



institut du développement durable et des relations internationales – 6, rue du Général Clergerie – 75116 Paris – France – Tél. : 01 53 70 22 35 – iddri@iddri.org – www.iddri.org

idées
POUR LE DÉBAT

N° 08/2005 | LIBERALISATION DU COMMERCE

Trade, environment and labour

Rémi Bazillier (Iddri et université Paris I-Sorbonne)

Rémi Bazillier a rédigé cet état de l'art en octobre 2005 dans le cadre des travaux menés par le réseau CAT&E (Concerted Action on Trade and

Environment). Ce texte n'engage que son auteur. En mettant ce document en ligne sur son site, l'Iddri a pour objectif de diffuser des travaux

qu'il juge intéressants pour alimenter le débat.

Tous droits réservés



institut du développement durable et des relations internationales

6, rue du Général Clergerie Téléphone :
75116 Paris - France 01 53 70 22 35
www.iddri.org Télécopie :
iddri@iddri.org 01 53 70 21 45

www.cat-e.org

Report on

Trade, Environment and Labour

**Authors: Rémi Bazillier, IDDRI, Université Paris 1
Sorbonne/TEAM-CNRS, Paris**

Reviewer: Alessandra Goria, FEEM, Venice

Benoît Martimort-Asso, IDDRI, Paris

Date: October 2005

Concerted Action on Trade and Environment, sponsored by the European Commission, Research Directorate-General, under Contract No. EVK2-CT-2002-20017 CAT&E

Trade, Environment and Labour

Preface

The Concerted Action on Trade and Environment (CAT&E) is designed to provide an opportunity for the large and growing community of European researchers working on trade and environment issues to meet regularly, to discuss research hypotheses and methods, to review results, and to develop new lines of co-operative research. CAT&E will launch a dialogue with policy makers at all levels. It aims to create a process that can document the progress of research and generate new research impulses in this area. It seeks to advance the resolution of current conflicts between trade and environment. The information obtained in the course of the Concerted Action is annually summarised in state of the art reports and bibliographies in a fashion that is useful to both researchers and policy makers. The bibliographies focus on the most recent literature. The reports serve as an input to CAT&E's annual members' meetings and open conferences. To structure the reporting and discussions, the following themes have been identified initially (in random order; the theme of the present paper is underlined):

- ✓ Subsidies
- ✓ Government Procurement
- ✓ Investment
- ✓ TBT, SPS, and Labelling
- ✓ Trade and Development
- ✓ Trade, Environment and Human Rights
- ✓ Trade in Commodities
- ✓ Implementation Procedures
- ✓ Trade in Services
- ✓ Intellectual Property Rights
- ✓ Trade and Multilateral Environmental Agreements
- ✓ Dispute Settlement
- ✓ Transparency and Participation
- ✓ Sustainability Impact Assessment of Trade Agreements
- ✓ European Trade Policy Development
- ✓ Trade and Agriculture
- ✓ Trade, Environment and Labour
- ✓ Trade, Environment, and Public Health
- ✓ Science and Precaution
- ✓ Trade and Environment in the Architecture of International Governance.

Introduction and scope of the paper

The interaction between labour standards and international trade is by no means a new issue (see Charnovitz, 1987, for a historical point of view). However, over the last decade, the debate has been relaunched by the proposal of the United States and France to integrate this issue in the Uruguay Round and also, more recently, in the Doha Development Round.

There is still very little analysis of trade-labour-environment relationships in the literature. Even though there are a lot of similarities between labour and environmental issues, a specific analysis taking the differences between the two into account is still required. We will be stressing this problem in the first part of this report.

First of all, we will identify the relevant research hypotheses, and then we will move on to review the main methodological approaches. Due to the lack of literature on what labour and environmental standards have in common and different ways they can be compared, we will focus mainly on the links between labour and trade. One of the most important research hypotheses concerning this issue is a commonly accepted definition of labour standards and core labour standards. We often observe contradictory findings in different papers because of a vague or unclear definition of what constitutes core labour standards. Researchers also have to address the implications for international global policy. They should see this point clearly and work on the institutional issue. Lastly, the debate on labour and environmental issues has focused chiefly on the links with trade because of the ongoing debate on globalization. A broader vision of these standards – one based partly on economic development and growth – is called for, however. In the second part of our paper, we will review the different methodological approaches. Our analysis will be based on two main points. First: How does trade liberalisation affect labour standards? And, second: What are the economic effects of international labour standards policy? We will analyse both theoretical and empirical approaches.

Identification of relevant research hypotheses

Researchers should clarify the similarities and differences between labour and environmental issues

Labour and environmental standards have a lot of common points (Anderson, 1996), in the sense that some developed countries want to impose an improvement of these standards through trade policy (Kimberly, 2003). Developing countries are strongly opposed to this strategy due to their fear of “hidden protectionism”. At the international level, we have observed a labour-environmental coalition since the middle of the 1990s. The labour movement needed the international support of the environmental movement in order to push social issues at the international level (Brown et al., 1997).

The ‘blue’ (workers) and ‘green’ movements do not always share the same interests, however -- especially where highly polluting industries are concerned. Improvement of environmental standards can lead to a loss of jobs in the short term (Werbach, 2004) but it does not have any effect on the level of labour standards. Moreover, economic development can have a positive effect at the environmental level in the long term, after trans-

formation of the production process and the adoption of low energy consuming technologies (Grossman & Krueger, 1995).

One of the most important differences between environmental and labour standards is that there is not any physical international spillover in the case of labour standards. Nevertheless, we will see that economic, psychological and moral spillovers can also justify international coordination for labour standards (Anderson, 1996). Both (environmental sustainability and norms and standards) can be seen as global public goods (BDS 1998; Kaul et al., 1999; Bazillier, 2005).

