



**UNIVERSITY OF
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**Labour Standards as a Justification
for Trade Barriers:
Consumer Concerns, Protectionism
and the Evidence**

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Labour Costs and Protectionism

- Seeking protection against low cost labour is as old as trade policy
- Many grandfathered protectionist measures in the GATT have their roots in protection against low cost labour
- In agriculture – combinations of low cost labour and agronomic advantages (e.g. sugar, cotton, rice).
- New measures against low cost labour largely denied at GATT

Labour Standards and Protectionism

- With protection against low cost labour largely denied in GATT, protectionist efforts have moved to labour standards issues
- A historical artefact has kept labour standards off the GATT/WTO agenda
 - Multilateral jurisdiction over labour standards belongs to the International Labour Organization (ILO)
 - The only WTO provisions for imposition of trade barriers is in the case of Prison Labour (Article XX(g))

Labour Standards and Protectionism

- A number of labour standard conventions have been negotiated at the ILO
- The ILO has no sanctioning power
- Developing countries have been adamant that labour standards not be included in the WTO
- Attempts to put it on the WTO agenda was a major reason for the failed Seattle Ministerial in 1999
- The multilateral *status quo* has left traditional producer-based protectionist interests largely frustrated

New Allies

- In the last 15 years traditional protectionist *vested interests* – producers and labour unions – have gained two powerful allies:
 - Consumers
 - Social Advocates
- Combined they have been able to move the labour standards-international trade question to the forefront of the agenda

Consumers

- The model underlying the GATT/WTO does not anticipate consumers asking for protection
- The structure of the WTO makes no allowance for governments to respond to consumer requests for protection
- Lots of issues where consumers ask for protection: child labour, beef produced using growth hormones, GMOs, tuna (dolphins), shrimp (turtles), seal products, rainforest timber

Consumers

- The WTO has not been able to deal with these issues effectively
- This has led to:
 - The vilification of the WTO by many civil society groups
 - Violent riots at WTO meetings
 - A general loss of reputation of the WTO among consumers
- Labour standards have been a major element of consumer frustration

Consumers' Right to Know

- Consumers versus Social Advocates
- Consumers Right to Know versus the Sanctioning Power of trade restrictions
- Consumers Right to Know leads to:
 - The need for information to make an informed choice
 - Labelling and verification of information
 - Considered as trade barrier by the WTO
 - In the TBT – not for *production and processing methods (PPMs)*
- Labour standards are PPMs

Social Advocates

- Social Advocates want to change the way foreign governments protect and enforce labour standards
- Frustrated with the ILO and its lack of enforcement power
- Want to harness the sanctioning power of trade agreements to “punish” lax foreign governments
- Trade instruments tend to be import bans and duties
- Capture of multilateral organizations is possible – International Whaling Commission, Biosafety Protocol
- WTO can be captured - TRIPS

Moving the Labour Standards Agenda Forward

- Social advocates and consumers have been frustrated at the WTO due to fierce resistance from developing countries regarding the inclusion of labour standards
- The combination of social advocates, consumers and traditional *vested interests* have had more success elsewhere
 - Private standards
 - Preferential trade agreements

Private Sector Labour Standards

- Most major retailers and clothing manufacturers have labour standards that they require their suppliers meet to be able to enter their supply chains
- Supermarkets and importers of food from developed countries also have private standards
- The standards are discriminatory – although not in the WTO meaning
- The standards are likely trade distorting and provide protection – but little empirical work
- The standards are very detailed and proscriptive

Starbucks' Coffee and Farmer Equity (C.A.F.E.)

- This is the set of standards for those who wish to sell coffee to Starbucks
- Not only labour standards but agronomic and environmental standards
- Very prescriptive regulations combined with vigorous inspection
- Approximately 75 specific labour standards
- Current compliance on each one 2/3 and up – 100% by 2015

Starbucks' Coffee and Farmer Equity (C.A.F.E.)

- Worth a visit:
<http://www.starbucks.com/SHAREDPLANET/assets/cafePracticesScorecard.pdf>
- 75 criteria grouped under headings:
 - wages and benefits
 - freedom of association and collective bargaining
 - hours of work
 - child labour/non-discrimination/forced labour
 - access to housing, potable water and sanitary facilities
 - access to medical care
 - worker safety and training

Starbucks' Coffee and Farmer Equity (C.A.F.E.)

