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INTERNATIONAL TRADE, LABOR STANDARDS, AND LABOR MARKET CONDITIONS: AN EVALUATION OF THE LINKAGES

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Introduction

During the last decade, the integration of the world economy coupled with the growth of labor-intensive exports from developing countries has focused attention on the linkages between trade and labor market conditions. The value of total U.S. trade has expanded by 130 percent since the early 1980s, from approximately $490 billion dollars in 1981 to more than one trillion dollars in 1994. Over this same time period, the growth in real compensation for the average U.S. worker has been declining. The average wage differential between skilled and unskilled workers has also widened considerably. In 1993, the average male worker with a high school education earned 70 percent less than a similar worker with a college education; in 1979, this earning gap was only 30 percent.

While products from Canada and Japan continue to represent the largest share of total U.S. imports, exports to the United States from a number of developing countries such as China, Thailand, and Singapore have been rising at annual rates of 10 percent and higher. The export growth in these countries, particularly the Asian NICs, has generally been accompanied by high rates of GDP growth. Information on labor conditions, however, suggests that repressive worker practices ranging from the suppression of unionization activity to the misuse of child labor exist and may be prevalent.

The concurrence of these trade and labor market phenomena has generated concern about trade policies, worker welfare, and living standards in both industrialized and developing countries. The central questions are whether developing countries are using repressive worker practices to promote their exports, and whether workers in countries with better labor standards, such as the United States, are being adversely affected through trade with developing countries that have lower labor standards.

Prompted by the desire to protect worker rights in developing countries and living standards in industrialized countries, several countries have begun working towards the inclusion of labor standards in multilateral trade agreements. A number of developing countries have opposed these efforts on the grounds that they are fundamentally protectionist and a violation of current international trade protocols. Reconciliation of disparate views on this topic requires mutual understanding in the following areas: (1) which labor standards (if any) should be considered fundamental or core labor standards, (2) the impact of trade on labor standards and labor market conditions, and (3) the most effective means for simultaneously improving labor standards and increasing global economic integration.

This paper investigates the central questions of the trade and labor standards debate using empirical and qualitative information on developing country exports, labor practices, foreign direct investment, employment and wages. Current trade policy and legislation is also analyzed and the potential for a common framework is evaluated. Part I of the paper provides background on labor standards and establishes a unified definition of core labor standards. Part II examines several hypotheses pertaining to the relationships amongst trade, labor standards, and export competitiveness in developing countries. The question of whether inadequate labor standards supply export-oriented firms with a "unique" cost advantage is explored by considering the nature of labor standards in export industries, the pattern of export behavior across countries, and the connection between firm objectives and worker welfare.

The impact of trade between the United States and countries with lower labor standards on living standards in the United States is investigated in Part III. Associations amongst labor standards in developing countries and import penetration, employment, and wages in the United States are examined to determine the relationships between poor labor standards abroad and adverse labor market conditions in the domestic economy. In Part IV, the present implementation of labor standards and future policy proposals are discussed and evaluated. Finally, Part V provides a review of the relevant issues and offers some recommendations.

I. Definition of Core Labor Standards

The International Labour Organization (ILO), responsible for all facets of worker welfare, currently has over 170 conventions stipulating appropriate standards for working conditions. The conventions range from freedom of association to limits on working hours and the ILO has not designated any subset of these as *core labor standards* (CLS). However, the ILO Constitution recognizes freedom of association as a basic right that all member countries must respect whether or not they have ratified the conventions associated with this standard. In addition, several of the conventions have been identified as "fundamental human rights conventions" and are given special emphasis in the ratification process; these are the conventions pertaining to freedom of association, the right of collective bargaining, freedom from forced labor, freedom from child labor and nondiscrimination in employment.

Two interrelated criteria for determining a set of core labor standards which can be included in multilateral trade agreements have been offered by a number of groups and individuals. One is

based on *labor rights* vs. *other labor standards* while the other is based on *labor processes* vs. *labor outcomes*.

Labor rights are distinguished from other labor standards as those standards that should be guaranteed to all workers regardless of the country's level of economic development, and thus they are considered to be core labor standards. However, *other labor standards* includes those standards that cannot be met without a certain level of economic development. This distinction is problematic because it does not establish a definitive criteria for separating standards into rights and other standards. It is possible for a labor standard to be a basic right and yet be predicated on either the country's level of development or financial assistance. Using this distinction, such a standard would most likely be placed in the *other labor standards* category, thus excluding it from consideration as a basic right and a core labor standard. An example is the placement of the right to a safe workplace under other labor standards by some groups. The converse situation is also possible. Standards that are clearly a function of economic development and yet are felt to be basic rights may be placed under rights rather than under the more appropriate category of other labor standards. Thus, freedom from child labor is included in many lists as a basic right rather than under other labor standards.

This difficulty with distinguishing rights from other standards has led to the development of several different sets of core labor standards. Using the labor rights criteria, Secretary of Labor Robert Reich (U.S. Department of Labor, 1994B) recently identified the following standards as CLS:

(1) freedom of association
(2) right of collective bargaining
(3) freedom from forced labor
(4) freedom from child labor

Using the same criteria, Gary Fields, a consultant to the OECD on trade and labor standards, recently defined core labor standards as consisting of the above standards plus the right of occupational health and safety in the workplace.[1] Clearly, both freedom from child labor and occupational health and safety can be regarded as basic worker rights. However, both of these are sufficiently associated to the level of economic development to be placed under other labor standards.

[1] See Fields (1995).

The use of the *labor processes* vs. *labor outcomes* criteria eliminates some of these problems. According to this criteria, standards that lend themselves to the establishment of a "minimum" standard belong to labor outcomes and not to labor processes. Thus, standards pertaining to child labor and occupational health and safety are designated as *labor outcomes*. In contrast, freedom of association, the right of collective bargaining, and freedom from forced or bonded labor are considered *labor processes*.

Although the standards included under *labor processes* are similar to those under *labor rights* above, this definition is more advantageous since a standard can be a labor process without the additional requirement that it be independent of the level of economic development. In addition, the second category under this criteria, *labor outcomes*, is more concretely defined than the *other labor standards* category discussed above.

The problem with applying this criteria, however, is that the establishment of labor processes is viewed as a necessary and/or sufficient step for the attainment of labor outcomes. Although the existence of process-oriented standards may provide the worker with bargaining power and a representative voice, there is little empirical evidence that the guarantee of labor processes is significantly correlated with the achievement of labor outcomes.[2] Historically, labor processes and labor outcomes have often been pursued simultaneously rather than sequentially.

A more useful definition of core labor standards can be obtained by combining these two criteria. The set of core labor standards would represent basic labor rights that would be inviolable and applicable to all workers. They would include freedom of association, the right of collective bargaining, freedom from forced labor, freedom from child labor and occupational health and safety standards. These labor rights would in turn be divided into labor processes and labor outcomes. Labor processes would include the standards pertaining to freedom of association, the right of collective bargaining and freedom from forced labor. Standards related to child labor and occupational health and safety would be considered labor outcomes because of the feasibility of defining fairly universal, minimum targets for these standards. However, all of these standards would be considered basic worker rights and part of the set of core labor standards.

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[2] See Fields (U.S. Department of Labor, 1990) for additional discussion. Labor outcomes may also precede labor processes because the latter are political in nature and in some cases their acceptance may require fundamental societal changes that are not necessary for the fulfillment of particular labor outcomes.

The usage of this structure for defining the set of core labor standards would allow a number of different lists (ILO, United States, OECD, etc.) to be consolidated in a format acceptable to all the parties. It would also provide a more distinct and more appropriate criteria for distinguishing between standards. Although agreement on terminology is often difficult, convergence to a common definition of core labor standards appears to be viable. The greater difficulty lies in establishing a common framework regarding the means that should be used to promote these standards, the criteria that should be used to evaluate progress, and the mechanisms (if any) that should be employed to enforce these standards. This in turn requires a mutual understanding about the sources and consequences of inadequate labor standards.