A consensus is needed on the definition of labour standards and core labour standards

The disparity in labour standards can be explained by development (Srinivisan, 1996), productivity and endowment gaps (Golub, 1997) between countries. From a neo-classical point of view, this disparity is compatible with free trade or capital mobility (Srinivisan, 1995; 1998; Stern, 1999).¹ However, few labour standards can be seen as fundamental. There is now an international consensus² that certain core rights should be globally recognized and protected (Leary, 1996). Efforts are therefore required to define them.

Labour standards can be defined by the global principles and rules governing work and professional conditions (OECD, 1996). They are multifaceted and may vary from one country to another, depending on the country's degree of development and its political, social and cultural conditions and institutions. Most labour standards therefore depend on national circumstances (Stern, 2000). Nevertheless, the OECD and ILO have distinguished four core labour standards: (1) prohibition of forced labour, (2) freedom of association and the right to organise and bargain collectively, (3) elimination of child labour exploitation, and (4) non-discrimination in employment. The OECD justifies these choices by two arguments: they are fundamental human rights, and compliance with them carries more efficiency. The ILO refers to the fundamental rights of workers: they can be applied everywhere, regardless of how developed the country is. Bhagwati (1995), however, considers it very difficult to establish universal norms. He argues that only the prohibition of forced labour can be seen as a core standard. Other authors make different distinctions. Aggarwal (1995) divides labour standards into *process* related and *outcomes* related standards; Freeman (1996) differentiates *core* standards and *cost* standards.

Although there is a great deal of debate on the definition of labour standards, the problem is even greater when it comes to environmental issues. As shown by Kimberly (2003), the definition is broader and includes a number of aspects that have to be studied differently. As noted in Bhagwati and Srinivasan (1996), it is important to distinguish analytically between (1) environmental problems that are intrinsically domestic in nature

¹ We will see further on that if low labour standards are considered to be a negative externality, free trade without compliance with core labour standards is not optimal (Kok Nahuis & De Vaal, 2004).

² See the Social Summit of Copenhagen (1995), the WTO Singapore declaration (1996) and the ILO declaration on fundamental workers' rights (1998).

and (2) those that are intrinsically international because they involve transboundary spill-overs.

Researchers should deal with the institutional issues and think about the implications for global policy

Out of 130 free trade agreements and over 1,800 bilateral investment treaties, only three (NAFTA, Canada-Chile FTA and US-Jordan FTA) address environmental and labour issues (CED, 2001).

The main question is the effectiveness of trade sanctions. This also applies to environmental issues (Griswold, 2001). A great deal of proposals have been made to see how labour concerns could be included in the rules of international trade. Leary (1996) and Rodrik (1996) are in favour of a limited social clause that would allow trade sanctions for violations of fundamental labour rights. They agree that such a clause should be negotiated multilaterally as opposed to being adopted unilaterally (see also Kok, Nahuis & De Vaal, 2004). Rodrik (1996) proposes a 'social safeguard' clause for the WTO focusing on core labour standards. To avoid the protectionist trap of this provision, Rodrik would establish a set of strict conditions which would have to be fulfilled before trade sanctions could be imposed. In the case of a democratic exporting country, the importing country would have to offer compensation for any trade sanctions. Unfortunately, it would not be easy to establish any of these conditions, and abuses are highly probable, as Anderson (1996) points out. What is more, Maskus (1997) considers that trade sanctions could be counter-productive, harming the individuals they are designed to help, and that they are ineffective in achieving their goals.³ (see also BDS, 1996; Srinivisan, 1998; Brown, 1999). Trade sanctions can already be imposed for other reasons, however, via the WTO's dispute settlement mechanism (DSM). Assuming that trade restrictions are economically harmful, even to the country that imposes them, it is rational to accept eventual compliance with the rules (if the cost of sanctions is higher than the benefit where rules are not respected). Also, BDS (2002) notes that the TRIPS agreement has provided both the example and part of the justification for labour interests to extend the WTO agenda to include labour standards.

There are several different channels through which labour standards might enter the WTO. The OECD (1996) has suggested that poor labour standards might constitute dumping under Article VI of GATT 1994, or be interpreted as a subsidy under Article XVI. But the most direct approach would be to add low core labour standards to the list of general exceptions set out in Article XX.

Another question is whether negotiations on labour standards can be combined with negotiations on trade liberalisation. Bagwell and Staiger (2000) argue that international negotiations on tariffs alone would lead to a globally inefficient outcome characterised by partial liberalisation and a lowering of labour standards. They suggest three approaches to multilateral trade negotiations that might allow governments to reach a globally efficient outcome in terms of complete tariff liberalisation and strengthening of labour standards:

³ For a discussion on trade sanctions and their effectiveness, see, for example, Hufbauer & Schott (1990).

- Introducing the issue of labour standards directly by putting it on the agenda of multilateral trade negotiations on both tariffs and labour standards;
- Excluding the issue of labour standards and negotiation commitments on tariffs alone, with the authorization of Kemp-Wan adjustments of tariffs (Nullification and Impairment clause);⁴
- Excluding the issue of labour standards and negotiation commitments on tariffs alone, and allowing any country to increase its tariffs provided that its trading partners have the right to reciprocate (and allowing countries that want to strengthen their labour standards to increase their tariffs).

They recommend that Article XXIII be amended so that countries that worsen their labour standards in their import-competing sectors are obliged to compensate foreign suppliers with an offsetting tariff reduction restoring the volume of trade to the previously agreed fixed level.