- Standards are very detailed:
- For example:
 - Full-time workers are paid at least a living wage as defined by a governmental or non-governmental labor/social rights organization. (If such data do not exist or the government defines minimum wage, the cost-of-living will be established by measuring the average cost of food, shelter, transportation, health care, clothing, energy and education, in accordance with the formula generated by the 1998 International NGO Living Wage Summit.

Starbucks' Coffee and Farmer Equity (C.A.F.E.)

- Standards are very detailed:
- For example:
 - Hours worked on potentially hazardous activities (e.g. pesticide application, very heavy labor) are restricted in accordance with the law. In regions where such laws are not established such activities are limited to six hours per day - SR-HP3.4
 - Employer does not directly contract any persons under the age of 14. (We prefer that our suppliers hire no one under the age of 15.) - SR-HP4.1

Starbucks' Coffee and Farmer Equity (C.A.F.E.)

- Standards are very detailed:
- For example:
 - Employer provides personal protective equipment to all applicable employees at no cost (PPE for farms include: masks/respirators, goggles, rubber boots, water-proof gloves, overalls and ponchos. PPE for mills include: ear plugs) - SR-WC4.1
 - Authorized minors and pregnant women are prohibited from handling or applying agrochemicals OR operating heavy machinery - SR-WC4.9

Globalgaps

- Again - standards are very detailed:
- For example:
 - The living quarters for the workers on farm are habitable, have a sound roof, windows and doors, and have the basic services of running water, toilets, drains. In case of no drains, septic pits can be accepted when proven to be hermetic – AF 3.5.5
 - Complete sets of protective clothing, (e.g. rubber boots, waterproof clothing, protective overalls, rubber gloves, face masks, etc.) which enable label instructions and/or legal requirements and/or requirements as authorised by a competent authority to be complied with are available, used and in a good state of repair. This includes appropriate respiratory, ear and eye protection devices and life-jackets, where necessary – AF 3.4.1

Globalgaps

- In some cases standards are extremely detailed:
- For example:
 - Protective clothing is regularly cleaned, according to a schedule adapted to the type of use and degree of soiling. Cleaning the protective clothing and equipment includes the separate washing from private clothing and glove washing before removal. Dirty, torn and damaged protective clothing and equipment and expired filter cartridges should be disposed of. Single-use items (e.g. gloves, overalls, etc.) have to be disposed of after one use. All the protective clothing and equipment including replacements filters etc., are stored apart and physically separate from the plant protection products/ any other chemicals which might cause contamination of the clothing or equipment in a well-ventilated area – AF 3.4.2

Private Labour Standards

- Lots of questions – no research
 - Are they trade distorting?
 - Does discrimination manifest itself on a country basis?
 - Are protectionist *vested interests* involved in the establishment of standards – directly, financially?
 - Is the agenda driven by narrow groups of Social Advocates or a broad consumer base?
 - Do workers value the benefits of the standards?

Preferential Trade Agreements

- Preferential trade agreements on the rise
 - Change in US policy
 - Slow/No Progress at Doha
- Labour standards can be directly part of an agreement or a side agreement
- Can specifically include, specifically exclude, or not identify agricultural labour
- Recent US and EU agreements

Recent US Preferential Trade Agreements

Agreement	Dir	Side	Ag in	Ag out	Implt	Stndrd
Australia-US - 2005	Y		N	N	Y	ILO (-) & other
Bahrain-US - 2006	Y		N	N	Y	ILO & other
US-Dominican Republic- Central America - 2004	Y		N	N	Y	ILO (-)
US-Chile - 2004	Y		N	N	Y	ILO (-)
US-Colombia - 2006	Y		N	N	Y	ILO
US-Jordan - 2001	Y		N	N	Y	ILO (-)
US-Korea - 2007	Y		N	N	Y	ILO

Recent US Preferential Trade Agreements

Agreement	Dir	Side	Ag in	Ag out	Implt	Stndrd
US-Morocco - 2006	Y		N	N	Y	ILO (-)
NAFTA - 1994		Y	N	N	Y	ILO
US-Oman - 2009	Y		N	N	Y	ILO (-)
US-Panama - 2007	Y		N	N	Y	ILO
US-Peru - 2009	Y		N	N	Y	ILO
US-Singapore - 2004	Y		N	N	Y	ILO (-)