II. Labor Standards, Trade, and Export Competitiveness

Labor conditions and standards in many developing countries are below those in most industrialized countries. Implementation of CLS is likely to raise production costs in many of these countries both directly and indirectly. The institutionalization of freedom of association and the right of collective bargaining should facilitate worker's bargaining power over wages and non-wage benefits. The resulting growth of unionization will generate wage increases, as well as other non-pecuniary benefits, and reduce employment in the formal sector. A smaller, more direct cost will also be incurred in the establishment and implementation of these rights. Prohibition of forced labor and child labor will also directly raise production costs by decreasing the supply of labor.

Are developing countries suppressing labor rights in order to reduce production costs and promote exports? As indicated in Table 1, ten developing countries--Singapore, Hong Kong, Mexico, South Korea, Malaysia, Thailand, the Philippines, China, Indonesia, and India--together accounted for only 26.5 percent of U.S. imports in 1994, while five industrialized countries--Japan, Canada, Germany, the United Kingdom, and France--accounted for almost double this share or 48.5 percent. However, the growth rates of U.S. imports from these developing countries over the past decade have been significant. U.S. imports from Singapore, Thailand, Malaysia and China each grew at an annual rate of more than 15 percent, a rate almost double that of U.S. imports from Japan--the fastest growing industrialized country supplier. In addition, U.S. imports from Mexico, South Korea, the Philippines, and India grew at rates comparable to or faster than imports from any of the industrialized countries.

Table 1: U.S. Imports by Major Trading Partners

	Share of U.S. Imports 1994[1]	Growth Rate 1981-1994[2]
U.S.		7.4%
High Income[3]		
Canada	19.6%	8.3%
Japan	17.9%	9.2%
Germany[4]	4.8%	8.2%
United Kingdom	3.7%	5.1%
France	2.5%	8.3%
Singapore	2.3%	16.6%
Hong Kong	1.5%	4.6%
Middle Income		
Upper Middle Income		
Mexico	7.4%	10.2%
South Korea	3.0%	10.8%
Malaysia	2.1%	15.5%
Lower Middle Income		
Thailand	1.6%	20.5%
Philippines	0.9%	8.6%
Low Income		
China (P.R.C.)	5.9%	26.4%
Indonesia	1.0%	0.9%
India	0.8%	12.1%

Notes:

1. Imports are U.S. imports for consumption valued on a customs basis. The total value for 1994 was 657,885 million U.S. dollars.
2. Growth rates are average annual rates.
3. The income groups are defined using World Bank definitions. High income countries are those with a GNP per capita of $7,910 or more in 1991; middle income countries are those with GNP per capita of more than $635 but less than $7,910 in 1991; and low income countries are those with GNP per capita of $635 or less in 1991.
4. Germany represents both East and West Germany.

Source: U.S. Bureau of the Census Data Tapes.

A detailed examination of the export patterns of these ten developing countries, their labor standards, foreign direct investment flows, and wage trends indicates that this export success is not based on unfair advantages due to the lack of core labor standards. Specifically the data show that,

- Sectors typically identified as having egregious labor conditions do not occupy the only or even the primary share of these countries' exports.

- Comparisons across more export-oriented and less export-oriented sectors indicate that core labor standards are often lower in less export-oriented or non-traded sectors such as agriculture and services.

- Similarly, within an export-oriented sector, labor conditions in firms more involved in exporting are either similar to or better than those in firms that are less involved in exporting.

- Changes in technology and the structure of international trade are leading developing countries to compete in a race upward in terms of product quality rather than in a race downward with respect to price.

- U.S. foreign direct investment is not typically concentrated in countries or industries with poor labor standards.

- Wages and working conditions in developing countries have been exhibiting positive trends. In general, these have been in line with productivity changes.

Labor Standards and Export Industries

Inadequate labor standards in developing countries have many different forms. Some of the more common and perhaps most troubling include children knotting rugs for 10 or 12 hours a day and women making textiles or toys in factories locked from the outside. Typically, the images are of labor-intensive production in manufacturing industries--the exact type of production where many developing countries have experienced large growth rates in the last decade. Industries that are most often identified as particularly egregious with respect to labor standards include textiles, carpets, certain leather items, garments, footwear, toys and wood furniture. These industries belong to two major SITC categories; SITC 6 which includes textiles, carpets, and certain leather item products, and SITC 8 which includes garments, footwear, toys and wood furniture. Other industries also identified as problematic, especially in terms of child labor, include gem stone polishing, fireworks, glassware, gold mining, and certain brass items. These are on a more dispersed scale and represent small shares of several SITC sectors.

Are exports from developing countries concentrated in sectors known to have poor labor standards? Data on exports by SITC sectors indicate that these sectors do not occupy the only or even the primary share of these countries' exports. For Singapore, Mexico, South Korea, and Malaysia, nearly half or more than half of the export share is accounted for by products from the machines, transport equipment sector (SITC 7). In Hong Kong, Thailand, the Philippines and China, SITC 7 represents approximately 20 percent or more of total exports and occupies one of the top three positions in exports. Exports of mineral fuels (SITC 3) are also important for Singapore, Mexico, Malaysia and Indonesia. Finally, for Thailand and India, the export of food and live animals (SITC 0) is significant, representing third place with export shares of 21 percent and 15 percent, respectively.

Despite the importance of exports from sectors such as SITC 7, SITC 3 and SITC 0, exports from the two problem sectors--SITC 8 and SITC 6--do represent a notable share and they are within the top five export sectors for all of the countries.[3] If these export-oriented sectors are receiving special cost advantages through low CLS, labor standards should be lower in these sectors than in less export-oriented sectors. Comparisons across sectors, however, suggest that in many cases, labor standards are lower in less export-oriented or non-traded sectors such as agriculture and services.

[3] Note that due to the unavailability of information, this discussion implicitly assumes that all activity within these two sectors involves the production of goods associated with poor labor conditions *and* that all of the production of these goods takes place under poor labor conditions. Despite this, data on the export of knotted carpets from India and China indicates that the share of these products in category SITC 6 exports and thus the share of these products in total exports is small in both countries. In addition, even though India has been identified as using a significant amount of child labor in rug production, the value of similar exports from China is almost three times as large.

Exports of Knotted Carpets, 1993

	Total Exports	SITC 6 Basic Manufacturing	SITC 6592 Knotted Carpets	Share of SITC 6592 in Basic Manufacturing
		(1,000 U.S. dollars)		(%)
China	91,744,005	16,391,876	445,641	2.7%
India	22,206,483	8,871,544	152,080	1.7%

Source: United Nations Trade Series D, U.S. Bureau of the Census Data Tapes.

As Table 2 shows, the animal and vegetable oil, fat, etc. sector (SITC 4), the beverages and tobacco sector (SITC 1), the crude materials etc. sector (SITC 2), and the food and live animals sector (SITC 0) occupy much smaller export shares than SITC 6 or SITC 8 in these countries. Production in agricultural and service industries such as these usually takes place on a small scale and much of this activity occurs in the informal sector of the economy. Information on worker rights is usually less available and less likely to be implemented or enforced in these situations. While workers may have other means to assert their rights in these sectors (i.e. through community based practices), they will typically not have access to the legislated rights of freedom of association and collective bargaining present in more formally organized manufacturing sectors. Child labor is also likely to be more prevalent. According to a survey by the ILO, 77 percent of economically active children under the age of 15 work in agriculture, hunting, forestry and fishing.[4] Other common forms of child labor in non-traded services include domestic work, shoe shining, newspaper selling, garbage collecting, and prostitution.[5]

This comparison between more export-oriented and less export-oriented sectors can also be made across firms within an export-oriented sector. If firms are relying on inadequate CLS for cost advantages in their exports, firms with larger export to production ratios should generally exhibit lower labor standards than those with more domestic sales. Information on manufacturing activity suggests that in many cases, workers in firms that are more linked to the international market tend to receive either similar or greater benefits than workers in less export-oriented firms.

Integration into the international market generally requires firms to raise efficiency and product quality to match international levels. A number of factors including international exposure, location (i.e. in special economic zones), foreign direct investment, and the changing structure of international trade, contribute to more export-oriented firms providing wage and/or non-wage premiums that are not available to workers in less export-oriented firms.

Sectors with U.S. foreign direct investment (FDI) often represent sectors with a higher proportion of more export-oriented firms in developing countries. Information on U.S.-invested

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[4] This is based on information from nineteen countries in 1990. For additional details on the survey see the ILO's *Bulletin of Labour Statistics* (1993-3).