Kok et al. (2004) demonstrate that coordination is not automatically incentive compatible. According to them, though, when it is incorporated into the WTO framework by slightly expanding the interpretation of the existing reciprocity rule, to ensure that countries lower their standards below the autarky level (under Article XX of GATT 1994, for example), it can be made incentive compatible.

Anderson (1996) proposes transferring the onus of high labour standards to developed countries. Developing countries would commit themselves to enforcing minimum standards and raising those standards over time according to a specified schedule, in return for gradual improvements in OECD market access.

Lastly, Dessing (2001) challenges the idea of the WTO dealing with labour standards. She thinks that the United Nations should probably play the main role by adopting sanctions as a measure of last resort, although that would require some reforms. Non-respect of economic human rights would likely coincide with non-respect of political human rights and this is not a trade liberalisation problem, but a political one. In addition, she argues that sanctions should not be restricted to trade (because trade sanctions can be counter-productive).

To sum up, with regard to the implications for global trade policy, the main questions concerning labour issues are the links between the ILO and WTO and the matter of including the social clause in the WTO (Kimberly, 2001). Things are not exactly the same for environmental issues: the answer is not as straightforward because the issues are broader and more complex (Kimberly, 2003). Within the WTO, there is a Committee on Trade and Environment, but as shown by Esty (2001), it is not really efficient. The main problem is that there is more than one environmental organisation. According to Kimberly (2003), “[T]he most logical WTO reform would be to negotiate language clarifying the relationship between international trade rules and multilateral environmental agreements (MEAs).” There are two main points of view with regard to both issues. According to the first, the best way to improve environmental and labour standards is to achieve

⁴ “It is agreed that if the domestic government subsequently loosens its standards from its existing level, it will then be obligated to reduce its tariff to offset the impact of its altered labour standards on the price received by foreign exporters.”

free trade (CED, 2001; Grisworld 2001). According to the second, international coordination would be more efficient (Beaulier & Gaisford, 2001).

The linkage between trade and labour standards can be looked at in two ways. What is the impact of trade on labour standards? What is the impact of labour standards on trade and welfare? We will deal with these questions in turn.

Survey of methodological approaches

Impact of trade liberalisation and globalisation on labour standards

Theoretical issues

Casella (1996) argues that differences in labour standards are in part driven by differences in incomes: trade will cause endogenous convergence in labour standards if it also precipitates convergence in income levels. However, this convergence is not triggered by a drive for competitiveness, but rather by the underlying demand for standards.

With respect to child labour specifically, Maskus (1997) models an economy that produces export and import-competing goods with some sector-specific factors. Though adult labour is mobile between sectors, child labour is only employed in an informal sector that supplies inputs to the export sectors. Brown et al. (2002b) deduce from this analysis that trade liberalisation will raise the demand for child labour inputs if exports increase. But this analysis ignores the impact on the supply-side of child labour. Basu and Van (1998) and Basu (2002) consider that if trade openness increases household income levels, it will help them approach or exceed the critical adult-wage level at which child labour begins to decline (see also Baghwati, 1995). To summarize, trade liberalisation can lower child labour supply (but only if it causes income convergence, which is not clear empirically), but can increase demand.

Bagwell and Staiger (2000) build a model with two countries: a local nation which has a certain level of labour standards⁵ and a foreign nation which does not apply any. With regard to the import-competing sector, an increase in labour standards strengthens trade gains.⁶ Therefore, “[C]ountries will adopt more stringent labor standards in the presence of import competition than they would choose to adopt in its absence”. Kok et al. (2004) assume that trade gains increase with differences in standards (labour and environmental standards). An increase in North labour standards will go with lower standards in the South. Trade liberalisation will cause a global divergence in labour standard levels.

Trade liberalisation can also be negative in the North from the point of view of export-competing sectors. Terms of trade will play in the opposite way. Generally speaking, trade will induce reorientation of labour standards toward greater stringency in import-competing industries and greater laxity in export sectors. This analysis can explain the

⁵ This analysis is also valid for environmental standards.

⁶ It is assumed that free trade leads to international price equalization. A nation is a price-maker, so a change in the nation's supply or demand will have an impact on the global price.

development of export processing zones (EPZs) with looser labour standards (Maskus, 1997).⁷

Empirical issues

There has been a great deal of studies, especially with respect to child labour. Cigno et al. (2002) regress trade openness on the incidence of child labour, real per capita income, health policy and skill composition. They measure child labour by the labour force participation of 10-14 year olds. They found that when skill composition is not controlled, trade increases the labour force participation rate of these 10-14 year olds but has no effect on their attendance rate. When skill composition is controlled, openness has no significant effect. But this finding is partial: child labour is also negatively correlated with income (Shelburne, 2001). The link with trade *liberalisation* is not clear.

Edmonds and Pavcnik (2002) try to connect the price of rice in Vietnam with the probability of children working. Between 1993 and 1998, the average price of rice rose 29% in relation to the consumer price index in Vietnam. They argue that this was in part due to trade liberalisation. They found that a 30% increase in the price of rice was associated with a 10% reduction in the probability of a child working. This effect was clear in the case of rural children. In the case of urban children, however, the same 30% increase in the price of rice was associated with a 5 percentage point increase in the probability of child labour. They concluded that almost half of the decline in child labour was explained by the rice price increase, and therefore liberalisation. This finding suggests that the best way to eradicate child labour is to liberalise trade, at least in the rural sector.

In a cross-section study, however, the same authors did not find the same evidence (Edmonds & Pavcnik, 2004). They found a negative but statistically insignificant association between openness and child labour, conditional on cross-country income differences.

Using three indicators of labour standards (Freedom House Civil Rights, Discrimination and Child Labour), Busse (2004) shows that trade is one of the fundamental determinants of core labour standards.

