

7 Cases to Include Labour Standards in Trade Agreements

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I. Introduction

Civil society, trade unionists and many politicians have stressed the negative social consequences of globalisation. Indeed, the increasing openness of developing countries has not been accompanied by a rapid improvement in labour standards. Reports from the International Labour Organization (ILO) and other official reports² reveal the persistence or the deterioration of the worst forms of exploitation, like child and forced labour. According to the ILO, more than 12% of the world's children aged between 5 and 9 are at work. The percentage rises to 23% for children from 10 to 14.

Faced with these facts, a demand for the respect of minimal labour standards in trade has arisen in international, regional or national caucuses. For the economist Jagdish Bhagwati (2001), the problem with this “altruistic” demand is not that it reflects protectionist purposes but that a trade labour linkage, in the form of a Social Clause at the WTO, would not do the job. By making market access conditional to the respect of a set of minimal labour standards, such clauses would create two problems: first they would legitimate the use of trade sanctions as the way to improve standards and secondly they would promote the World Trade Organization (WTO) as the international institution in charge of the job. This opinion calls however for some discussion. First, theory, literature and facts may explain and, sometimes, justify the “demand” for a trade labour linkage solely using economic arguments without referring to moral arguments (Vasquez, 2001). Second, negative trade sanctions are not the only measures enhancing labour standards: pressures from government or civil society, “positive” incentives, and international aid are other means of improving labour standards. Thirdly, although the ILO is the qualified institution to deal with labour issues, the World

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2 See International Labour Office (2002), (2004). See also the series of the US Department of Labour, By the Sweat and Toil of Children, 6 volumes since 1994; US Department of Labour report series: *Foreign Labour Trends, The Department of Labour's 2004 Findings on the Worst Forms of Child Labour*, Washington DC, US (annual series)

Trade Organization (WTO) is not excluded as long as labour standards are a matter of concern for trade. Today, labour standards are excluded from multilateral negotiations, but they are frequently mentioned in bilateral (including in the Generalized System of Preference) and regional trade agreements, which confirm the importance of the issue. Thus, keeping the WTO out of the picture might jeopardize the multilateral system.

Section I shows how the world institutional system prevents the adoption of labour standards at the multilateral level, but makes it possible at the bilateral or regional level. Section II discusses the existence of a trade-labour linkage and the expected effects of core labour standards on trade. Section III gives some empirical results concerning this trade-labour linkage. We conclude in section IV.

II. The social clause in international agreements

During the 1980s, developed countries were challenged by competition from low-wage countries. This encouraged the resurgence of the debate about harmful low labour standards. The trade-labour linkage was explicitly put forward during the Uruguay Round (1986-1993).

The Marrakech Agreement dropped this debate, however, because of a lack of consensus among countries. The Singapore Ministerial Declaration, adopted on December 13, 1996, confirmed the absence of consensus among the members of the two-year old World Trade Organization. As a consequence, the trade-labour linkage was denied; the ILO was recognized as the only relevant organization to tackle labour standards, which are not a matter of concern for the WTO, beyond a simple “collaboration” between the two organizations.

However, the “social clause” debate is not over. Many preferential agreements, such as the Generalized System of Preference (GSP), incorporate a “social clause”, which is frequently anchored to the labour standards regarded as fundamental by the ILO.

III. A WTO without a social clause

The WTO legal framework largely enables its members to choose the political and economic systems they want. National sovereignty is respected thanks to the consensus rule (Raustalia [2003]). This has prevented the inclusion of any explicit reference to core labour standards in the Marrakech Agreements.

However, the Havana Charter of 1947, article 7, laid down a link between international trade and labour standards. It considered that workers’ rights violations were an international

issue: “The Members recognize that measures relating to employment must take fully into account the rights of workers under inter-governmental 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.”

The explicit trade-labour linkage was abandoned with the failure of the Havana Charter ratification process. An International Trade Organization had not been created and the General Agreement on Tariffs and Trade (GATT) was used as a substitute. This agreement tackles only one aspect of rights at work: the products of prison labour (GATT; article XX e).