[5] See the World Labor Report (1992), the report on child labor by the U.S. Department of Labor (1994) and the World Bank paper by Grootaert and Kanbur (1994) for additional details.

Table 2: Distribution of Export Value by SITC Sector Shares, 1993

	SITC Share[1]		SITC Share		SITC Share		SITC Share		SITC Share		SITC Share		SITC Share		SITC Share		SITC Share	
Singapore	7	58.3%	3	12.2%	8	8.2%	6	6.5%	5	6.4%	0	2.4%	1	2.0%	2	1.8%	9	1.7%	4	0.5%
Hong Kong	8	50.4%	7	27.7%	6	12.6%	5	3.5%	9	1.8%	1	1.3%	0	1.1%	2	0.8%	4	0.1%	3	–[2]
Mexico	7	50.1%	3	14.0%	8	10.9%	6	10.6%	0	6.5%	5	4.6%	2	2.2%	1	0.7%	9	0.3%	4	0.1%
South Korea	7	44.9%	6	25.2%	8	17.3%	5	6.0%	0	2.5%	3	2.3%	2	1.4%	9	0.4%	1	0.1%	4	L[3]
Malaysia	7	48.5%	8	10.3%	3	10.3%	6	9.6%	2	9.1%	4	6.0%	0	3.3%	5	2.2%	9	0.7%	1	0.1%
Thailand	7	29.7%	8	26.7%	0	21.4%	6	12.0%	2	4.4%	5	2.9%	9	1.5%	3	1.1%	1	0.4%	4	L
Philippines	9	35.7%	7	18.6%	8	15.6%	0	11.7%	6	7.0%	2	3.4%	4	3.3%	5	2.3%	3	2.0%	1	0.4%
China	8	41.9%	6	17.9%	7	16.6%	0	9.2%	5	5.0%	3	4.5%	2	3.3%	1	1.0%	9	0.4%	4	0.2%
Indonesia	3	28.2%	6	26.3%	8	19.1%	0	7.9%	2	6.9%	7	6.0%	4	2.3%	5	2.3%	1	0.5%	9	0.5%
India	6	40.0%	8	20.2%	0	15.2%	5	7.0%	7	6.8%	2	5.9%	3	2.2%	9	1.5%	1	0.7%	4	0.5%

Notes:
1. Description of SITC sectors are as follows:
SITC 0: Food and Live Animals
SITC 1: Beverages and Tobacco
SITC 2: Crude Materials excluding Fuels
SITC 3: Mineral fuels, etc.
SITC 4: Animal and vegetable oil, fat
SITC 5: Chemical related products, nes
SITC 6: Basic Manufactures
SITC 7: Machines, Transport equipment
SITC 8: Misc. Manufactured goods
SITC 9: Goods not classified by Kind
2. "–" indicates data not available.
3. "L" indicates value is less than 1%.

Source: United Nations Trade Series D, U.S. Bureau of the Census Data Tapes.

sectors indicates that working conditions in these sectors tend to be superior to those in non U.S.-invested sectors. According to the State Department's *Country Reports on Economic Policy and Trade Practices* (1995), working conditions in Singapore's U.S.-invested sectors are similar to those in other sectors. However, in South Korea "working conditions at U.S. owned plants are for the most part better than at Korean plants." Similarly in Malaysia, working conditions in the two sectors with U.S. investment, petroleum and electronics, are considered to be excellent and in the electronics sector "wages and benefits are among the best in Malaysian manufacturing." In Thailand, workers in sectors with U.S. FDI, particularly those working in U.S. owned firms, have a higher unionization rate, higher wages and benefits and better health and safety standards than those of the average Thai worker. Multinationals in the Philippines, Indonesia, and India, generally apply internationally accepted labor standards in their firms. Finally, in China, "worker rights practices do not appear to vary substantially among sectors. In general, safety standards are higher in U.S. invested companies" and "there are no confirmed reports of child labor in the special economic zones or foreign invested sectors."

Although U.S. investment abroad is not always in sectors with average or above average labor standards, and U.S. owned firms do not always provide superior working conditions, this is more often the common practice rather than the exception. In many cases, interactions between U.S. firms and countries with lower labor standards lead to enhanced labor standards in those countries. Thus, foreign direct investment appears to be a useful vehicle for the attainment of internationally accepted labor standards abroad.

Patterns of Export Behavior

Traditionally, developing countries have succeeded in exporting by competing for market share primarily through low prices. However, in the last decade, these countries have moved rapidly towards competing via quality upgrading and the development of variety or special product features. Important factors contributing to this trend are recent developments in technology and technology transfer as well as the changing structure of international trade. Production is now more appropriately characterized by the existence of both "quality ladders" and "...ongoing product upgrading and...product cycles (i.e., migration in the location of production for a particular type of

good from the North to the South and back again)."[6] These developments suggest that competition between developing countries is more appropriately characterized by a race upward in terms of product quality rather than a race downward with respect to price.

The impact of incorporating technological improvements (or new technologies) into the production process has important implications for the level of CLS. Changes in the production process can have both direct and indirect effects on working conditions through the following channels: (1) the improved technology may require workers to receive more training which provides them with additional skills and thus more bargaining power, (2) the technology may eliminate or ease a labor-intensive procedure that was previously performed under suboptimal conditions,[7] and (3) the exchange of technological information with firms abroad may open the domestic firm to global public scrutiny and also provide workers with information about conditions abroad.

There are a number of historical examples showing the positive effects that technological change has had on working conditions. According to Grootaert and Kanbur (1994), the adoption of electricity significantly reduced basic labor burdens in the agricultural sector of many countries, including Egypt and the Philippines. Technology also played an important part in improving working conditions in the European textile industry by mechanizing the industry and increasing the need for skilled labor. Similarly, present day technology transfers between industrialized and developing countries have a potentially positive effect on working conditions in the recipient countries.

Technological improvements within the developing countries have in turn changed the nature of competition across these countries even for highly labor-intensive products such as textiles and apparel. These industries have migrated from Europe to Japan, and more recently to the newly industrializing countries as the former countries have moved up the quality ladder.[8] There is a

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[6] Grossman and Helpman (1991).

[7] Examples of this include the use of child labor to perform tasks which require attention to detail or jobs for which adults are not substitutable such as sweeping chimneys, weaving carpets with small knots, or working in mines.

[8] Young-il Park and Anderson (1991) illustrate this pattern of rise and demise by comparing the experience of the Japanese textile industry with industrialized countries that were previously major producers.

growing recognition that technology will be important in stemming the full movement of such industries to other countries. Many countries are also adopting policies to develop differentiated products in order to avoid direct competition with other countries' production patterns.[9]

The United States plays an important role in technology transfer to many developing countries through its foreign direct investment. While the long run impact of such investment is likely to be positive, it is important to examine the short run effects and determine whether an inordinate amount of U.S. investment is going to industries or countries that are considered to be problematic in terms of CLS. Data on U.S. FDI indicates that, at present, the percentage of investment in the developing countries is substantially below that in the industrialized countries considered here. In addition, a comparison across these developing countries suggests that a strong association between U.S. FDI and poor labor standards does not exist. As noted above, overall, labor conditions in U.S.-invested sectors are similar to or better than those in the rest of the economy. In addition, while U.S. investment in the manufacturing sector is significant, more disaggregated data shows that within manufacturing, U.S. investment is not concentrated only in labor-intensive production.

Information on foreign direct investment in 1993 indicates that almost half or 47 percent of U.S. FDI is in Canada, Japan, Germany, the United Kingdom and France and only 9 percent is in the ten developing countries considered here. While the largest share of FDI is in the manufacturing sector, more than half of this investment is also in the five industrialized countries. FDI in the remaining sectors is similarly divided with the majority going to the industrialized countries and less than 15 percent going to these developing countries (Table 3).