Another aspect of globalisation is multilateral production. Brown et al. (2003) conclude that foreign ownership increases wages twice by raising labour productivity and expanding the scale of production, and thereby improving working conditions. Busse (2003) argues that, contrary to conventional wisdom -- according to which transnational corporations generally engage countries with low standards -- higher labour standards are positively associated with FDI inflows.

With regard to environmental standards, the convergence in income levels will not automatically cause endogenous convergence in environmental standards. As shown by Grosman and Krueger (1995), the relationship between economic growth and the environment is not linear. Economic growth triggers an initial phase of deterioration followed by a subsequent phase of improvements. Environmental and labour standards are therefore not really comparable in this case. There are some similarities, however, in terms of externalities and theoretical analysis.

⁷ Romero (1995) argues, however, that wages in EPZs are generally higher than they are in the rest of the economy.

Economic effects of international labour standards policy

Theoretical point of view

Implications for developing countries

Lower labour standards can reduce efficiency but reinforce comparative advantage. A distinction between short-term and long-term effects could be made. This will have implications for global policy.

Brown et al. (1996) build a variety of theoretical models in which different national characteristics may determine the outcome of the introduction of labour standards. Their conclusion is that economic welfare is the best way to correct domestic labour market failures. But these market failures differ from one country to the next (Srinivisan 1995; 1998) and make international labour standard policy useless. If countries have the market power to influence their terms of trade by using standards, they have an incentive to set standards either too low or too high. It is intuitively felt that the cost of raising a standard in the export sector is translated into higher prices, and consequently into an improvement of terms of trade. This worsens the terms of trade for other countries and hence they bear part of the costs.

Maskus (1997) develops a series of models to analyse linkages between core labour standards and trade policy. He argues that deficient core labour standards, rather than improving export competitiveness, generally reduce it because of the distorting effects of such deficiencies (especially true in the case of discrimination and repressed labour rights). One exception is the exploitation of children, which could expand exports in highly labour-intensive sectors. However, as noted in OECD (1996), this exploitation can have long-term negative effects, because it lowers the accumulation of human capital.⁸

Both articles argue that the opposite is true with discrimination. For BDS (1996), labour standards are, by definition, labour-using. The contraction in the world supply of labour if an international labour standards policy is imposed, should bid up wages worldwide. Because developing countries are supposed to be labour intensive, their terms of trade will be improved. Maskus (1997) thinks that discrimination will reduce the labour supply of women in the export sector and bid down women's wages (transferred to the informal sector).⁹

The effects of freedom of association and the right to collective bargaining are ambiguous (Maskus, 1997). If union activity produces an inefficient allocation of resources, it reduces welfare (the market power of workers and minimum wage below the marginal value product level). However, if unions offset monopsony power and bargain for a wage equal to the workers' marginal value product, then the unions' conduct may be welfare-enhancing.

⁸ See also Bazillier (2004) concerning the negative impact of low core labour standards on long-term economic growth.

⁹ We will be looking at an empirical study on the relationship between labour standards and the informal sector in the empirical section. (Galli & Kucera, 2004).

A second concern with union activity has been raised by Harrison and Leamer (1997). Unions are only present in the formal sector. If a country decides to raise its labour standards, labour may be forced to flow out of the export sector into the informal sector.

The OECD (1996; 2000) tries to evaluate the effect of core labour standards on trade, with the Heckscher-Ohlin-Samuelson framework. If standards reduce labour endowment, tighter labour standards will be associated with lower production and consumption in both countries (because of the Rybcinsky effect and the change of terms of trade). Busse (2002) argues that the effect of low labour standards will depend on the type of standards involved. Forced labour and child labour lead to an increase in the endowment of unskilled labour and therefore improve comparative advantage in unskilled-labour intensive goods. The opposite occurs with discrimination and the outcome is ambiguous with basic trade union rights.

Further on, we will see what kind of impact trade sanctions can have on the welfare of these countries. Before that, though, we will study the impact on the North of low labour standards in the South.

Implications for developed countries

The consequences for developed countries are studied from two perspectives: moral considerations and their implications for individual welfare; and the potential race to the bottom which could explain downward pressure in the North.

Srinivisan (1995; 1998) makes allowance for moral considerations so that consumers could express their concern through a willingness to pay relatively higher prices for goods and services that reflected higher labour standards.¹⁰ As long as the same standard appears in the utility function of more than one individual, the standard is a public good (BDS, 1998) and this could justify international cooperation. If it is a private good, it could justify a labelling policy in order to improve individual welfare (Freeman, 1996).

Beaulieu and Gaisford (2001) argue that consumers may legitimately care about the production process for the goods they consume. Like the “lemon problem”, various policies have the potential to increase welfare over the status quo in importing countries where non-compliant goods have unrestricted access.

Bagwell and Staiger (2000) make a formal economic analysis of the interaction between negotiations on trade policy and the determination of labour standards. They think that the ability to import protection goes with tighter labour standards, and that international negotiations on tariffs alone will lead to a globally inefficient outcome characterised by partial liberalisation and lowering of labour standards.

Kok et al. (2004) investigate a dual-country framework: trade and standards in low-income countries are negatively correlated and free trade is no longer optimal for the high-income countries because of the negative psychological externality that low standards in low-income countries exert. They found that uncorrelated, unilateral actions are dominated by coordinated actions.

¹⁰ But the analysis is the same for environmental standards.

Srinivisan (1995, 1998), Beaulieu and Gaisford (2001), Bagwell and Staiger (2000) and Kok et al. (2004) all study the impact of standards. It is assumed that the psychological externality can be the same for labour and environmental issues.

