and similar rights, and social security contributions.

<sup>22</sup> The neoclassical school of economists argues that the market is the most reliable instrument for ensuring that wages are proportional to labour productivity and for ensuring equal pay for work of equal value. In their view, interventions in the labour market intended to improve the terms and conditions or work are counterproductive, in that they hinder productivity and growth and a rise in wages and incomes. *\*\*Check: Thus, the World Bank argues that there is a trade-off between labour standards and economic development. In its view, adherence to labour standards and labour market regulation constrain and impair economic growth, structural adjustment and the growth of employment in developing and advanced countries alike. (World Bank, 1988.)* However, this orthodox perspective ignores the fact that there are considerable labour market imperfections based on widespread social and economic inequalities and inter and intraclass differences in bargaining power on the demand and supply side, which require regulation to counteract the inequalities which impede the achievement of market efficiency. )

of the production structure in developing countries and the highly segmented labour markets, with a large proportion of the population seeking a livelihood in activities which traditionally have been difficult for trades unions to organize.

The thesis that developing countries ability to successfully export manufactured goods requires a cheap and disciplined work force, involving repression of labour, including the denial of labour's rights to freely organize, strike and other policy interventions to keep wages low, is not however supported by the evidence. Studies of Singapore, South Korea and Taiwan suggest that state labour controls were imposed mainly or solely for domestic political reasons. Further they suggest that "state labour controls are neither necessary nor sufficient to ensure a 'cheap, disciplined and productive workforce' or to attract foreign investment in export-manufacturing." (Lim, 1990.)

One of the concerns which leads some governments in developing countries to set limits to collective bargaining is the need to establish a labour policy which avoids creating an 'aristocracy of labour' benefiting from special protection and privileges at the expense of poorer sections of the labour force, the nature of whose work prevents them from joining traditional types of trade unions.<sup>23</sup> Indeed, the interests of labour in developing countries are often not fully or appropriately catered for by the core ILO labour standards which correspond to the gains won over the course of two centuries of struggle in the now advanced countries. Most developing countries are poor and have a dualistic structure and surplus labour. In the mid-1990's, only a small proportion of the labour force (15 per cent) have formal wage contracts mainly in industry and services whether in private enterprises or the public sphere and where the rules and standards of the core ILO labour standards can be more easily applied such that government regulations and collective bargaining institutions may have some influence on the terms and conditions of employment. In contrast, 61 per cent works in agriculture and 22 per cent in rural non-farm and urban informal employment.<sup>24</sup> (World Bank, 1995.) In effect there is a large reserve army of unskilled low-productivity labour in search of work at any price. Unionization and collective bargaining of the more traditional type associated with the advanced industrial economies have limited possibilities.

When labour standards are legislated for, government legislation is often ignored or its application manipulated by foreign investors.<sup>25</sup> This may pose a dilemma for developing country governments when particular foreign investments contribute to growth and employment. Moreover promoting, monitoring and invigilating the

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<sup>23</sup> One view is that social progress and economic progress go hand in hand and that "to ensure that social partners (*those whose labour product is traded*) enjoy their fair share of the benefits of trade liberalization ... they must have the legal means to take active charge of the defence of their interests." *ILO Gov. Body doc. para 27*. Such a policy can, however, have complex economic and political ramifications.

<sup>24</sup> In contrast, in high income countries, 4 per cent work on the land, 27 per cent in industry and 60 per cent in services.

<sup>25</sup> Infringements by foreign employers include reclassifying the labour force in food and beverages production as agricultural labour for which the stipulated minimum wage is lower, or under-registering for social insurance purposes the number of workers to so as lower the employer's contributions.

implementation of certain of the core labour standards may be beyond the resources of poor developing countries with an impoverished state.