Developing countries did not adopt a strategy consisting in exchanging a social clause against other provisions, such as the opening of North markets to South agricultural exports. On the other hand, developed countries preferred to exchange the gradual extinction of the multi-fibre agreement for the Trade-Related Aspects of Intellectual Property Rights (TRIPS) and gave up the idea of introducing a trade-labour linkage in the final agreement³.

IV. An ILO without trade leverage

The Singapore Compromise (1996) always gives the multilateral position. Core labour standards concern only ILO conventions. They have the legal statute of international agreements only when individual members ratify them.

In 1995, the Copenhagen World Summit for Social Development defined a set of “fundamental” workers’ rights, based on International Labour Conventions. In June 1998, a new step was taken. The International Labour Conference adopted the “ILO Declaration on fundamental principles and rights at work”, which requires member countries to respect, promote and put into practice the fundamental rights: “[The International Labour Conference]...Declares that all Members, even if they have not ratified the Conventions in question, have an obligation arising from the very fact of membership in the Organization, to respect, to promote and to realize, in good faith and in accordance with the Constitution, the

3 See also the comparison between the TRIPS and the labour standards or other regulatory issues in Maskus (2002). The author sees the protection of intellectual property rights in the WTO as an argument for including competition rules. The case would be weaker for environmental regulation and core labour standards. See another opinion in Thomas (2002).

principles concerning the fundamental rights". The eight fundamental conventions tackle four fields: freedom of association and right to collective bargaining (conventions 87 and 98), prohibition of forced labour (conventions 29 and 105), prohibition of discrimination at work (conventions 100 and 111) and minimum age for child labour and worst forms of exploitation (convention 138 and 182).

It should be noted that minimum wages, safety requirements, work time, unemployment compensation, social security and pension plans are not included in the ILO core labour standards.

Even if the "ILO Declaration on fundamental principles and rights at work" (1998) creates an obligation for member countries to respect fundamental rights, the ILO's ability to sanction countries is largely symbolical even if article 33 authorizes the organization to take action against country members that do not comply with the recommendations of a *Commission of Inquiry* established to examine violations of ILO Conventions.

The core labour standards issue is paradoxical. Even though the post-war trade system is formally multilateral, social clauses are mainly included in regional or bilateral trade agreements, which introduce constraints on internal institutional choices in terms of human rights, democracy, social laws and market economy.

It is easier to obtain a consensus among a small number of countries than among the 148 WTO members. However, "clubs" are also built around common values. They introduce a political conditionality and sometimes organize significant transfers of sovereignty, such as in the European Union.

Some international commodity agreements contain labour considerations, even though they tend to be bashful. For example, article 40 of the International Coffee Agreement (2001) stipulates that "Members shall give consideration to improving the standard of living and working conditions of populations engaged in the coffee sector, consistent with their stage of development, bearing in mind internationally recognized principles on these matters. Furthermore, Members agree that labour standards shall not be used for protectionist trade purposes."

In the 1990s, the number of regional preferential agreements increased dramatically. A significant number of them are not "regional", as the WTO terminology calls them, but concern distant partners such as Korea-Chile (2004) or USA-Morocco (2004). These agreements frequently include subjects not covered by WTO agreements, such as government procurement, competition policies, foreign investment, and ... labour standards.

NAFTA, which was ratified before the Singapore Conference, had introduced an additional agreement on labour, which is not anchored to ILO core labour standards but to national laws. Specific institutions are in charge of arbitrating disputes between countries and have

the power to impose sanctions (OECD [2000], Elliott [2001]).

The US Trade Act of 2002 gives trade-negotiating objectives to the executive, the 6th objective being “to promote respect for worker rights and the rights of children consistent with core labour standards of the ILO”. The 9th is “to promote universal ratification and full compliance with ILO Convention No. 182 Concerning the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour”. The Trade Act creates special procedures for Congressional approval of trade agreements. The President is required to prepare reports to the Congress setting out new free trade agreements (Elliott [2004]).