One of the most common complaints in developed countries is that low labour standards create downward pressure on the importing country's labour standards as well.¹¹ Rodrick (1996) argues that we cannot conclude that there is a race to the bottom for labour standards. The opposite case has been described by Freeman (1996). Any country that wants higher standards can purchase them for itself in one of three ways: by currency devaluation, a downward adjustment of wages directly, or by taxes. One can also observe a race to the bottom in another way: increased trade and investment opportunities induce more costs to put in place or maintain high standards.

Empirical point of view

Labour standards and trade

The 'conventional wisdom' according to which a country with lower labour standards would export more than the others cannot be verified by the empirical studies. Actually, there is no global consensus on this issue. The conclusion is the same with respect to the links between environment and trade. As noted by BDS (1997), "[T]he assertions about the alleged damaging effects that trade and investment may have on the environment are not borne out by the available empirical evidence."

Rodrik (1996) constructed a number of measures, or indicators, of labour standards, including: (1) total number of ILO conventions ratified by countries; (2) a more focused measure of ratifications of ILO conventions relating to "basic worker rights"; (3) a measure of democracy encompassing civil liberties and political rights indicators; (4) an indicator of problems legislating or enforcing standards affecting child labour; (5) statutory hours of work; (6) days of annual leave with pay in manufacturing; and (7) the percentage of the labour force that is unionised. First, based on a sample of 36 countries, he found that per capita income was strongly correlated with labour costs. He also found positive and significant coefficients for the ILO convention ratification measure and the democracy indicator and a negative coefficient for child labour practices. He concluded that labour costs tend to rise when standards are applied more stringently across countries. Secondly, Rodrik studied the impact of labour standards on comparative advantage. As a dependant variable, he used a measure of comparative advantage in labour-intensive good (the ratio of textiles and clothing to total exports). There were no statistically significant results, except for statutory hours of work. In order to see whether the presence of rich countries played a confounding role, he excluded these countries from the sample, and found that child labour became significant.

¹¹ The downward pressure argument has been studied mainly in terms of labour issues and less in terms of environmental ones. As noted by Esty (2001), "[I]f environment rules vary because of difference in climate, weather, geography, existing pollution levels, population density, risk preferences or other "natural factors", the variation in standards should be considered welfare-enhancing and appropriate." Drezner (2000) finds little basis in the theory to accept the idea of a race to the bottom concerning the environment and Repetto (1995) did not find any empirical evidence.

Aggarwal (1995) investigates in detail the relationship of labour standards and the pattern of U.S. imports from ten major developing countries in 1994 (especially in Asia). These ten countries accounted for 26.5% of U.S. imports. She argues that at the aggregate level, the impact of imports from these developing countries is relatively small compared to that of imports from industrialized countries; and countries with lower labour standards do not exhibit higher import penetration rates than countries with relatively higher labour standards.

Van Beers (1998) tries to answer the question, “[D]o OECD countries with higher labour standards export less labour intensive goods than those with low standards?” He estimates a bilateral gravity equation, regressing bilateral trade flows on the GDP of the importer and exporter, population of the importer and exporter, distance and labour standard stringency. The labour standard indicator incorporates measures of working time, contracts, minimum wages and workers’ representational rights, but not core labour standards. He finds that labour standard stringency does not affect the exports of labour-intensive goods. However, countries with strict labour standards are found to export less high-skilled-labour-intensive goods.

Mah (1997) studies the interaction between export ratio and core labour standards (freedom of association, collective bargaining, prohibition of forced labour and discrimination in employment) for a sample of 45 developing countries. He finds that each country’s export share of GDP is negatively correlated with freedom of association and strongly negatively correlated with non-discrimination rights.

Aidt and Tzannatos (2002), arguing that collective bargaining facilitates coordination, showed that most studies on this issue have found that coordinated collective bargaining was associated with improved macroeconomic performance.¹² Martin and Maskus (2001) show that if product markets are competitive, it is likely that association rights would increase output and competitiveness by raising productivity.

Kucera and Sarna (2004) confirmed these findings thanks to the use of a bilateral trade gravity model to evaluate the effects of freedom of association and collective bargaining (FACB) rights and democracy on exports. They did not find that there was a strong relationship between FACB rights and labour-intensive manufacturing exports.

Brown (1999) concludes that developing countries that ratify ILO conventions relating to workers’ rights are more similar to their trade partners in terms of trade characteristics than are developing countries that do not ratify ILO conventions.

Labour standards and foreign direct investment (FDI)

Rodrik (1996) investigates the determinants of U.S. FDI abroad from 1982 to 1989. He found that countries with a lower democracy score and higher CHILD labour score have received less foreign investment than would have been predicted on the basis of other countries’ characteristics. These findings indicate that low labour standards may be a

¹² With respect to OECD countries, they found that countries with coordinated bargaining systems performed better than those with less coordinated systems in the 1970s and the 1980s. The results for the 1990s were more ambiguous. This suggests that dynamic benefits are more important than static effects.

“hindrance” rather than an attraction for foreign investors. Aggarwal (1995) reaches a similar conclusion.

Kucera (2002) uses new country-level measures of workers' rights in an econometric model of FDI inflows and manufacturing wages in samples of up to 127 countries. He found that there is no solid evidence in support of the “conventional wisdom” according to which foreign investors favour countries with lower labour standards. Busse (2004) reaches the same conclusion.

OECD (1996) concludes that while core labour standards may not be systematically absent from the location decisions of OECD investors in favour of non-OECD destinations, aggregate FDI data suggests that core labour standards are not important determinants in most cases. Griswold (2001) reaches the same conclusions with regard to environmental standards.