A comparison across the developing countries indicates that Mexico, Hong Kong and Singapore received the largest shares of U.S. FDI. The second largest shares went to Indonesia, South Korea, and Thailand, while Malaysia, the Philippines, China, and India acquired the smallest shares. Nearly half of this FDI was in the manufacturing sector. The grouping of U.S. FDI in the manufacturing sector was similar to that of total FDI. Mexico received the largest share, and together with Singapore and Hong acquired more than 70 percent of the total. The majority of U.S. FDI in Indonesia was in the petroleum sector rather than in the manufacturing sector. Foreign direct investment in the manufacturing sectors of the remaining countries--South Korea, Malaysia,

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[9] See Yamawaki (1991) for a discussion of technology and development of the Japanese textile industry. See Tyers, Phillips and Findlay (1987) for a discussion of the competition between ASEAN countries and China in the production of labor-intensive products.

Table 3: The Stock of U.S. Foreign Direct Investment, 1993

	All Industries	Petroleum	Manufacturing	Wholesale Trade	Banking	Finance	Services	Other Industries
Total value[1]	548,644	62,409	199,457	57,645	26,720	155,597	18,104	28,713
Shares (%)								
15 Countries[2]	56.5%	64.3%[3]	64.8%	53.8%	44.2%[3]	46.4%[3]	57.0%[3]	49.3%[3]
5 Industrialized	47.3%	50.5%	53.2%	42.7%	29.4%	44.3%	52.3%	38.0%
Ten DC	9.3%	13.8%[3]	11.7%	11.1%	14.8%[3]	2.1%[3]	4.7%[3]	11.3%[3]

	All Industries	Petroleum	Manufacturing	Wholesale Trade	Banking	Finance	Services	Other Industries
Total value (Ten DC)	50,911	8,596	23,248	6,403	3,954	3,329	853	3253
Shares (%)								
Singapore	17.2%	22.5%	19.9%	16.8%	11.9%	10.7%	21.9%	3.8%
Hong Kong	20.5%	5.8%	11.4%	56.6%	27.3%	46.9%	51.9%	18.3%
Mexico	30.3%	D[4]	46.5%	12.9%	D	27.4%	37.0%	69.4%
South Korea	5.9%	0.9%	5.3%	3.8%	31.1%	5.1%	2.8%	0.7%
Malaysia	3.8%	3.5%	4.6%	1.4%	2.4%	10.0%	0.2%	0.8%
Thailand	5.7%	11.8%	3.7%	3.9%	7.6%	D	6.9%	D
Philippines	3.5%	D	4.1%	2.4%	9.3%	D	-23.0%	0.2%
China (P.R.C.)	1.7%	2.6%	2.0%	2.2%	D	-0.1%	D	D
Indonesia	9.9%	53.0%	0.7%	-0.4%	2.4%	D	D	6.8%
India	1.5%	D	1.7%	0.4%	8.0%	D	2.1%	D

Notes:

1. Total value is in millions of dollars.
2. The 15 countries are the following five industrialized countries--Canada, Japan, Germany, United Kingdom and France--and the following ten developing countries--Singapore, Hong Kong, Mexico, South Korea, Malaysia, Thailand, the Philippines, China (P.R.C.), Indonesia and India.
3. These values are underestimates due to the inclusion of countries with suppressed data (see note 4).
4. "D" indicates data suppressed to avoid disclosing data on individual companies.

Source: *Survey of Current Business* (June 1994, p. 74).

Thailand, the Philippines, China, and India--was similar in scale to FDI in all industries of the respective countries.

Data on growth rates of U.S. FDI from 1981-1993 suggest the following categorization for total investment: High growth countries were Thailand, Singapore, South Korea, and Hong Kong; the middle growth countries were Indonesia, Malaysia, Mexico and India; and the Philippines was a low growth country. For manufacturing investment, the pattern was as follows: High growth countries were Thailand, Singapore, South Korea, Hong Kong, and Malaysia; middle growth countries were Mexico and the Philippians; and the low growth countries were Indonesia and India (Table 4).

A classification of these countries based on their observance of two core labor standards is provided by the OECD.[10] The information suggests that with respect to the practice of freedom of association, Hong Kong and India have significant restrictions. However, in South Korea, the Philippines, Singapore, Thailand and Mexico, freedom of association is even more severely curtailed. Finally, in China and Indonesia the right to unionize is in effect non-existent. Regarding child labor practices, the information indicates that enforcement is adequate in Mexico, China, South Korea, Malaysia and Singapore. Some problems exist in Hong Kong and extensive problems exist in the Philippines, India, Thailand and Indonesia.

Is U.S. FDI largely going to countries with bad CLS? Comparisons between the patterns of U.S. FDI and this information on CLS suggest the following: Hong Kong which is relatively "good" with respect to both labor standards is an important recipient of U.S. FDI in manufacturing. Conversely, Indonesia, a relatively "bad" country is not significant in either the share or growth of U.S. FDI in manufacturing. Mexico has become a larger recipient of U.S. FDI in the last few years. This is primarily due to NAFTA which has directly and indirectly had a positive effect on labor conditions in Mexico. Finally, despite its relatively poor labor conditions, India has not attracted a significant amount of U.S. FDI. While explicit distinctions for the other countries are not feasible, this evidence suggests that a strong positive association between U.S. FDI and poor labor standards does not exist.

An examination of U.S. FDI across sectors rather than countries indicates that a majority of U.S. investment is in the manufacturing sector of these developing countries. If U.S. investment is

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[10] OECD (1995).

Table 4: Growth Rates of the Stock of U.S. Foreign Direct Investment, 1981-93

	All Industries	Manufacturing	All Other Industries
All Countries	7.7%	6.6%	8.3%
Ten DC[1]	9.4%	9.7%	9.2%
Singapore	13.9%	18.8%	10.5%
Hong Kong	11.8%	15.6%	10.9%
Mexico	6.8%	6.3%	8.1%
S. Korea	11.9%	18.5%	9.1%
Malaysia	7.1%	13.3%	2.9%
Thailand	14.8%	33.9%	11.9%
Philippines	2.5%	4.5%	0.6%
China	--[2]	--	--
Indonesia	8.7%	1.1%	9.1%
India	5.0%	1.9%	10.6%

Notes:

1. Growth rates are average annual rates.
2. Data for China are only available from 1992 onward. For 1992-93, the growth rates were as follows: for all industries--70.0%; for manufacturing--50.7%; and for all other industries--98.1%.

Source: *Survey of Current Business* (June 1994, pp. 4 and 74; August 1983, p. 23).

being drawn to manufacturing due to the presence of low CLS, investment within the manufacturing sector should be relatively concentrated in labor-intensive production. Disaggregated data on U.S. FDI in manufacturing indicates that U.S. investment is not highly concentrated in more labor-intensive production, but is instead prevalent in food and kindred products (group 0), chemicals and allied products (group 1), and the output of other manufacturing products (group 6) (Table 5).

Although the investment behavior of U.S. firms is influenced by labor costs, a number of other factors such as concern for efficiency, product quality, productivity, and firm reputation are increasingly becoming more important.[11] This suggests that many U.S. firms will be more likely to move towards countries with higher labor standards rather than towards those with low CLS. In developing countries, both internal incentives to improve technologically and external incentives to expand FDI should contribute positively to promoting better labor standards.

Firm Objectives and Worker Welfare

While competition requires cutting labor costs and promoting technological change, these cannot be done without consideration of labor productivity and therefore of worker welfare. In the past decade, many developing countries have been maintaining or increasing their labor productivity. If firms in these developing countries are gaining an advantage through lower CLS, the data should show a pattern of increased exports, improved labor productivity and constant or slow growth in benefits to workers.

Although the pertinent data is limited, macroeconomic data for the manufacturing sector shows that in many developing countries real earnings per employee have increased significantly over time (Table 6). During the 1980s, Singapore, Hong Kong, South Korea, Thailand, the Philippines and India all experienced growth rates in earning per capita at or more than 5 percent. The available data indicates that these countries have recently entered a second phase in which wage growth is growing at a much smaller rate or even declining. Fields (1994) explores the relationship between surplus labor and wages and suggests that real earnings rose initially in a number of Asian NICs as their exports grew and they began to approach full employment. Many of these countries are now

[11] Additional evidence on the importance of labor costs can be found in Erickson and Kuruvilla (1994) and in MacCormack, et. al. (1994). Erickson and Kuruvilla find that while labor costs influenced capital flows in the European Union during 1980-88, they were not the determining factor. The work by MacCormack, et. al. suggests that non-labor cost factors are primary to firm location decisions.