In December 1998, Mercosur countries (Brazil, Argentina, Paraguay, Uruguay) adopted a social declaration about promotion and respect of ILO core labour standards. Similar provisions can be found in most of the new regional trade agreements.

What is feasible in bilateral agreements is not when a large number of parties is involved. Concerning the Free Trade Area of the Americas, the November 2002 Quito Ministerial Declaration confirms a disagreement between countries and the similar rift that existed amongst WTO members.

In all the most recent EU trade agreements, such as the one signed with Chile, the Cotonou Partnership agreement with the ACP (Africa, Caribbean and Pacific) countries or the cooperation agreement with South Africa, the recognition and promotion of social rights are integral parts of the agreements. EU bilateral free trade agreements make ILO's standards a reference, not a matter of dispute.

Developed countries also impose labour standards criteria within the Generalized System of Preference (GSP) and the WTO Enabling Clause, which allows non-reciprocal preferences in favour of developing countries. In the American trade law, the product and country eligibility to GSP are restricted to the usual four core labour standards but also to “acceptable” working conditions with respect to minimum wages, hours of work, and occupational safety and health standards. The EU provisions are anchored to ILO core labour standards and GATT (article XX e) on prison labour. In case of violation, tariff preferences may be temporarily withdrawn for all or certain goods originating in a beneficiary country, as was the case against Burma. The EU also proposes “special incentive arrangements” for the protection of labour rights, which may be granted to countries whose national legislation incorporates the rules adopted in the ILO conventions.

V. Why to include labour standards in trade agreements?

Many economists clearly agree that the improvement of core labour standards is a legitimate objective. However, they frequently consider that the introduction of these standards in trade agreements would be counter-productive. Two families of arguments are frequently put forward: the targeting argument and the rent-seeking argument. Adversely, other economists consider the trade-labour linkage and the availability of labour standards as trade policy instruments.

Anti: The targeting argument

To be efficient, a public intervention must aim as closely as possible at the distortion. This targeting reduces the counter-productive effects of the action (Bhagwati [2000], Baghwati & Hudec [1996]). Violation of core labour standards would mainly concern the non-export sector. Child and forced labour would first and foremost occur in domestic activities and small family firms. If international trade does not cause the violation of core labour standards, a social clause would add distortions to distortions.

However, the facts show that all tradable sectors witness violations of core labour standards. For example, child labour is relatively scarce in non-farm domestic labour (except in countries such as Ethiopia). Yet, major problems are located in the agricultural sector, which is highly exposed to international competition. Manufacturing and trade (including tourism) are also concerned, although to a lesser extent (Granger & Siroën, 2005). The trade-labour linkage could also be indirect through subcontracting between small companies in the non-tradable sector and exporting firms. The former group may produce non-tradable services (guarding, maintenance, professional services) and indirectly contribute to the competitiveness of the exposed firms.

Many authors consider that Civic rights such as freedom of association and the right to organize and collective bargaining lead to higher wages in the formal sector, discourage foreign and domestic investment, hinder economic development, reduce the demand for the formal sector and thus lead to increased informality (Singh & Zammit [2000]). However, a recent econometric study finds that higher labour standards in 14 Latin American countries are correlated with a higher share of formal employment (Galli & Kucera [2004]).

Anti: The “rent-seeking“ argument

The introduction of a social clause into trade agreements would be a protectionist reaction against low wage countries (Dasgupta [2000]). Economic theory, such as the Stolper-Samuelson theorem, confirms that opening trade to South countries, even favourable to the national real income, should harm the real income of unqualified labour, which is a relatively scarce factor in developed countries. The evolution is similar for the owners of specific factors located in the import sector (like land). Thus, North-South trade might propagate low wages from South to North. These negative effects would be worsened by violations of labour standards in exporting developing countries. Workers and specific factors' owners concerned by imports, may logically advocate protectionist measures and denounce the unfair competition from low labour standards countries. In fact, the AFL-CIO was one of the most activist organizations in defending the inclusion of social standards in international agreements, successfully in regional or bilateral agreements such as NAFTA. However, counter-lobbying from exporting and multinational firms counterbalances pressure from protectionist-organized groups. Ethical motivations and moral consciousness may override economic gains. Consumers themselves are frequently favourable to the inclusion of a social clause, even though they theoretically gain from lower import prices.