Preferential Trade Agreements

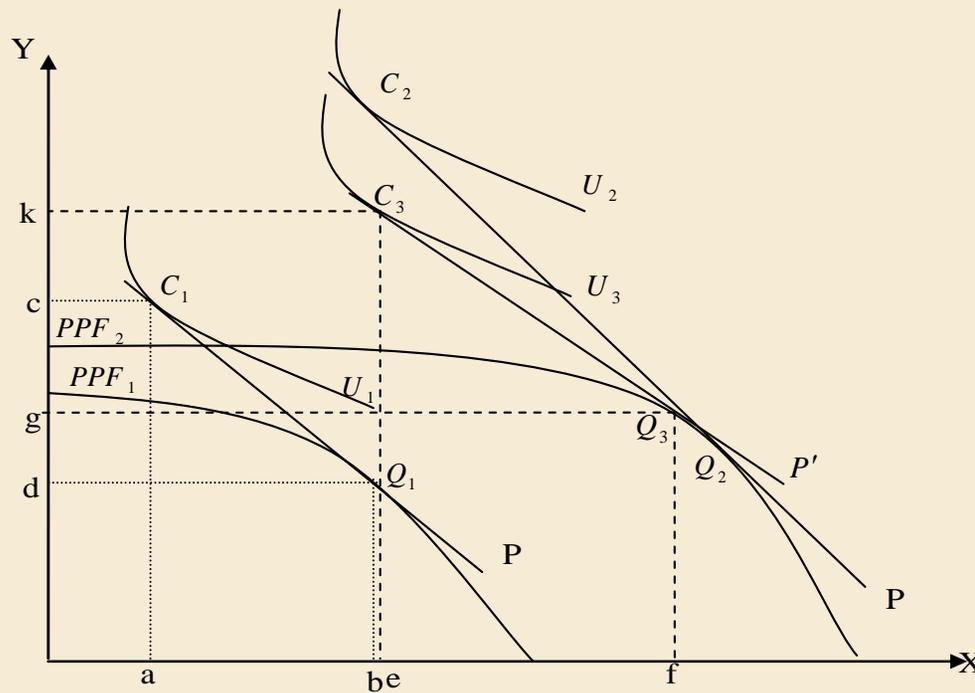
- Many Questions – No Research
 - Most agreements are new so no data on how often these provisions will be invoked or the precedents in disputes
 - Do they act to provide economic protection for labour in developed countries?
 - Do they lead to improvements to labour standards in developing countries?
 - Will the WTO follow?

Do Differences in Labour Standard Affect Trade Flows?

- *Theoretical Framework*-Assumptions:
 - Two goods (X, Y), two factors (skilled, unskilled labour), two countries (H, F).
 - Country H (home) has a proportionally larger unskilled labour force than country F (foreign), and good X (for example handbags) is supposed to be an unskilled labour-intensive and good Y (for example software) is skilled labour-intensive.