Table 5: The Stock of U.S. Foreign Direct Investment in Manufacturing, 1993

	Total Manufacturing	Group 0[1]	Group 1	Group 2	Group 3	Group 4	Group 5	Group 6
				(million U.S. dollars)				
Singapore	4,632	86	525	30	1,796	1,873	D	D
Hong Kong	2,660	-1	149	D[2]	302	1,559	D	531
Mexico	10,802	2,334	2,392	D	D	605	2,218	2,438
South Korea	1,236	268	212	50	39	186	59	422
Malaysia	1,079	D	49	8	D	858	0	149
Thailand	863	49	228	D	D	221	L[3]	79
Philippines	960	275	386	27	-2	161	0	114
China	461	66	67	D	16	D	D	53
Indonesia	160	D	61	6	D	D	-1	D
India	395	1	143	11	68	4	5	164

Notes:
1. Descriptions of groups are as follows:
Group 0: Food and Kindred Products
Group 1: Chemicals and Allied Products
Group 2: Metals, Primary and Fabricated
Group 3: Machinery, except Electrical
Group 4: Electric and Electronic Equipment
Group 5: Transportation Equipment
Group 6: Other Manufacturing
2. "D" indicates data suppressed to avoid disclosing data on individual companies.
3. "L" indicates value is less than $500,000.

Source: *Country Reports on Economic Policy and Trade Practices* (1995).

Table 6: Index of Manufacturing Real Earnings per Employee (1987=100)

	1981	1990	1991	1992	Growth Rate 1981-90
Canada	99	101	99	101	0.1%
Japan	90	108	109	105	2.0%
United Kingdom	84	105	104	105	2.4%
France	92	107	110	111	1.6%
Singapore	74	120	126	122	5.5%
Hong Kong	74	113	113	114	4.9%
Mexico	151	110	116	103	-3.5%
South Korea	68	144	145	148	8.8%
Malaysia	78	99	103	105	2.7%
Thailand	67	116	—[1]	—	6.3%
Philippines	71	116	131	—	5.7%
India	80	115	—	—	4.1%

Notes:
1. "—" indicates data not available.

Source: *World Tables* (1995).

Table 7: Index of Manufacturing Real Output per Employee (1987=100)

	1981	1990	1991	1992	Growth Rate 1981-90
Japan	91	126	130	—	3.6%
France	97	114	114	—	1.8%
Singapore	91	111	111	115	2.2%
Mexico	85	118	122	125	3.8%
South Korea	68	139	148	—	8.3%
Thailand	93	109	—	—	1.8%
Philippines	82	105	119	—	2.7%
China	54	129	143	—	10.2%
Indonesia	64	121	122	—	7.3%
India	67	123	—	—	6.9%

See notes to Table 6

Source: *World Tables* (1995).

facing tight labor markets in conjunction with a need to restructure their production away from low cost output towards high tech products and services. The end of the initial export boom and the structural adjustments underway in these countries will likely keep earning growth rates at moderate levels for some time.[12]

Data on real output per employee indicates that labor productivity increased significantly in several Asian countries during the 1980s (Table 7). Comparisons between the data on earnings and output for the same countries show that among the industrialized countries--Japan and France--output per worker grew slightly ahead of earnings per worker. In contrast, in Singapore, South Korea, Thailand and the Philippines, growth in real earnings per employee outpaced growth in output per employee. This indicates that at the aggregate level, workers in these developing countries did receive compensation for their contribution to the countries' economic growth.

A parallel comparison between productivity and returns to labor at a disaggregated level shows a similar pattern. Table 8 presents value added and wage data for detailed textile sectors by country. Although this sector is generally associated with poor labor conditions, the data indicate that overall, average real wages grew at comparable or faster rates than average real value added. Similarly, for countries with declining value added, such as the Philippines, Indonesia, and India, wages generally fell at a comparable or slower rate. Despite the paucity of data, it is possible to conclude that in spite of low labor standards, workers in these developing countries generally received suitable compensation for their labor.

Clearly, firms and governments need to maintain a balance between worker welfare and profit considerations. If labor conditions fall below some minimum that is industry and perhaps firm specific, the employer will actually be worse off with low labor standards than he/she would have been with higher labor standards. This is true regardless of whether labor has legislated rights to freedom of association and collective bargaining.

Assuming that firms have identified and are providing workers with the lowest level of labor conditions necessary to elicit satisfactory production, their ability to sustain this practice depends on a number of factors, many of which are beyond their control. These include the firm's power in the labor market, the overall level of worker mobility, the level of government and private involvement

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[12] See the World Bank's World Development Report (1995) and Horton et. al (1991) for detailed information on labor market conditions in developing countries.

Table 8: **Comparisons of Real Average Value Added per Employee and Real Average Wage per Employee for the Textile Sector (ISIC 32) by Country**

Singapore

	Real Average Value Added per employee[1] (1000 U.S. dollars)		Growth Rate[2] (%)	Real Average Wage per employee (1000 U.S. dollars)		Growth Rate (%)
	1981	1989		1981	1989	
3211[3]	9.4	18.0	8.4%	4.7	7.2	5.4%
3212	9.3	14.7	5.9%	4.4	7.0	6.0%
3213	9.2	19.1	9.6%	4.0	8.8	10.4%
3214	--	--	--	--	--	--
3215	--	--	--	--	--	--
3219	--	--	--	--	--	--

Hong Kong[4]

	Real Average Value Added per employee (1000 U.S. dollars)		Growth Rate (%)	Real Average Wage per employee (1000 U.S. dollars)		Growth Rate (%)
	1981	1988		1981	1988	
3211	12.3	13.8	1.6%	6.9	7.6	1.6%
3212	9.8	10.6	1.2%	5.8	5.8	0.0%
3213	11.0	10.9	-.1%	6.1	6.4	0.8%
3214	14.8	13.5	-.3%	6.4	7.7	2.8%
3215	10.7	10.3	-.4%	4.4	4.7	1.0%
3219	17.0	14.7	-2.1%	6.8	6.5	-.6%

Korea[5]

	Real Average Value Added per employee (1000 U.S. dollars)		Growth Rate (%)	Real Average Wage per employee (1000 U.S. dollars)		Growth Rate (%)
	1983	1989		1983	1989	
3211	8.2	15.8	11.6%	3.0	6.4	13.3%
3212	6.4	12.9	12.3%	2.7	5.4	12.4%
3213	7.2	16.5	14.7%	2.7	5.6	13.3%
3214	5.2	15.5	20.1%	1.7	4.3	17.2%
3215	6.6	15.9	15.7%	2.9	4.5	7.7%
3219	7.9	24.8	21.1%	3.2	6.8	13.3%

Table 8: Comparisons of Real Average Value Added per Employee and Real Average Wage per Employee for the Textile Sector (ISIC 32) by Country (cont.)

Philippines

	Real Average Value Added per employee (1000 U.S. dollars)		Growth Rate (%)	Real Average Wage per employee (1000 U.S. dollars)		Growth Rate (%)
	1983	1988		1983	1988	
3211	7.5	3.2	-15.7%	1.9	1.3	-7.8%
3212	6.6	2.0	-21.3%	1.5	.9	-9.9%
3213	3.6	2.7	-5.6%	1.9	1.3	-7.8%
3214	5.8	1.8	-20.6%	2.1	1.1	-12.3%
3215	4.7	2.2	-14.2%	1.5	1.0	-8.2%
3219	7.8	2.4	-19.6%	2.1	1.3	-9.6%

Indonesia

	Real Average Value Added per employee (1000 U.S. dollars)		Growth Rate (%)	Real Average Wage per employee (1000 U.S. dollars)		Growth Rate (%)
	1981	1989		1981	1989	
3211	3.0	2.7	-1.4%	1.1	0.5	-9.4%
3212	2.2	0.9	-10.0%	0.8	0.3	-10.1%
3213	1.5	2.1	4.9%	0.8	0.6	-3.6%
3214	3.9	6.8	7.2%	1.6	1.0	-5.5%
3215	1.5	1.3	-1.6%	0.8	0.4	-7.6%
3219	1.9	1.8	-.6%	0.8	0.3	-10.1%

India

	Real Average Value Added per employee (1000 U.S. dollars)		Growth Rate (%)	Real Average Wage per employee (1000 U.S. dollars)		Growth Rate (%)
	1981	1987		1981	1987	
3211	2.1	1.5	-5.5%	1.6	1.2	-5.0%
3212	–	–	–	–	–	–
3213	3	1.5	-10.7%	1.0	0.8	-3.3%
3214	–	–	–	–	–	–
3215	–	–	–	–	–	–
3219	–	–	–	–	–	–

Notes:

1. Value added is deflated using the manufacturing value added price index and wages are deflated using the CPI for each country from the World Bank data tapes (1987=100) unless otherwise indicated.
2. Growth rates are average annual rates.
3. Sector descriptions are as follows: ISIC 3211--spinning, weaving and finishing textiles; ISIC 3212--made up textile goods, excluding wearing apparel; ISIC 3213--knitting mills; ISIC 3214--carpets and rugs; ISIC 3215--cordage, rope and twine; ISIC 3219--other textiles.
4. For Hong Kong, value added is deflated using the CPI as the value added index was not available.
5. For South Korea, value added in 1989 is deflated using the CPI as the value added index was not available.