Labour standards and the informal sector

Many theoretical studies argue that labour standards could be a problem if part of a workforce moved to the informal sector where working conditions are worse (Harrison & Leamer, 1997; Maskus, 1997). We have only found one empirical study relating to this issue.

Galli and Kucera (2004) explore the issue using panel data on specific categories of formal and informal employment for 14 Latin American countries in the 1990s. Their conclusion is that countries with higher labour standards tend to have higher proportions of formal employment and lower proportions of informal employment, even accounting for per capita income and other variables. The theoretical intuition seems to be contradicted by the facts. It would appear to be necessary, however, to confirm these results with a larger sample.

Labour standards and the role of interest groups

As noted by Brown et al. (1997), it is important to identify the constituent interest groups involved. We have seen how interaction between comparative advantage or trade and labour standards does not favour weaker labour standards. Krueger (1996) thinks that this is consistent with the view that demand for international labour standards in the United States does not come from disguised protectionism. He analyses the determinants of support in the U.S. House of Representatives for the Child Labour Deterrence Act of 1995. He hypothesises that support of the legislation would be strongest in districts with relatively large numbers of unskilled workers, as measured by high-school completion rates. He found that the opposite was true: congressmen from districts with a high concentration of high school dropouts were less likely to co-sponsor the Child Labour Deterrence Act. Interpreting these results, he says that demand for international child labour standards should be considered to be a ‘normal good’, in keeping with Freeman (1996).

Srinivisan (1995; 1998), however, notes that congressmen may have chosen not to sponsor the legislation and yet may still support it. What is more, less educated and less skilled individuals tend to vote less and to work in non-tradable service industries.

Conclusions

First of all, we must insist on the main gaps in the research identified in this paper. The first is a lack of literature on what labour and environmental standards have in common and the different comparisons that can be made between them. Concerning institutional issues, more research is necessary to clarify the links between global trade policy and environmental concerns. With regard to labour standards, a broader vision of these standards that is partly based on economic development and economic growth would appear to be called for. Also, more research is needed to clarify the empirical links between standards and the informal sector. Galli and Kucera (2004) are the only ones who have worked on this, and only for Latin America, despite the fact that it seems to be a central issue.

We must also emphasize data problems, which can explain some difficulties in empirical studies. Ghai (2003), Kucera (2001) and, more generally, the ILO decent work research program are working on this issue. To conclude, further research could be required, especially on the issue of the economic impact of core labour standards.

We must stress the lack of literature on the global relationships between trade, labour and the environment. There are lots of similarities between the environment and trade but also some specific differences between this issue and the labour one. With regard to the impact of globalisation on the environment and trade, the empirical evidence is quite different, although the theoretical framework is more or less the same. As for the impact of environmental or labour standards on trade or FDI, the theoretical and empirical evidence is very similar. Furthermore, it is interesting to study in greater detail the convergences of environmental and labour interest groups at the international level. Even though their interests are sometimes completely opposed, we observed a new “green and blue” alliance to put environmental and labour issues on the agenda. These convergences might explain why the pressure has been higher over the past few years.

We have seen that the only international agreement on this issue has been the identification of *core* labour standards, which could justify a specific policy focused on these limited standards. The impact of trade on labour standards is not clear and further empirical research is called for. Concerning the impact of labour standards on trade, the theoretical issues lead to the same conclusions: low labour standards may be inefficient and diminish export competitiveness because of the distorting effects of such deficiencies. However, trade sanctions can be counter-productive and hurt the people they are designed to help. The empirical issues on this point are contradictory because of the lack of a consensus on the method and the data to be used to measure labour standards.

The issue of the links between trade and labour standards did not make any headway at the WTO Ministerial Meeting in Doha (November 2001) or at the subsequent WTO Ministerial meetings, probably also because of these problems. WTO members only have reaffirmed the declaration they made at the Singapore Ministerial Conference. This declaration argued that the International Labour Organisation was the competent body to set and deal with these standards. The members rejected “the use of labour standards for protectionist purposes, and agreed that the comparative advantage of countries, particularly low-wage developing countries, must in no way be put into question.” This issue may re-emerge in the future, however. A great deal of proposals has been made to include core labour standards directly in trade negotiations, for example.