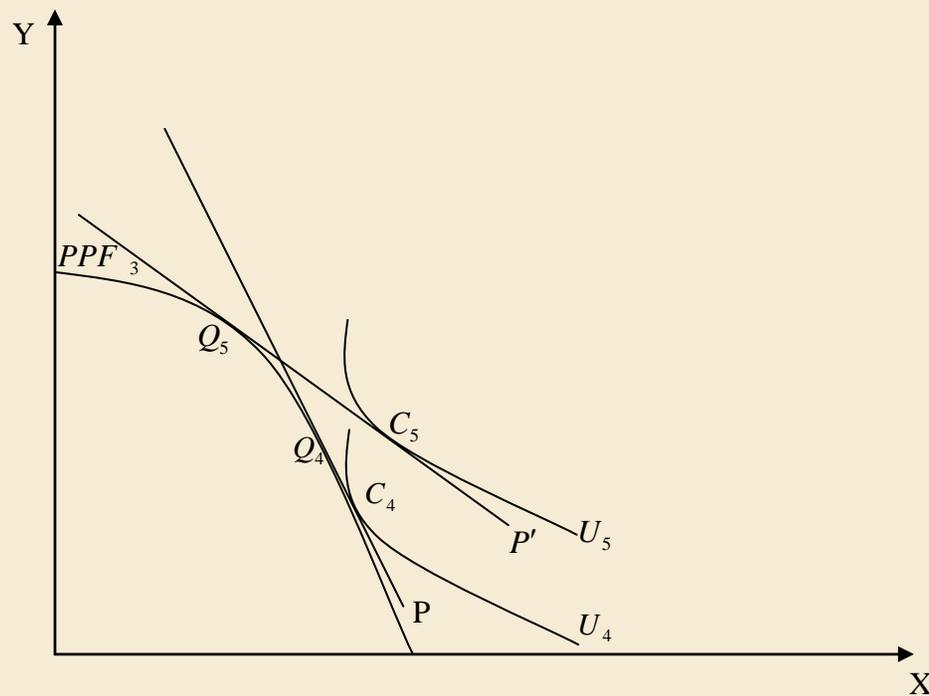
Theoretical Framework-Cont'd

Figure 1: Trade and Welfare Effects of Labour Standards, Country H



Theoretical Framework-Cont'd

Figure 2: Trade and Welfare Effects of Labour Standards, Country F



Theoretical Framework-Cont'd

- The effects of a decline in labour standards vary by type of labour standard:
 - Forced and child labour would result in an increase in the endowment of unskilled labour and thus improve comparative advantage in unskilled labour-intensive goods,
 - Discrimination against women might lead to a decrease in the endowment of unskilled labour,
 - The effect of basic union rights appears ambiguous.

Empirical Framework-Previous Studies

- Previous empirical studies suffer from two major weaknesses:
 - Some studies such as Rodrik (1996) and Mah (1997) have employed the number of ILO conventions ratified or dummy variables for existence of labour standards instead of measures for labour standards enforcement.
 - Although studies like Busse (2002) have used some measures for enforcement of labour standards, in general, previous empirical models suffer from misspecification.

Empirical Framework-Model

Unskilled labour-intensive exports = f(exchange rate, GDP, wages) (1)

Wages = f(labour endowment, labour standards) (2)

Unskilled labour-intensive exports = f(exchange rate, GDP, labour endowment, labour standards) (3)

Empirical Framework- Cont'd

- Unskilled labour-intensive exports contain manufactured goods characterised by both low technology intensity (Science, Technology and Industry Scoreboard, OECD, 2001) and high labour intensity (based on the value added per worker as applied by Tyers et al., 1987).
- Fabric and Textile Yarn; Glassware, Glass and Pottery; Bedding and Furniture; Handbags and Travel Goods; Apparel; Footwear; Games, Toys, Baby Carriages, and Sporting Goods --- International Trade Centre.

Empirical Framework-Labour Standard Data

- **Forced labour:** an index ranged from 1–5, the number one has been assigned when forced labour does not exist and five when forced labour is used in all forms (Bazillier, 2008),
 - This index is constructed based on the core forms of forced labour (namely slavery and abduction, coercive recruitment systems, bonded labour, and prison-linked forced labour) and all forms of forced labour (compulsory participation in public works, coercive work in private households, forced labour in the military and related authorities, trafficking in persons as well as the core forms of forced labour).
- **Chile labour:** the percentage of working children ages 10–14 in the employed population (World Bank , World Development Indicators , 2005).
- **Discrimination against women:** the unemployment rate for women 15 years and older relative to the average unemployment rate for males and females (Key Indicators of the Labour Market (KILM) programme, 2007).

Empirical Framework-Labour Standard Data

- **Union rights:** a weighted index scaled from zero to ten, with zero denoting the greatest number of violation observed and ten denoting the least number of violations observed – this measure is based on 37 evaluation criteria that address both unionisation problems in practice and by law (Kucera, 2004)
- The 37 evaluation criteria are based on the Freedom of Association and Protection of the Right to Organise (Conv. 87) and the Right to Organise and Collective Bargaining (Conv. 98) and related ILO jurisprudence, as well as violations observed in information sources (International Confederation of Free Trade Unions (ICFTU), Annual Survey of Trade Union Rights for 1996, the US State Department, Country Reports on Human Rights Practices, ILO, Report of the Committee on Freedom of Association).
- The number of ILO conventions on core labour standards ratified by each country (www.ilo.org/ilolex/)