Source: *Handbook of Industrial Statistics* (1992).

in social welfare and the firm's sales market. A firm with complete and absolute "monopsony" power will be able to offer "unfair" treatment and still maintain employment and adequate production. However, export-oriented firms in these dynamic developing countries are unlikely to be able to control these factors sufficiently to maintain any monopsony power they may have initially.

The firm's power is highly dependent on the availability of surplus labor and the lack of opportunities facing workers. The tremendous export growth of the Asian NICs has been accompanied by high rates of GDP growth. This economic growth has increased job opportunities in manufacturing and also provided the labor force with alternative opportunities such as improved access to education and training. Those countries at the forefront of this growth path are now experiencing labor shortage problems. Thus, their ability to maintain poor labor standards is being curtailed. In addition, competition from succeeding countries has led to structural adjustments in production away from labor-intensive manufacturing towards capital and skill intensive output. This has further reduced the firm's usage of low cost labor and thus their ability to sustain poor labor standards. In some of these countries, government intervention has helped preserve control over the labor market in the short run. However, over time, the government as well as private agents have either fostered the improvement of labor standards or been forced to accommodate their progression by workers and other supporting groups.[13] Finally, the expansion of the firm's sales market introduces another set of factors into the information set of both workers and owners, thus contributing indirectly to the reduction of the firm's power.

In summary, the data on developing country exports and information on core labor standards in these countries indicate that, overall, their export success is not due to unfair cost advantages based on inadequate core labor standards. On the contrary, this success appears to have contributed to the improvement of labor market conditions in these countries.

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[13] Lim and You (U.S. Department of Labor, 1990) discuss historical wage controls in Singapore and the repressive labor market policies in South Korea and provide information on recent changes in the respective countries.

III. U.S. Imports from Developing Countries, Labor Standards, and Domestic U.S. Conditions

Irrespective of whether labor standards are being purposefully suppressed or not, does trade between the United States and developing countries with lower labor standards have an adverse impact on U.S. employment and wages? Due to the difficulty of distinguishing between production based on factors such as natural comparative advantage and that based on the unfair suppression of worker rights, the subsequent discussion assumes that all imports from certain industries are produced under poor labor conditions. Despite this assumption, data on imports, employment and wages in the United States indicates that the aggregate and sectoral effects on U.S. employment and wages are relatively small. Specifically,

- At the aggregate level, the impact of imports from these developing countries is small relative to imports from industrialized countries.
- Countries with lower labor standards do not exhibit higher rates of import penetration than countries with relatively higher labor standards.
- Imports from these developing countries do not appear to have larger displacement effects on U.S. employment and wages in sectors associated with poor labor standards relative to other sectors.

Aggregate Trade and Import Penetration

In 1994, ten major developing countries accounted for only 26.5 percent of total U.S. imports--approximately one-half the share represented by five industrialized countries. Even if exports from all ten developing countries are assumed to be based on equally poor labor standards, their aggregate impact on the U.S. economy is still relatively small. However, as discussed earlier, many of these countries have experienced significant growth rates over the past decade. Extending each countries' average annual growth rate from 1981-94 to 1995-2000 indicates that the U.S. import share occupied by these ten developing countries will rise significantly in the next five years, from 26.5 percent to 41.8 percent. Nonetheless, their share will still be less than the 51.1 percent share occupied by the five industrialized countries--Japan, Canada, Germany, the United Kingdom, and France.

If poor labor standards are an important basis for developing country exports then countries with lower labor standards should exhibit higher rates of import penetration. A comparison of

relative import growth rates with information on freedom of association and child labor practices indicates that, in addition to not being attractive sites for U.S. FDI, countries with poor labor standards do not perform better in the U.S. market than countries that observe these core labor standards.

As noted previously, an OECD categorization of the degree of restrictions present in the practice of freedom of association indicates that Hong Kong and India have significant restrictions but are better than many other developing countries, while China and Indonesia have almost no rights at all.[14] Details on child labor practices indicate that enforcement is adequate in Mexico, China, South Korea, Malaysia and Singapore. Some problems exist in Hong Kong while extensive problems exist in the Philippines, Thailand, India, and Indonesia.

If lower labor standards were an advantage in exporting, the Philippines should perform better than Mexico and India in the U.S. market due to its worse labor conditions. However, the Philippines' share of U.S. imports grew at a considerably slower rate than both of these countries' share during 1981-94. Indonesia which should also benefit from its lower labor standards actually experienced an average annual growth rate of less than 1 percent (Table 1). Although it is not possible to say that no relationship exists, the data suggest that poor labor standards are not a useful predictor of U.S. import shares.

Impact on U.S. Employment and Wages

In the 1980s, the United States experienced a significant decline in the employment of unskilled workers as well as growing wage inequality between skilled and unskilled workers. A substantial amount of research work has attempted to identify the causes of these changes. A significant portion of this work has focused on separating the effects of trade vs. other factors, such as technology, on these labor market trends. Further research on this topic, especially on the interactions between trade and technology and their joint effects, is warranted.[15] To date, little of

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[14] OECD (1995)

[15] For an overview, see Bhagwati and Kosters (1994), Lawrence and Slaughter (1993), Leamer (1994B), and Wood (1991). Borjas (1994) considers the importance of another factor--immigration. To the extent that the inflow of immigrants (both legal and illegal) are not highly skilled or educated, the wages of American unskilled, uneducated workers will fall. Borjas' work suggests that the impact of immigration on U.S. employment and wages is relatively minor.

the current research investigates the relationships amongst poor labor conditions, trade, and worker welfare in the U.S. economy. Initial results based on measures of association are discussed below.

If imports in sectors associated with poor labor standards abroad are providing developing countries with an unfair trade advantage, U.S. employment and wages in these sectors should exhibit relatively larger declines. Examination of sectoral level data on U.S. employment and wages for the periods 1981 and 1991-1994 suggests that some sectors did experience significant declines in both employment and wages. However, these changes cannot be distinctly linked to the import of products associated with poor labor standards, and the overall effects on the economy are relatively small.

Employment of U.S. production workers in manufacturing decreased at an annual rate of approximately 1 percent during the 1980s (Table 9). However, the carpets and rugs sector (SIC 227), which more closely represents a problematic sector with respect to CLS, actually showed an increase in employment. While two other sectors similarly associated with bad CLS--wood household furniture (SIC 2511) and toys and sporting goods (SIC 394)--both exhibited declines of approximately 1 percent, these two sectors accounted for only .8 percent and .6 percent of manufacturing employment, respectively, in 1981. Moreover, they maintained their relative shares over time, representing .8 percent and .6 percent, respectively, of manufacturing employment in 1994. Both sectors also exhibited positive employment growth during the 1991-94 period.

The four other major sectors associated with poor CLS--textile mill products (SIC 22), apparel and other textile products (SIC 23), footwear except rubber (SIC 314) and handbags, etc. (SIC 317)--all exhibited employment declines larger than the decline for manufacturing as a whole. Of these sectors, the two with the greatest declines, footwear and handbags, etc., represent an extremely small share of total manufacturing employment. Even at the beginning of the 1980s, these sectors each accounted for less than one percent of manufacturing employment, approximately .9 percent and .2 percent respectively. The employment declines in the textile (SIC 22) and apparel (SIC 23) sectors, however, were double the rate for manufacturing as a whole. These sectors also represent relatively large shares of manufacturing employment.