Ambiguous: the trade-labour linkage argument

Theoretically, violations of core labour standards exert two effects on trade flows. First of all, they decrease wages, thereby improving competitiveness. Secondly, child or forced labour leads to an increase in the unskilled labour endowment. According to a Heckscher-Ohlin analysis, this latter effect improves a developing country's comparative advantage in labour-intensive goods and fosters exports. Both effects have the same result: low labour standards are pro-trade. However, this argument is not valid for all core labour standards since opposite effects on labour endowments theoretically occur with discrimination and possibly with trade union rights (Brown, Deardorff & Stern, 1993; Buss, 2002).

More sophisticated models question such evidence, emphasizing other effects (Maskus [1997]). The child labour endowment may be counter-balanced by the eviction of substitutable adult labour (Grottaert & Kanbur, 1995). Basu & Van's (1998) theoretical model leads to multiple equilibria in the labour market, with one case where children do not work and

adult wages are higher⁴. Moreover, the abolition of child labour does not necessarily imply a clear household income loss, insofar as it opens job opportunities for adults and may cause higher wages, to the extent that children and adults compete in labour markets. Abolition of child labour thus does not have clear and mechanical effects on household income, even in the short run (Basu [1999]).

More generally, violation of workers' rights has to be analysed as a market imperfection, to the extent that the capacity of employees to conduct arbitrage between employers is denied by slavery practices or pressures exerted against children or their relatives. Violation of workers' rights impedes labour mobility and favours monopsonistic practices by employers (Morici & Shulz (2001); Granger (2003); Shelburne (2004)). In such a situation, employers tend to reduce the demand for labour. For example, child labour restrained in agriculture might impede the development of exporting manufacturing industries. Moreover, higher exports might imply decreasing world prices and, as a result, negatively affect the terms of trade (Dehejia and Samy, 2004).

Pro: the trade policy argument

If violations of labour standards foster exports, they can be seen as a substitute for trade policies. Non-observance of labour standards in some industries or areas means keeping wage costs under their market price – i.e. marginal productivity – and the distortion should be considered as equivalent to an export or production subsidy. The only notable difference resides in the social “internal” effects. Instead of being paid by domestic (rich) taxpayers, the subsidy is borne by (poor) workers, which increases inequalities in the country. We can recall that subsidies are considered as actionable unfair and perturbing practices in the WTO.

Another matter of concern is the “race-to-the-bottom” risk, which can be expressed as a classical “prisoner’s dilemma”. If a country does not respect core labour standards or undercuts them, other countries might be incited to lower their own standards to safeguard their competitiveness. This non-cooperative game is thus “loser-loser” since the “deviating” country ends up losing its initial advantage, obtained by cheating. At the final equilibrium, all countries tend to apply sub-optimal labour standards because of inefficient inter-industrial allocations of factors and labour market distortions.

4 This multiple-equilibria outcome could be an argument for intervention in labour markets to reach the socially and economically preferred equilibrium. In another paper, Basu (2000) considers that minimum wages could plausibly cause some adults to be unemployed and send their children to work. However, he finds ambiguous results regarding the evolution of child labour when the adult minimum wage is raised (Basu, 2000).

Core labour standards violations might also be used to encourage foreign direct investments (FDI), particularly inside free trade zones, where the government grants fiscal and legal exemptions (OECD [1996], [2000], Maskus [1997], Rodrik [1998]).