A study of industrial relations in four African countries (Botswana, Malawi, South Africa and Zimbabwe) quoted by Brown (\*\*199?) countries indicate that, as in Europe, in order to survive in the face of increasing competition, firms in developing countries are forced “to improve productivity through bargaining and innovation as the level of the individual firm”. The study concluded that “... effective industrial relations at the workplace is neither guaranteed by, nor necessarily greatly influenced by apparently orderly collective bargaining arrangements at national or industry level. These developments may be transitional, but it is likely that the transition is towards, rather than away from, the individual enterprise. Collective bargaining will become increasingly fragmented.” (Brown, 19?? p3-4)

Thus, to judge whether developing countries are engaging in fair or unfair competition only on the sole basis of their perceived compliance with certain labour standards is highly questionable. Furthermore, how to judge compliance with labour standards is a complex and controversial matter, the more so that transplanted foreign models and institutions to very different socio-economic, cultural and institutional circumstances have often proved unhelpful and local adaptations, making assessment that much more difficult.

*Labour outcomes: the growth in wages*

Notwithstanding the above, it is important to recognize that, as the experience of many Asian economies testifies, fast growth and high levels of employment are an important means of protecting the interests of labour, both in formal jobs and otherwise.<sup>26</sup> There is considerable evidence to show that high labour standards and levels of employment have been achieved in a remarkably short period of time by historical standards in those developing economies which have experienced high rates of growth.<sup>27</sup> Moreover in some aspects of labour standards their levels have surpassed even those of some developed countries. A notable example is the rate of unionization. In the mid 1990s this was higher in both Taiwan (40 per cent) and Korea (17.2 per cent) than in the US. (Lee & Park, 1995.)

Turning to the evolution of real wages in developing countries exporters of manufactures to the South, research indicates very considerable rates of growth for Taiwan and Korea over a long period. In the case of Taiwan the annual rate of increase in real wages averaged 5.3 per cent in the period 1952-86, and was 7.5 per cent in the decade 1976-1986. In Korea, nominal wages in the manufacturing sector experienced double digit increases between 1970 and 1992 and real wages have also risen consistently at rates well above those experienced in advanced industrial countries. In both these countries, improvements in wages and labour conditions were slow in the early stages of their development but speeded up as these economies achieved high rates of economic growth.(Lee & Park, 1995.)

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<sup>26</sup> This is not to argue that foreign direct investment is the key to higher growth.

<sup>27</sup> Some, such as Thailand, Malaysia and (Korea??) have changed from being labour surplus economies to labour importing economies.

Recent work by Gosh (2000) indicates that between 1981 and the mid 1990s not only have real wages per worker faster in the export-oriented industries of Indonesia, Korea, Malaysia and the Philippines but that the rates of growth were higher than in the export-oriented industries of the USA and Japan (whose exports are capital intensive.) Moreover, his calculations suggest that, except in case of the Philippines, the growth of real wages in the export-oriented industries of these countries was faster than real wages in manufacturing as a whole. (Gosh, Table 4.)

**\*\* Insert data on wages and labour standards in foreign owned enterprises and in export processing zones compared with national ones and other wages. Ajit: do you have the info.??**

**\*\* Do labour costs actually matter?** Could include something on the following

- Labour costs in relation to total costs; is this an important factor when it comes to prices and competition?
- Distinguish between: Highly labour-intensive manufactures made in the South and the situation where developing country workers use similar machinery as in North and there is a big wage differential (then this production can be highly competitive: (Often is the case with FDI by MNCs in developing countries but can be the source of big (untaxed) profits, rather than the whole difference in labour costs undercutting workers in the North.)
- In the long run it is technology, product quality and non-price factors which count.
- There are various ways of neutralizing rising labour costs resulting from labour standards (currency devaluation) or squeezing profits

### ***Assessing the evidence: wrong culprit and inappropriate approach***

The data on trade and import penetration does not substantiate the claim that the South is exporting unemployment to the North. Also, as noted above, the increasing gap between the wages of skilled and unskilled workers in the 1980s in the USA was for the economy as a whole, but not within the manufacturing sector. Third world exports of manufactures to the US are therefore not directly responsible for the worsening relative position of unskilled workers in the US in the non-manufacturing sector. Had de-industrialization been caused by exports from the South, then this could have affected un-skilled wages in general, but that has been shown not to be the case.