Empirical Framework-Results

Table 2: Comparative Advantage and Core Labour Standards

Dependent Variable: Ln(Unskilled labour-intensive exports)								
Independent Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Ln(exchange rate)	-0.145 (-1.61)	-0.112 (-1.32)	-0.135 (-1.53)	-0.145 (-1.62)	-0.121 (-1.38)	-0.163 (-1.73)	-0.126 (-1.48)	-0.084 (-1.06)
Ln(GDP)	1.099** (6.39)	0.927** (5.08)	1.127** (5.80)	1.100** (6.29)	0.957** (5.86)	0.931** (4.73)	0.592** (2.72)	0.821** (4.75)
Ln(the total labour force/total land area)	0.525** (3.48)	0.412** (2.52)	0.544** (3.38)	0.525** (3.45)	0.653** (4.82)	0.504** (3.30)	0.495** (2.87)	0.505** (3.63)
Forced labour		0.435** (2.88)					0.417** (2.43)	0.369** (2.63)
Child labour			0.042 (0.45)				-0.044 (-0.48)	
Female Discrimination				-0.0009 (-0.05)			-0.007 (-0.45)	
Union rights					-0.060** (-4.10)		-0.057** (-4.31)	-0.051** (-3.82)
Ratification of ILO conventions						-0.480 (-1.66)	-0.531 (-1.86)	
Constant	-16.610** (-3.93)	-12.829** (-2.83)	-17.524** (-3.43)	-16.651** (-3.83)	-13.304** (-3.26)	-9.389 (-1.56)	-1.217 (-0.18)	-9.717** (-2.26)
Prob-F	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
R-squared	0.62	0.65	0.62	0.62	0.67	0.64	0.72	0.70
Number of observations	48	48	48	48	48	48	48	48

t-statistics are in parenthesis.

*-Significant at %5 level. **- Significant at %1 level. Because of suspicion of heteroskedasticity, the robust estimation results have been reported.

Empirical Framework-Results

Comparative Advantage and Core Labour Standards

Dependent Variable: Ln(Unskilled labour-intensive exports)

Independent Variables

Base Model

Ln(exchange rate)	-0.126 (-1.48)
Ln(GDP)	0.592** (2.72)
Ln(the total labour force/total land area)	0.495** (2.87)
Forced labour	0.417** (2.43)
Child labour	-0.044 (-0.48)
Female Discrimination	-0.007 (-0.45)
Union rights	-0.057** (-4.31)
Ratification of ILO conventions	-0.531 (-1.86)
Constant	-1.217 (-0.18)
Prob-F	0.000
R-squared	0.72
Number of observations	48

- In general, the results suggest that developing countries could improve their competitiveness in unskilled-labour-intensive goods by lowering some labour standards – those relating to forced labour and union rights, although their effect is small.

Summary and Conclusions

- The paper investigates the legitimacy of justifications for including labour standards in international trade agreements—from producers (protectionism aspect) and consumers (humanitarian aspect) points of view and discusses whether labour standards might be included in trade agreements at the multilateral level in future.
- One of areas in which producers' request for protection are heard is goods produced in situations where low labour standards pertain.
- Given that labour standards also have “human rights” attributes, requests for protection by consumer and social advocate groups can be identified with generally accepted humanitarian objectives.

Summary and Conclusions

- Consumer groups, social advocates and traditional *vested interests* are trying to find a means that eventually leads to inclusion of labour standard issues in WTO disciplines.
 - As a first step, these groups have joined forces to push the labour standards issue outside the multinational trade organization. For example, the relationship between labour standards and international trade has been involving in the areas of **private standards** and **preferential trade agreements**.
 - Given the leading role of preferential trade agreements for future directions in the multilateral trade agreements and the increasing dissatisfaction with the WTOs treatment of consumer issues in general, labour standards may well work their way onto any new post-Doha multilateral agenda.
- The empirical results suggest that developing countries could improve their competitiveness in unskilled-labour-intensive goods by lowering some labour standards. Therefore, it seems it is not illegitimate to include labour standards in international trade agreements.