In opposition with the rent-seeking argument, we may argue that multilateral labour standards drive to freer trade (Charnovitz [1994]). Violations of core labour standards are simultaneously perceived as unfair by firms and immoral by civil society, thus jeopardizing the legitimacy of multilateral free trade agreements and supporting the adoption of unilateral protectionist instruments. A social clause can be considered as an insurance against undesirable effects of trade openness and, specifically, the risk of external pressure to lower labour standards. For Bagwell and Staiger (1998), low labour standards could be the consequence of GATT rules, which are mainly concerned with tariff trade barriers. Negotiating countries must achieve balance between the level of standards and the level of tariffs. High customs duties might reflect higher cost associated with high labour standards. Moreover, if the countries could simultaneously negotiate labour standards and trade policy, the author's model makes it possible to achieve zero customs duties equilibrium paired with a certain level of labour standards. However, negotiations on labour standards are excluded from WTO rounds, which lead to an inefficient theoretical outcome where positive customs duties are mixed with regressed labour standards.

VI. Empirical studies

Empirical research is rare and contradictory. Empirical observations are not conclusive about the reality of a "race-to-the-bottom" process. Studies frequently find that domestic or foreign exporting firms pay higher wages and usually respect labour standards better than local firms. Multinational firms would implement policies closer to the home country's regulations than the practices in force in the host country. They would thereby contribute to raising standards (Moran [2002]). Other empirical studies show that countries with low labour standards are not attractive to FDI (Cooke and Noble [1998], Kucera [2002], Raynaud & Vidal [1998], Busse [2003], Busse & Braun [2003]). Rodrik (1998) finds a negative correlation between US FDI and child labour.

Early studies showed the absence of correlation between labour standards and the volume of trade (OECD, [1996], [2000]; Mah [1997]) but they did not use reliable indicators of the real respect of labour standards. The number of ILO conventions ratified by a country is the most frequently used indicator in empirical studies (Rodrik [1998]; Busse [2003]; Cooke & Noble

[1998]). Because of a gap between the content of conventions and their effective application, this indicator must be considered with caution (Chau & Kanbur [2001]).

Rodrik (1998) shows that timework and child labour contribute to a higher share of labour-intensive exports in total exports. Cees Van Beers (1998) finds that labour standards influence trade in 18 OECD countries. Granger (2005) has built her own indicators on the four core labour standards and concludes that their violation by Southern countries tends to raise the volume of North-South trade. These studies tend to confirm the existence of a trade-labour linkage, and run contrary to the no-linkage hypothesis supported by many economists. So far, the question has been tackled from a unilateral point of view: do countries observing core labour standards trade more with the rest of the world?

However, trade relations concern couples of countries and are influenced by bilateral trade costs such as tariffs, as well as transport and insurance costs, which are specific to this bilateral flow. Moreover, the observance of labour standards might influence these trade costs for various reasons. First, current-preferential agreement negotiations include provisions on labour standards. Following Bagwell & Staiger (1998), two respectful countries should conclude more reciprocal tariff reductions, which imply lower trade costs. Second, labour standards might also be considered as a proxy for many of the institutional determinants of trade which are democracy, rules of law, social stability, which could exert a positive impact on transaction costs and thus, on bilateral trade. Third, the respect of labour standards is costly and might impede exports, especially towards countries importing labour-intensive and high price-elasticity goods. Fourth, implementation of multinational firms in low-ranked countries to serve world and regional markets might be detrimental to trade between high-ranked countries.

Our empirical study aims to verify whether labour standards affect bilateral trade costs and the sign of this influence.

The best framework to discriminate between bilateral and unilateral influence of labour standards on bilateral trade is the Anderson and van Wincoop's specification of the gravity model. Gravity models predict bilateral trade by the product of national incomes (GDP) and the distance between both partners, all these variables being expressed in natural logarithm. Distance is a proxy for transport costs and the model may be "augmented" by other variables affecting bilateral trade costs. The model proposed by Anderson and van Wincoop (2003) considers that income elasticity be estimated because theory fix it to 1. They also introduce country fixed effects (export and import), which capture all unilateral effects as level of development or remoteness.