Table 10 provides import and employment data for the textile (SIC 22) and apparel (SIC 23) sectors as well as a number of other manufacturing sectors not necessarily associated with bad CLS. The data indicate that in 1994, more than 50 percent of imports were accounted for by sectors not generally associated with bad CLS, namely the transportation, electrical equipment, and machinery

Table 9: U.S. Employment in Certain Import Sensitive Industries, 1981, 1991-1994

	Employment[1]						
	1981	1991	1992	1993	1994	Growth[2] 1981-91(%)	Growth 1991-94(%)
	(1,000 workers)						
Total Private Non Farm Establishments	60,923	72,650	72,866	74,353	77,042	1.8%	2.0%
Manufacturing	14,020	12,434	12,241	12,143	12,445	-1.2%	L[3]
By Sector							
22 Textile mill products	713	574	575	567	571	-2.1%	-.2%
227 Carpets and rugs	42	46	48	49	51	1.0%	3.1%
23 Apparel and other textile products	1,060	841	842	819	799	-2.3%	-1.7%
25 Furniture and fixtures	374	373	375	380	393	L	1.8%
251 Household furniture	249	225	225	228	235	-1.0%	1.5%
2511 Wood household furniture	116	103	104	105	105	-1.2%	.7%
317 Handbags and personal leather goods	25	10	9	8	8	-8.7%	-6.3%
314 Footwear except rubber	126	57	53	51	50	-7.7%	-4.4%
394 Toys and sporting goods	88	75	78	76	78	-1.5%	1.3%
Services	16,562	24,712	25,352	26,368	27,783	4.1%	4.0%

Notes:
1. Employment is defined using production workers.
2. Growth rates are average annual rates.
3. "L" indicates value is less than .1%.

Sources: *Employment, Hours and Earnings United States, 1981-93* (August 1993); *Employment and Earnings* (March 1994 and March 1995).

sectors. Although apparel imports were significant, there is nothing to indicate that their share benefitted from unfair trade practices abroad. This is confirmed by the data on growth rates since the growth of apparel imports is significantly below the growth in imports in a number of other sectors and is not unusually high relative to other associated sectors.

The employment data suggests that, relatively speaking, the apparel sector is not a particularly large employer. While the decline in apparel sector employment during 1990-94 is significant, the nature and magnitude of the decline appear to reflect changes in the U.S. domestic economy rather than factors particular to apparel imports. Significant growth in overall employment of approximately 2.0 percent and in the service sector of 4.0 percent during the 1980s and early 1990s also indicates that employment in the United States experienced a structural shift rather than an overall net decline (Table 9).

In addition, a comparison of import and employment growth rates across all the sectoral categories does not indicate any definitive correlations (Table 10). This further suggests that domestic factors may have had a greater influence on changes in manufacturing employment than international trade.[16]

A similar examination of U.S. wage data also indicates that sectors in which imports are commonly associated with bad CLS did not experience any undue downward pressure. As indicated in Table 11, while manufacturing wages fell during the 1980s, wages in textiles (SIC 22) and wood household furniture (SIC 2511) actually rose slightly. In addition, wage declines in carpets and rugs (SIC 227), footwear (SIC 314) and toys (SIC 394) were all less than half the decline in wages for manufacturing as a whole. Two of the sectors, however, experienced significant declines in wages--apparel (SIC 23) and handbags, etc. (SIC 317). The contrast of a drop in wages in the sector with the most employment, apparel, and the least employment, handbags, etc., suggests that imports did not necessarily have a disproportionately negative effect on wages in more labor-intensive industries.

Detailed evidence on the extent of U.S. imports produced under poor labor conditions is indirect at best. However, even under the extreme assumption that all imports from certain sectors are based on bad CLS, the overall impact on U.S. employment and wages appears to be fairly small.

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[16] See Lawrence and Katz (1994) for a detailed investigation on the relative impact of domestic vs. external factors on U.S. employment and wages.

Table 10: Imports and Employment in Certain Import Sensitive Industries, 1990-1994

SIC	Description	Imports[1]		Employment[2]	
		Share 1994	Growth 1990-94	Share 1994	Growth 1990-94
	Manufacturing Total	591,464	8.7%	18,063	-2.0%
37	Transportation equipment	20.0%	7.4%	9.6%	-3.5%
36	Electrical equipment and supplies	16.3%	13.3%	8.6%	-1.9%
35	Machinery, except electrical	15.6%	11.0%	10.8%	-1.9%
23	Apparel and related products	6.9%	9.8%	5.3%	-2.1%
28	Chemical and allied products	5.6%	10.6%	5.8%	-0.8%
33	Primary metal products	5.4%	8.8%	3.8%	-2.4%
39	Miscellaneous manufactured products.	4.7%	9.5%	2.1%	.1%
38	Instruments and related products	4.2%	9.5%	4.7%	-4.0%
20	Food and kindred products	3.1%	2.6%	9.2%	0.0%
30	Rubber and misc. plastic products	2.6%	16.5%	5.2%	1.2%
34	Fabricated metal products	2.6%	4.2%	7.6%	-1.0%
31	Leather and leather products	2.3%	1.6%	.6%	-3.7%
26	Paper and allied products	2.1%	.5%	3.8%	-0.5%
24	Lumber and wood products	1.9%	15.9%	4.0%	-.1%
29	Petroleum and coal products	1.8%	-13.7%	.8%	-1.5%
25	Furniture and fixtures	1.4%	10.4%	2.7%	-0.6%
32	Stone, clay, glass, etc. products	1.4%	3.3%	2.9%	-1.3%
22	Textile mill products	1.2%	7.6%	3.7%	-0.7%
27	Printing and publishing	.4%	7.5%	8.5%	-0.7%
21	Tobacco products	L[3]	14.5%	.2%	-5.4%

Notes:
1. Imports for consumption, million U.S. dollars.
2. Nonagricultural employment, thousands of employees.
3. "L" indicates value is less than .1%.

Sources: *Trade and Employment* (1993;1994).

Table 11: U.S. Wage Changes in Certain Import Sensitive Industries, 1981, 1991-1994

SIC	Wages[1] (average hourly earnings)						
	1981	1991	1992	1993	1994	Growth[2] 1981-91(%)	Growth 1991-94(%)
Total Private Non Farm Establishments	7.98	7.58	7.54	7.49	7.50	-.5%	-.3%
Manufacturing	8.79	8.21	8.17	8.14	8.14	-.7%	-.3%
By Sector							
22 Textile mill products	6.07	6.09	6.13	6.15	6.17	L[3]	.4%
227 Carpets and rugs	6.26	6.16	6.12	6.17	6.17	-.2%	.1%
23 Apparel and other textile products	5.47	4.97	4.95	4.91	4.95	-1.0%	-.2%
25 Furniture and fixtures	6.50	6.43	6.42	6.42	6.44	-.1%	.1%
251 Household furniture	6.04	5.97	5.98	6.03	6.09	-.1%	.7%
2511 Wood household furniture	5.58	5.62	5.59	5.65	5.72	.1%	.6%
317 Handbags and personal leather goods	5.16	4.64	4.63	4.73	4.89	-1.1%	1.8%
314 Footwear except rubber	5.30	4.99	5.00	4.97	5.05	-.6%	.4%
394 Toys and sporting goods	6.09	6.04	6.11	6.08	6.11	-.1%	.4%
Services	7.05	7.51	7.52	7.48	7.47	.6%	-.2%

Notes:
1. Wages are the average hourly earnings of production workers in current dollars deflated using the CPI index.
2. Growth rates are average annual rates.
3. "L" indicates value is less than .1%.

Sources: *Employment, Hours and Earnings United States, 1981-93*, (August 1993); *Employment and Earnings* (March 1994 and March 1995).