Moreover, the data with respect to rates of growth of wages and wages in export-oriented industries in developing countries does not support the claim that the South is engaged in social dumping. According to Article VI of the GATT, this occurs when a product is introduced into the commerce of another country “ at less than the normal value of the product” on the domestic market. If, therefore, product is sold abroad at a value corresponding to the domestic social cost it cannot be considered to be social dumping. A charge of social dumping might be claimed if different labour standards

rules or social protection conditions were applied, for example the denial rights to unionize and engage in collective bargaining in export processing zones in developing countries, in order to try to enhance the competitiveness of the product manufactured there. (ILO Governing Body do. p. 8 footnote 1)

**\*\* (data still to be inserted earlier)** Significantly, evidence from some of the manufacturing exporters indicates that wages tend to be higher in the industries producing manufactured exports than in those in the economy in general.

The conclusion to be drawn from the above is that the evidence does not support the claim that South is responsible for a global race to the bottom with respect to labour standards. The majority of developing countries export mainly primary commodities, the low and volatile prices of which impede their development, while their exports of manufactures are too low to have a significant impact on the welfare of labour in the North. Those developing countries accounting for the bulk of the manufactured exports to the North have benefited rather than damaged the North's economies. (Singh, )

Other factors must therefore be responsible for the woes of labour in the North. A labour standards/trade link would not protect workers in the North. Nor would it improve labour standards in the South.

It is a major irony that some developed country governments should advocate the imposition of labour standards on developing countries when they have adopted policies and legislation which erodes the levels of labour standards and social protection that have been built up over many years of political and trade union struggle in their own countries. The major protagonist, the US, itself has not ratified the core labour standards in question and seems the least concerned to promote freedom of association and collective bargaining for its own workers.<sup>28</sup>

Compulsion, through the threat of trade sanctions, is in any case inappropriate. Developing countries are committed to improving labour standards.<sup>29</sup> It is, however, for each country to determine how best to improve its labour standards in the light of its commitment to ILO Conventions and according to its own circumstances. Article 19(3) of the Constitution of the ILO recognizes that the level of protection may depend, among other things, on "the imperfect development of industrial organization, or other special circumstances" Thus the ILO itself provide no legal grounds for arguing that there can or should be external imposition (via trade sanctions for example) of a particular pre-established content of social protection or that there should be uniformity of social protection in the sense of similar levels of minimum wages or certain other conditions of work.

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<sup>28</sup> **\*\*** Possible footnote on the contentious issue of prison labour. (In US do they work and what are the terms and conditions? and the imprisonment of large numbers of young people, particularly from ethnic minorities, as a mechanism of social control.

<sup>29</sup> It would constitute one more unacceptable conditionality, which like others is often used on a selective basis to achieve other economic and political aims. There is also the question of the legality of attaching such a conditionality to trade in the WTO. (ILO, **\*\*199?** **\*\*** working party document pp 6-7)



Members of the ILO have in any case shown their commitment to taking further steps to hasten the end child labour in unanimously adopting the Convention concerning the Elimination of the Worst Forms of Child Labour and will work with the ILO to fix time-bound policies to eliminate the worst forms of child labour.<sup>30</sup> But as the World Confederation of Labour (WCL) points out, to abolish child labour, to prevent such situations arising, and to reintegrate children into society “requires a broad-based strategy.” “Child labour is rooted in a wide variety of fundamental factors. One of the main factors is an economic growth that leads to income concentrations ... also to concentrations of poverty exclusion, underemployment and unemployment.” “Free compulsory and high-quality education is a pre-requisite for concrete results of such a strategy ... and has to include curricula for vocational training, which is now lacking in many countries.” And, as the WCL emphasizes, international co-operation on the financing of projects to facilitate all this and help governments assume their responsibilities. (WCL, 1997.)

If the central concern really were to raise labour standards in the South the threat or use of punitive trade measures would in any case be a wholly inappropriate way of going about the matter because it could be detrimental to the interests of labour if trade is cut off and employment declines or if such measures encourage employers to change their employment methods. In the highly segmented labour markets in developing countries, workers in the relatively small urban formal sector often enjoy relative advantages in terms of wages and working conditions compared with those in the large rural and informal sector. There the large reserve army of labour has to make ends meet by any means. Trade sanctions against the formal sector may well encourage employers to resort even more to subcontracting work out on the poor terms and conditions characteristic of the informal sector and loading onto these workers the burden of adjustment to fluctuating export demand. Under such circumstances the burden of competition is put on the poorest workers who work in the worst conditions and are much less able to protect their interests. Moreover, if developing country exports of manufactures were cut, this would block one of the routes which has shown itself to be highly effective in raising labour standards in the main producing and exporting countries.