We have first estimated a basic gravity model with a given income elasticity and country fixed effects (Table 1 – column 1). Usual bilateral dummy variables as a common language,

a colonial tie, and a preferential trade agreement are also introduced in the model⁵. The estimations of this benchmark model are very consistent with the results found in literature (column 1).

In a next step and in order to test the incidence of labour standards on trade, a bilateral synthetic indicator of core labour standards has been introduced in the benchmark model (Table 1 – column 2). Our indicator has been built from Granger's database (2005) which separately scores the four core labour standards (child labour, forced labour, discrimination, union rights) from 1 (total violation) to 4 (total respect of the standard)⁶ and then gives two synthetic indicators of the effective respect of the four standards: the first one is a quantitative variable, corresponding to a grading from 0 (no respect at all) to 1 (full respect); the second one is qualitative, corresponding to the classification in three groups (respect, partial respect and no respect).⁷ Annex 1 presents the indicator for the 63 countries in our sample as well as their classification into the three groups. Here, we use the qualitative indicator.

Granger's indicator is unilateral since it states the situation for a given country i . From this indicator, a bilateral one must be built to account for the situation in country i compared to the one in country j . Our bilateral indicator is defined as follows : $LR1aij$ and $LR0aij$ are dummy variables, respectively equal to 1 when both countries respect the standards and to 0 when both countries are characterized either by partial or no respect). All other intermediate situations are used as a reference.

Column (2) shows the results when these two dummy variables are introduced in the gravity model. Usual gravity variables are not affected. $LR1aij$ and $LR0aij$ have a significant and high coefficient, which is negative when countries respect labour standards and positive in the opposite case. The violation of labour standards increases bilateral trade!

Some variants of this estimation have also been run. In column 3, the former labour standard variables are replaced by a less restrictive one. $LR1bij$ and $LR0bij$ are respectively quoted 1 when both countries respect core labour standards even partially and 0 when they do not at all. Coefficients of these new variables have the same sign, which means that arbitrary choices made to rank countries do not influence conclusions. It has been seen that preferential agreements sometimes endorse labour rights provisions. For this reason, the inclusion of trade agreement variables with labour standards indicators might create instability. When trade agreements are withdrawn (column 4), results concerning labour rights remain unaf-

5 The existence of a common border between countries is not a significant variable in our sample of 63 countries.

6 The ranking is based on the exploitation of a large amount of qualitative and quantitative information from various sources, such as ILO, US Department of Labour, US Department of State, NGOs reports.

7 Since the methods used to build the quantitative indicator and the qualitative one are different, these two variables are not strictly identical. It would be interesting to compare the results obtained with each one.

Table 1: The influence of core labour standards on bilateral trade (year 2000)

Independent variable	$\text{Log}(X_{ij}/Y_i Y_j)^a$					$\text{Log}(X_{ij})$
	(1)	(2)	(3)	(4)	(5)	
Distance (LogDij) ^b	-1.23*** (0.04)	-1.27*** (0.04)	-1.23*** (0.04)	-1.37*** (0.04)	-1.28*** (0.04)	-1.00*** (0.04)
Common language ^c	0.71*** (0.08)	0.71*** (0.09)	0.70*** (0.09)	0.70*** (0.09)	0.69*** (0.09)	0.79*** (0.08)
Former colony ^d	0.54*** (0.11)	0.50*** (0.11)	0.54*** (0.11)	0.47*** (0.11)	0.50*** (0.11)	0.44*** (0.11)
Preferential Trade Agreement ^e	0.24*** (0.08)	0.32*** (0.08)	0.28*** (0.08)		0.32*** (0.07)	0.41*** (0.07)
LR1a_{ij}^f		-1.65*** (0.33)		-1.56*** (0.32)	-1.78*** (0.33)	-0.51*** (0.07)
LR0a_{ij}^f		1.20*** (0.32)		1.14*** (0.32)	1.26*** (0.33)	0.37*** (0.08)
LR1b_{ij}^f			-1.87*** (0.42)			
LR0b_{ij}^f			1.75*** (0.42)			
FHI_{ij}^g					0.78 (0.48)	
FH0_{ij}^g					-0.53 (0.49)	
Log GDP_i^a						1.04*** (0.02)
Log GDP_j^a						0.96*** (0.02)
Log GDP_i per capita ^h						0.17*** (0.03)
Log GDP_j per capita ^h						0.10*** (0.03)
Country fixed effects	Yes	Yes	Yes	Yes	Yes	No
Constant	-38.12***	-36.36***	-37.34***	-35.52***	-39.03***	-41.00***
Number of observations	3784	3784	3784	3784	3784	3784
Fisher's statistic	40.14	39.72	40.02	37.08	39.42	1011.68
Root MSE	1.26	1.25	1.25	1.25	1.25	1.52
Adjusted R ²	0.55	0.56	0.56	0.55	0.56	0.73