Bibliography

- Addo, K. (2002). The Correlation between Labour Standards and International Trade. Which Way Forward? *Journal of World Trade* 36(2), 285-303.
- Aggarwal, M. (1995). *International Trade and the Role of Labour Standards*. Working Paper N° 95-06-C, US International Trade Commission, Office of Economics, June.
- Aidt, T. & Tzanntos, Z. (2000). *Core Labour Standards and the Freedom of Association: Economic Aspects*. University of Cambridge, Working Paper.
- Anderson, K. (1996). *Social Policy Dimensions of Economic Integration: Environmental and Labour Standards*. NBER Working Paper w.5702.
- Baland, J.-M. & Robinson, J.A. (2000). Is Child Labor Inefficient? *Journal of Political Economy* 108(4), 663-679.
- Bagwell & Staiger (2000). *The Simple Economics of Labour Standards and the GATT*. Social Dimensions of U.S. Trade Policies, 2000, pp. 195-231, Studies in International Economics. Ann Arbor: University of Michigan Press.
- Basu, K. (1999). Child Labor: Cause, Consequence and Cure, with Remarks on International Labor Standards. *Journal of Economic Literature* 37, 1083-1119.
- Basu, K. & Van, P.H. (1998). The Economics of Child Labor. *The American Economic Review* 88(3).
- Bazillier, R. (2004). *Core Labour Standards and Economic Growth*. Cahiers de la MSE bla04048, Université Paris 1 Panthéon Sorbonne, Paris.
- Bazillier, R. (2005). *Normes Fondamentales du Travail et Croissance: Vers une nouvelle approche en terme de biens publics mondiaux*. Revue Régions et Développement, N° 22-2005.
- Beaulier, E. & Gaisford, J. (2001). *Labour and environmental standards, the lemon problem in international trade policy*. University of Calgary, Department of Economics, Discussion Paper Series N° 2000-7.
- Bhagwati, J. (1995). Trade Liberalization and Fair Trade Demands: Addressing the Environmental and Labour Standards Issues. *The World Economy* 18, 745-759.
- Bhagwati, J. & Hudec, R. (Eds.) (1996). *Fair Trade and Harmonization: Prerequisites for Free Trade?* Cambridge, MA: MIT Press.
- Bhagwati, J. & Srinivasan, T.N. (1996). Trade and the Environment: Does Environmental Diversity Detract from the Case of Free Trade? In: Bhagwati, J. & Hudec, R.. (Eds.), *Fair Trade and Harmonization: Prerequisites for Free Trade?* Cambridge, MA: MIT Press.
- Brown, D.K. (2000). *International Labor Standards in the World Trade Organization and the International Labour Organization*. Discussion Paper 2000-03, Department of Economics, Tufts University.
- Brown, D.K., Deardorff, A.V. & Stern, R.M. (1996). International Labour Standards and Trade: A Theoretical Analysis. In: Bhagwati, J. & Hudec, R.. (Eds.), *Fair Trade and Harmonization: Prerequisites for Free Trade?* Cambridge, MA: MIT Press.
- Brown, D.K., Deardorff, A.V. & Stern, R.M. (1997). *Issues of Environmental and Labor Standards in the Global Trading System*. Research Seminar in International Economics, Discussion Paper N° 398, School of Public Policy, University of Michigan.
- Brown, D.K., Deardorff, A.V. & Stern, R.M. (1998). Trade and Labour Standards. *Open-Economics Review* 9(2), 171-194.
- Brown, D.K., Deardorff, A.V. & Stern, R.M. (2002a). *Pros and Cons of Linking Trade and Labor Standards*. RSIE Discussion Papers N° 477, May 6, 2002.

- Brown, D.K., Deardorff, A.V. & Stern, R.M. (2002b). *The Determinant of Child Labor: Theory and Evidence*. RSIE Discussion Papers N° 486, September 2002.
- Brown, D.K., Deardorff, A.V. & Stern, R.M. (2003). *The Effects of Multinational Production on Wages and Working Conditions in Developing Countries*. NBER Working Paper, w. 9669.
- Busses, M. (2002). Do Labour Standards Affect Comparative Advantage? Evidence for Labour-Intensive Goods. *World Development* 30(11), 1921-1932.
- Busses, M. (2003). Do Transnational Corporations Care About Labor Standards? *Journal of Developing Areas* 36(2), 39-59.
- Busses, M. (2004). On the Determinants of Core Labour Standards: The Case of Developing Countries. *Economics Letters* 83(2), 211-217.
- Casella, A. (1995). *Free Trade and Evolving Standards*. Center for Economic Policy Research, Discussion Paper N° 1204.
- Casella, A (1996). On Standards and Trade: A Review of Simple Results. In: Bhagwati, J. & Hudec, R.. (Eds.), *Fair Trade and Harmonization: Prerequisites for Free Trade?* Cambridge, MA: MIT Press.
- Committee for Economic Development (2001). *From Protest to Progress: Addressing Labour and Environmental Conditions through Freer Trade*. Report of the Research and Policy Committee of the Committee for Economic Development, Washington D.C.
- Charnovitz, S. (1987). The Influence of International Labour Standards on the World Trading Regime: A Historical Overview. *International Labour Review* 126, 565-584.
- Charnovitz, S. (1995). Promoting Higher Labor Standards. *The Washington Quarterly* 18, 167-190.
- Cigno, A., Rosati, R.C. & Guarcello, L. (2002). Does Globalization Increase Child Labor? *World Development*, 30(9), 1579-1589.
- Dessing, M. (2001). *The Social Clause and Sustainable Development*. ICTSD Resource Paper N° 1, International Environment House, Geneva.
- Wet, E. de (1995). Labor Standards in the Globalized Economy: The Inclusion of a Social Clause in the General Agreement on Tariffs and Trade/WTO. *Human Rights Quarterly* 17, 443-462.
- Drezner, D.W. (2000). Bottom Feeders. *Foreign Policy* 29(6), 64-70.
- Edmonds, E. & Pavcnik, N. (2002). *Does Globalization Increase Child Labor?* Evidence from Vietnam. NBER Working Paper N° 8760.
- Edmonds, E. & Pavcnik, N. (2004). *International Trade and Child Labor: Cross Country Evidence*. NBER Working Paper N° 10317.
- Enders, A. (1996). The role of the WTO in minimum standards. In Van Dijck & Faber (Eds.), *Challenges to the New World Trade Organization*. The Hague: Kluwer Law International.
- Esty, D.C. (2001). Bridging the Trade-Environment Divide. *Journal of Economic Perspectives* 15(3), 113-130.
- Freeman, R. (1996). *International Labour Standards and World Trade: Friends or Foes?* In: Schott, J. (Ed.), *The World Trading System: Challenges Ahead*. Washington D.C.: Institute for International Economics.
- Galli, R. & Kucera, D. (2004). Labor Standards and Informal Employment in Latin America. *World Development* 32(5), 809-28.
- Ghai, D. (2003). Decent Work: concepts, models and indicators. *International Labour Review* 142(2), 113-45.
- Golub, S. (1997). *International Labor Standards and International Trade*. IMF Working Paper, WP 97/37.