## **V. The Real Issue: The Need for a New Economic Order**

### *If not the South, then where lies the blame?*

Work is becoming increasingly informal and precarious worldwide, entailing a widespread downgrading of wages and working conditions lie elsewhere. (ILO evidence and Ajit C+5 paper)

*The reasons:*

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<sup>30</sup> The Convention commits countries to taking immediate action to end prohibited uses of children, defined as: slavery or similar practices; sales of and trade in children; compulsory or forced labour-bondage to pay debts; abuse of children in the world of pornography and prostitution or in drug manufacture or trafficking, and child labour threatening their security, health and morals.

1. Macroeconomic policies in the North: explain recent approach and consequences. Need policies conducive to high sustainable levels of demand and employment in North especially; ( and recent upturn?)

2. Liberalization and Globalization: national labour regulations eroded by the new liberalized global economy, which is largely the consequence of conscious policy decisions on the part of advanced industrial countries;

If labour in the North is really concerned to improve labour standards in the South and to protect their own, then the best means of furthering these aims is to focus on persuading their governments to adopt another set of national and global rules of the game which tame the process of globalization and harness it to the needs of working people worldwide.

### ***What is to be done?***

*Full employment/decent work for all as the central objective;*

According to the ILO, there are 3 billion poor in the world existing on \$2 per day. (\*\*Add some more data, Singh etc..)

The elimination of poverty and exploitation can only be achieved by rapid development and more productive activities for people in the South. In the ILO Director-General's address as the opening session of the 88<sup>th</sup> ILO Conference in June 2000, in referring to the notion of 'decent work' as a means of capturing and realizing the aspirations of people throughout the world and seeking radically new solutions to the global problems of poverty and the working poor, he stated that decent work "... is not a straitjacket, a one-size-fits-all solution. On the contrary, it is a way of treating in a coherent and dynamic way the aspirations and goals of different individuals, different cultures, different societies. The question is how to make it real. We all understand that the possibilities for decent work evolve with social and economic progress, and the goals can and should rise over time." (Somavia (b) 2000.)

For this to be possible, different WTO rules of the game are required and other measures which would enable developing countries to increase their income levels (by raising increasing their exports and changing their structure of production) in a global economic context which does not favour multinational capital at the expense of labour. Need to change the globalization project to one which will reduce internal and international inequalities. An international trading system based on principles of equality, sovereignty and non-interference in internal affairs. S&D (Footnote re work of South Centre, etc.)

- special and differential treatment for developing countries vis a vis WTO global rules of the game;
- greater access to North markets, textiles, agricultural products;
- policies to stabilize the prices of commodities exported by developing countries;

Debt relief to reduce the balance of payments constraint in Africa and LA

### **TNCs Responsibilities**

While governments are responsible for ensuring the furtherance of labour standards, the conduct of employers plays some part in determining the speed at which standards improve in practice. One particular concern is the practice of segmenting the work process and putting out work through subcontractors on highly exploitative terms, particularly, though not exclusively, in developing countries.

*Northern workers have been active in campaigning for voluntary codes of conduct for multinational corporations intended to promote* consistent labour and social policies in activities wherever located, though not necessarily at the same level of provision. A few such agreements have been signed between unions and multinational companies which include provisions concerning codes of conduct for subcontractors and the micro enterprises and households to which work is contracted out.<sup>31</sup>

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<sup>31</sup> Examples of such agreements are those signed between two major German companies which have international operations, and the International Federation of Building and Wood Workers which commit them to observing ILO international labour standards in their activities anywhere in the world. The agreement with HOCHTIEF enterprise covers all the firm's subcontractors which number far more than the direct employees and it introduces minimum standards cover freely chosen employment, no discrimination, a ban on child labour, the right to freedom of association and free collective bargaining, adequate wages, reasonable working time and decent working conditions. (**ILO, World of Work, No. 34, 2000.**) Sprint, the US international phone company referred to earlier, was pressured by German and French unions, following closure of a plant in the US from which it had dismissed workers who had allegedly tried to join a trade union, into adopting a code on labour standards as a condition for entering an international alliance. (Taylor, 1996)

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