Note: ***, ** and * mean the coefficient is significant, respectively, at levels of 1, 5 and 10%.

^a X_{ij} : FOB Bilateral exports from i to j, in U.S. current \$, (*IMF, Direction of Trade Statistics*); Y_i (Y_j): Gross Domestic Products in U.S. current \$ (*World Bank, World Development Indicators*). ^b Great arc circle kilometric distance between the two capitals of countries i and j (*CEPII database*). ^c : 1 if countries share the same language (*CIA World Factbook*). ^d 1 if countries have ever had a colonial link (*CEPII database*). ^e 1 if countries are members of a same trade agreement (*WTO*; Frankel, J.A., 1997. *Regional Trading Blocs in the World Trading System*. Washington DC: Institute for International Economics; data collected by Cindy Duc). ^f Granger's database (see text). ^g FHI_{ij} (FH0_{ij}): 1 if two countries are democratic (autocratic) –i.e. their Freedom House's indicator is greater (lower) than or equal to the median- (*Freedom House*). ^h Gross Domestic Product per capita in U.S. current \$ (*World Bank, World Development Indicators*).

pected. Labour rights might also be a proxy for the nature and the quality of other institutions. We introduce two more dummy variables: FHI_{ij} when both countries are considered as democratic by Freedom House and $FH0_{ij}$ when both countries are considered as non-democratic (situations where only one country is democratic and the other non-democratic must be interpreted as the reference situation). In this case as well, labour rights coefficients are very stable (column 5). The sign of democratic variables shows that democratic countries trade more, in spite of the fact that they usually have more respect for labour standards, yet coefficients are not significant. Column (6) tests a “traditional” model of gravity without country fixed effects and with estimated income elasticities. This equation without fixed effects also enables to introduce unilateral variables as GDP per capita. Income elasticities are very close to those predicted by theory. Even if coefficients are lower, they all maintain a significant good sign.

The four labour standards might have different influences on bilateral trade. We have consequently replaced the synthetic indicator by ones specific to each standard. A country is considered as respecting a labour standard if it is scored 1 or 2 and not-respecting it for 3 or 4. Table 2 gives coefficients when the equation (1) is augmented by variables indicating that both countries respectively respect each standard. Previous conclusions are roughly confirmed.

Table 2: Specific influence of each core labour standards on bilateral trade (year 2000)

	Child Labour	Forced Labour	Discrimination	Union rights
Respected	-0.92***	-1.11***	-0.86***	-0.83**
No respected	0.47	0.78**	0.51	0.61*

Coefficients from the equation (1) (table 1) augmented by each standard, separately taken. Data from Granger’s database (see text)

Note: ***, ** and * mean the coefficient is significant, respectively, at levels of 1, 5 and 10%.

These results are ambiguous in terms of political implications. On the one hand, they support the Havana Charter negotiators, who affirmed the trade-labour linkage via the effect on exports. On the other hand, empirical evidence can reinforce the Singapore Declaration, which considers that a “level playing field” is a harmful constraint for trade and growth in developing countries. Would a sudden rise in labour standards definitively lead to a contraction of South exports and keep them out of the global world economy (Srinivasan [1996])?

