

## Labor Standards and Trade Agreements

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## Issue

Are labor standards a matter of concern for international trade relations ?

What role for the World Trade Organization (WTO) which is devoted to define the rules of international trade ?

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## Brief Historical

- Labor standards were abandoned with the failure of the Havana Charter (1948)
- WTO Singapore ministerial declaration (1996): "*The International Labour Organization (ILO) is the competent body to set and deal with [core labor] standards* »
- Negotiations on labor standards are excluded from the Doha's agenda

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## ILO Declaration on fundamental principles and rights at work (1998)

- Freedom of association and right to collective bargaining (conventions 87 and 98)
- Prohibition of the forced labor (conventions 29 and 105),
- Prohibition of discrimination at work (conventions 100 and 111)
- Minimum age for child labor (convention 138). Convention 182 has been added to fight against the worst forms of child labor.

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## Question

- Is multilateralism served or disserved by the exclusion of core labor standards in Doha's agenda ?
- Nine years after, the answer is : This exclusion had negative effects on multilateralism.

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## Counterproductive effects

The most obvious counterproductive effect is the proliferation of social clauses within :

- Regional and Bilateral Trade Agreements
- Generalized System of Preferences

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## Regional and Bilateral Trade Agreements

Example: The US Trade Act of 2002

Trade agreements must have the objective “to promote respect for worker rights and the rights of children consistent with core labor standards of the ILO”.

There are social clauses in recent US bilateral trade agreements: Jordan, Morocco....

Nota: *discrimination is frequently forgiven but core labor standards are extended to acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health.*

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## Generalized System of Preferences

- For the American trade law, the product and country eligibility to GSP are restricted not only to core labor standards but also to “acceptable” conditions of work with respect to minimum wages, hours of work, and occupational safety and health standards.

- EU’s provisions are anchored to ILO core labor standards

- EU also proposes a “special incentive arrangement” for the protection of labor rights.

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## Why to include social clauses in trade agreement ?

- The standard explanation (economists, LDCs) is in terms of political economy of protectionism: trade unions, like AFL-CIO, seek to impede imports from low-wage countries to preserve unskilled labor wages.

Observation : it doesn’t prove that unskilled labor is wrong

- The good question is : may violations of labour standards be an instrument of trade policy as tariffs, subsidies, etc. which are regulated by WTO ?....

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## Preliminary questions :

Is there a trade-labor linkage?

If yes, what is the sense ?

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## Theoretical answer

(Heckscher-Ohlin-Samuelson inspired)

- There is a trade-labor linkage (Basu & Van, Brown, Deardorff & Stern, Maskus, Morici & Shulz, Shelburne, etc.)

- The sense is ambiguous. Concerning child labor, violations are frequently associated with higher trade flows.

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## What do say empirical studies ?

- Labor standards are not affected by openness (Granger, Busse, Edmonds & Pavcnik)

- Dani Rodrik (1996) : child labor contributes to a higher share of labor-intensive exports.

- Clotilde Granger (2003; 2005) : violations of the four core labor standards by Southern countries tend to raise the volume of trade from South to North.

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## Work in progress

(Clotilde Granger and Jean-Marc Siroën)

- Clotilde Granger's Database: scoring concerning the respect of the four core labor standards in 65 northern and southern countries.
- Gravity model: bilateral trade flows controlled by PIBs, distance, other bilateral variables and country fixed effects (Anderson & van Wincoop method).

Preliminary results (to confirm)

**Bilateral effect** : Two well-scored countries trade less each other and two bad-scored countries trade more

**Multilateral effect** : a better scoring fosters total exports till a threshold (Malaysia, Ecuador,...) and exports decrease beyond. If confirmed, it might be an obstacle to "endogenous" improvement of labor standards.

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## What can we conclude from empirical estimations?

- Violations of labor standards may be an effective trade policy instrument to foster exports. There are arguments to give WTO some power
- It does not mean that violations are welfare improving.
- It's a bad instrument for trade policy because the target –world markets- is very "distant" from the instrument which affects labor markets.
- Probably, they're not a good instrument to foster long-run growth because they are associated with a bad labor allocation and under-investment in human capital.

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## Cases for including multilateral labor rights

- « **Erosion of non-discrimination** » (Sutherland's report): the absence of reference to labor rights is an incentive to conclude bilateral agreements which jeopardize multilateral system.
- **Extension of bad unregulated trade policies**: Decreasing tariffs or prohibition of subsidies within WTO may be an incentive to substitute an inefficient trade policy instrument : labor standards .
- **Inefficient tariff negotiations**: As a consequence, simultaneous negotiations on tariffs and labor standards might drive to lower tariffs and higher labor standards (Bagwell & Staiger).

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## Final conclusion

*Inclusion of core labor standards  
in WTO is not necessarily  
protectionist*

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