- Griswold, D.T. (2001). *Trade, Labor and the Environment: How blue and green sanctions threaten higher standards*. Trade Policy Analysis, CATO Institute, August 2, 2001 – N° 15.
- Grossman, G.M., & Krueger, A.B. (1995). Economic growth and the environment. *The Quarterly Journal of Economics* 110(2), 353-377.
- Harrison, A. & Leamer, E.E. (1997). Labor Markets in Developing Countries: An Agenda for Research. *Journal Of Labor Economics* 15(3), S1-19.
- Hansson, G. (1981). *Social Clauses and International Trade: An Economic Analysis of Labour Standards and Trade Policy*. Lund Economic Studies.
- Hufbauer, G.C. & Schott, J.J. (1990) *Economic sanctions reconsidered* (Washington DC, Institute for International Economics).
- Kaul, I., Grunberg, I. & Stern, M.A. (1999). *Global Public Goods: International Cooperation in the 21st Century*. New York: Oxford University Press.
- Kimberly, A.E. (2001). *The ILO and Enforcement of Core Labor Standards*. International Economics Policy Brief 00-6, Institute for International Economics, updated April 2001.
- Kimberly, A.E. (2003). *Dealing with environmental and labour issues in trade*. Institute for International Economics, Policy Brief 01-8.
- Kok, M., Nahuis, R. & Vaal, A. de (2004). On Labour Standards and Free Trade. *Journal of International Trade and Economic Development* 13(2), 137-58.
- Krueger, A. (1996). *Observations in International Labor Standards and Trade*. NBER Working Paper, N° 5632, June.
- Krugman, P. (1997). What Should Trade Negotiators Negotiate About? *Journal of Economic Literature* 35, 113-120.
- Kucera, D. (2001). Measuring Fundamental Rights at Work. *Statistical Journal*, 2001 18(2/3), 175-86.
- Kucera, D. (2002). Core Labour Standards and Foreign Direct Investment. *International Labour Review* 141(1/2), 31-69.
- Kucera, D. & Sarna, R. (2004). *How do trade union rights affect trade competitiveness?* Policy Integration Department, Statistical Development and Analysis Group. Working Paper N° 39. International Labour Office, Geneva, March 2004.
- Mah, J. (1997). Core labour standards and export performance in developing countries. *World Economy* 20(6), 773-785.
- Martin, W. & Maskus, K.E. (2001). Core Labour Standards and Competitiveness: Implications for Global Trade Policy. *Review of International Economics* 9(2), 317-28.
- Maskus, K.E. (1997). *Should Core Labor Standards be Imposed through International Trade Policy?* World Bank, Policy Research Working Paper, N° 1817.
- Maskus, K.E., Rutherford, T. & Selby, S. (1995). Economic Implications of Changes in Labour Standards: A Computational Analysis for Mexico. *North American Journal of Economics and Finance* 6, 171-188.
- OECD (1996). *Trade, Employment and Labour Standards: A Study of Core Workers' Rights and International Trade*. Paris: OECD.
- OECD (2000). *International Trade and Core Labour Standards*. Paris: OECD.
- Pahre, R. (1998). Labor Standards, Trade Sanctions and the Hijacking Hypothesis. In: in Dardoff, A.V. & Stern, R.M. (Eds.), *Constituent Interests and U.S. Trade Policies*. Ann Arbor: University of Michigan Press.
- Portes, A. (1994). By-Passing the Rules: The Dialectics of Labour Standards and Informalization in Less-Developed Countries. In: Sengenberger, W. & Campbell, D. (Eds.), *International*

- Labour Standards and Economic Interdependence*. Geneva: International Institute for Labour Studies.
- Repetto, R. (1995). *Jobs, competitiveness and environmental regulation: What are the real issues?* Washington D.C.: World Resources Institute.
- Rodrik, D. (1996). Labour Standards in International Trade: Do they matter and what do we do about them? In: Lawrence, R., Rodrik, D. & Whalley, J. (Eds.), *Emerging Agenda for Global Trade: High Stakes for Developing Countries*, Policy Essay N° 20, Overseas Development Council, Washington DC, Chap. 2.
- Romero, A.T. (1995). Labour Standards and Export Processing Zones: Situation and Pressures for Change. *Development Policy Review* 13, 247-276.
- Sapir, A. (1995). The Interaction between Labour Standards and International Trade Policy. *World Economy* 18(6), 791-803.
- Sengenberger, W. & Campbell, D. (1994). *International Labour Standards and Economic Interdependence*. Geneva: ILO.
- Schoepfle, G. & Swinnerton, K. (1994). Labour Standards in a Context of a Global Economy. *Monthly Labor Review* 117(9), 52-58.
- Siroën, J-M (1996). *Développement économique et développement social. L'incidence d'une clause sociale*. Cahier du CERESA, N° 7, Université Paris Dauphine, Paris, 57 p.
- Shelburne, R.C. (2001). An Explanation of International Variation in the Prevalence of Child Labor. *World Economy* 24, 359-378.
- Srinivasan, T.N. (1996). International Trade and Labour Standards from an International Perspective. In: Van Dijck & Faber (Eds.), *Challenges to the New World Trade Organization*. The Hague: Kluwer Law International.
- Stern, R.M. (2000). *Labor Standards and Trade*. RSIE Discussion Paper N° 457, School of Public Policy, University of Michigan.
- Swinnerton, K. (1997). An Essay on Economic Efficiency and Core Labour Standards. *The World Economy* 20(1), 73-86.
- Van Beers, C. (1998). Labour Standards and Trade Flows of OECD Countries. *The World Economy* 21(1).
- Werbach, A. (2004). *Bridging the Labour Environment Gap in "In these Times"*, January 20, 2004.