This idea is bedded in theoretical confusion. What is the objective: to foster exports or to increase income and development thanks to a factor reallocation? An optimal specializa-

tion based on comparative advantage principles does not mean a maximal volume of trade, which is a typical mercantilist prescription. Let us imagine two identical closed economies, which produce undifferentiated goods in a pure and perfect competition framework for all goods and factors, including labour. Because both economies bear exactly the same costs, the elimination of trade barriers does not create any trade. This optimal no-trade equilibrium is associated with the maximal income that both countries are able to earn. Now, let us assume that inside one country, some employers have a monopsonistic power giving them the ability to reduce wages under the labour marginal productivity. In this country, a distorted comparative advantage appears in the monopsonistic sector, attracting factors from other sectors. A symmetric reallocation takes place in the other country. Thus, a distorted comparative advantage generates a sub-optimal specialization, which is trade-creating⁸.

VII. Conclusion

The absence of reference to core labour standards in WTO official texts is explained by economic diplomacy reasons, not by convincing economic or institutional arguments, because social clauses contribute to make labour markets more efficient as well as respect developing countries' comparative advantages.

Surprisingly, the Singapore Declaration has reinforced the ILO legitimacy. The organization gave a new lustre to fundamental conventions, which are now largely ratified by members and used as reference in many regional or trade agreements. It gave a mandatory statute to the 1998 Declaration. More cooperation between the ILO and the WTO is desirable, although the WTO dispute settlement body cannot base its decisions on ILO rules or expertise.

We have criticized the no trade-labour linkage assertion, which is not conform to theoretical and empirical evidence. Even if further studies have to be made, our first results shows that violations of labour-standards might improve exports. Consequently, low labour standards can be used as trade policy instruments to circumvent the WTO's rules.

Besides the social aspect of the issue, the stability of international trade relations should also be considered. A multilateral non-protectionist social clause could also prevent the risk of "social dumping" and "race-to-the-bottom", which are plausible phenomena when countries do not frame their development by the enforcement of labour laws, as developed countries did a century ago.

⁸ Symmetrically, on the supply-side, a trade-union monopolist would create distorted comparative disadvantages in intensive-intensive productions. This might be the case in "populist" countries like Mexico or Argentina.

The most important issue may be that the absence of a social clause or an explicit recognition of labour rights in the WTO contributes to weakening and jeopardizing the free trade multilateral system. Ignoring the trade-labour linkage in the WTO provides an incentive to deal with the issue outside the organization, contributes to the proliferation of regional and bilateral trade agreements, and stresses the decay of the most-favoured nation principle as well.

In a recent work, Kimberly Ann Elliott (2004) defends possible complementarities between development, globalisation and core labour standards. She assesses that: "Globalisation is not leading to a worldwide race to the bottom for workers, but greater respect for the core labour standards could help spread its benefits more broadly". This seems a positive way to think about the core labour issue.

VIII. References

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IX. Annex 1: Core Labor Standards Indicator

Total respect (29)		Partial Respect (13)	No Respect (23)	
Argentina	Ireland	Algeria	Bangladesh	Nigeria
Australia	Italy	Chili	Brazil	Pakistan
Austria	Japan	Colombia	China	Peru
Belgium	Netherlands	Ecuador	Côte d'Ivoire	Philippines
Bulgaria	New-Zealand	Israel	Dominican	Saudi Arabia
Canada	Norway	Korea	Republic	Syria
Czech	Poland	Mexico	Egypt	Thailand
Republic	Portugal	Russian Federation	India	Turkey
Denmark	Romania	Singapore	Indonesia	United Arab
Finland	Slovakia	South Africa	Iran	Emirates
France	Spain	Sri Lanka	Kenya	Viet Nam
Germany	Sweden	Tunisia	Malaysia	Zimbabwe
Greece	Switzerland	Venezuela	Morocco	
Hongkong	United Kingdom			
Hungary	United States			

Source: Granger (2005)