IV. Policy Implementation of Labor Standards

While inadequate labor standards may not be providing developing countries with undue advantages in trade, it is clear that trade has a significant impact on labor markets. Global integration has drawn attention to working conditions worldwide and the issue of adequate labor standards is becoming increasingly important. There are a number of existing policies and programs that attempt to promote the improvement of labor standards at both the national and international level. In general, the international policies focus solely on labor standards and are not connected to trade activity. However, interest in linking trade and labor standards dates back to the late 1800s and it continues to be an important concern today.[17] The United States has incorporated a worker rights clause into several of its trade programs in the last decade and it recently concluded a supplemental agreement on labor cooperation with Mexico and Canada as part of NAFTA. Interest in linking trade policy and labor standards on a multilateral level has also been renewed with the establishment of the World Trade Organization (WTO).

This section discusses the provisions pertaining to labor standards in U.S. trade policy, the ILO, and the GATT/WTO. The relative effectiveness of these existing policies is considered and the recent proposal by the ILO to incorporate a social clause in the WTO is evaluated. Two major non-governmental activities that support the improvement of labor standards, namely multinational corporation codes of conduct and consumer labelling, are also discussed.

U.S. Domestic Agreements and Actions

The United States has been at the forefront of efforts to include worker rights conditions in trade programs. Currently, U.S. trade programs with such conditions include the Generalized System of Preferences (GSP) program, the Caribbean Basin Initiative (CBI), and the U.S. Overseas Private Investment Corporation (OPIC) program.[18] The definition of core labor standards employed

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[17] In 1890, an international treaty forbidding the importation of slaves was established. The first U.S. policy linking trade and labor standards was motivated by a desire to seek protection from cheap foreign labor. It was incorporated into law as part of the Tariff Acts of 1922 and 1930. See Charnovitz (1987) for additional historical details.

[18] The European Commission (EC) has recently taken a number of steps to include labor standards in its domestic and trade policies. In 1989, the EC established a Social Charter on worker rights that was subsequently incorporated into the Maastricht Treaty. In relation to this, a Commission on Labor Co-operation was established to oversee a broad range of labor conditions. According to the regulations, countries which persistently violate domestic labor laws can be fined and an unpaid fine can be punished by suspension of trade

in most of these programs is based on the GSP program. The NAFTA labor side agreement is the most recent trade initiative that includes conditions pertaining to labor standards. The definition and enforcement of labor standards in NAFTA differs considerably from other U.S. trade programs. The main characteristics of the GSP and NAFTA provisions are outlined and their relative effectiveness is discussed below.

Generalized System of Preferences Program (GSP)

The U.S. GSP program originated in 1974 and was amended in 1984 to include labor standards as a criteria for duty free access to the U.S. market. It is regarded as having the most effective process for the implementation of labor standards and serves as a model for other programs.[19] There are five labor standards criteria in the GSP program; these are freedom of association, the right of collective bargaining, freedom from forced or compulsory labor, freedom from child labor, and acceptable conditions of work.[20] The first three standards, considered to be basic rights, are expected to be respected in all countries regardless of their level of development. It is recognized that with respect to child labor and acceptable conditions of work, the same "minimum standards" are not applicable to all countries and country specific factors are accounted for in the application of these standards.

The GSP program evaluates worker rights in eligible countries through an annual review process. The review is conducted by an interagency committee of the Executive Branch led by the Office of the United States Trade Representative (USTR). If an individual or group has concerns with the performance of a particular country, they must submit a petition to this committee. The committee makes an initial decision to either accept the petition for full review or reject it. If the petition is accepted for review, three major outcomes are possible. The country may be found to meet the GSP requirements, the country may have its GSP eligibility suspended for some time, or

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benefits equal to the amount of the fine. The EC also added labor standard conditions to its GSP program in 1994.

[19] See Charnovitz (1987) for additional details on CBI and OPIC. The CBI is considered to have been useful in prompting Haiti to allow a free labor federation after a period of over 25 years.

[20] Acceptable conditions of work refers to minimum wages, hours of work, and occupational safety and health.

the country may be removed from the program. Between 1987 and 1993, a total of 99 petitions pertaining to violations of labor standards were filed and approximately 67 percent of these petitions were accepted for full review. During this time period only one country, Nicaragua, was removed from the GSP program for failing to appropriately address worker rights' violations; approximately 22 countries had their GSP status suspended and seven of these were subsequently reinstated.

Overall, the inclusion of worker rights provisions in the GSP program appears to be fostering the development of labor standards. However there are several fundamental weaknesses in the process--all directly related to the criteria applied to evaluate countries' performance. Of the petitions accepted for full review, a large number of countries are often found to meet the GSP requirements. One reason for this may be that the law stipulates the country must be "taking steps" to establish the relevant labor standards; it does not require the country to be in full compliance with the standard. This requirement can be easily satisfied in practice since concrete evidence of substantive changes is not necessary.

In addition, an examination of the countries reviewed shows that a few countries are repeatedly reviewed. This may be because application of the "taking steps" criteria appears to be in the form of very specific actions (i.e. country x passed a new comprehensive labor code). This approach leads to the problem being addressed in a very piecemeal way and also wastes resources by repeating the review process.

Finally, the force of suspension from the GSP program does not appear to be well utilized as a means for creating major changes. This again is most likely due to the weak interpretation of the "taking steps" criteria. Chile, Paraguay and the Central African Republic (CAR) all had their GSP status suspended in the late 1980s. These countries were reinstated in 1991 based on the following actions by the respective governments: Chile passed significant reforms to its labor code and curtailed harassment of labor leaders. In Paraguay, the government proposed the reform of its labor code and worked towards getting it passed in the legislature, and the government of the CAR passed a new labor law allowing union activity and the formation of a new labor federation. Although these are not insignificant actions, they seem minor relative to the resources used in reviewing, suspending, and reinstating a country.

North American Free Trade Agreement (NAFTA)

NAFTA and the accompanying labor and environmental side agreements went into effect on January 1, 1994. The NAFTA agreement is distinct from the GSP program in that it is an agreement among sovereign countries and not a unilateral U.S. trade preference program. There are a number of important differences between the clauses pertaining to labor standards in the NAFTA labor side agreement and those in other U.S. trade programs. First, the NAFTA supplemental agreement contains a more comprehensive list of labor standards than the five typically present in U.S. trade programs. The agreement commits each party to the promotion of eleven broad labor conditions ranging from freedom of association to migration policies. Second, the agreement does not attempt to apply U.S. standards or a common uniform criteria in its evaluation of labor conditions in other countries. Instead, the agreement emphasizes the full observance of existing national laws. Finally, the agreement contains different enforcement mechanisms for different standards. The complaint process consists of three stages--filing a petition with the domestic National Administrative Office (NAO), Ministerial consultations, and lastly consultation with the Evaluation Committee of Experts (ECE). Complaints pertaining to freedom of association, the right of collective bargaining, and/or the right to strike can only be taken to the second stage of the complaint process. More importantly, sanctions cannot be utilized to encourage enforcement of laws pertaining to these rights. Of the eleven labor principles, only the implementation of those pertaining to child labor, minimum employment standards, and occupational health and safety can be supported by sanctions.

As of January 1995, the U.S. NAO had reviewed three cases. The first two submissions, against Honeywell and General Electric respectively, both dealt with violations of rights pertaining to unionization. Hearings were held for both cases in the middle of 1994 and the Labor Department rejected both complaints on the grounds that Mexican due process was followed. The outcomes of these cases highlight a major problem with labor standards being a function of individual countries' own laws rather than a common standard--the NAO must use this criteria even if evidence suggests that the labor legislation in place is in effect non-binding. For example, in one of the cases the charges were dismissed because the worker did not exercise the right to file a complaint which was technically available to her. The NAO cannot investigate whether or not filing the complaint was truly a viable option.

The third case is against Sony and also pertains to alleged violations of freedom of association. The hearings on this case were held recently and the U.S. NAO office decided in early

1995 to refer one of the charges forward for Ministerial consultation--the next and in this case final step in the complaint process. Due to this being the first year of NAO's existence, these first three cases were important not only for their final outcomes but also for their role in establishing procedure as well as precedence for decisions made by the U.S. NAO office.[21]

A comparison of the labor provisions in the GSP program and the NAFTA labor side agreement suggests the following:

- Legislation based on the enforcement of current national laws *with* some mechanism for examining the validity of these laws and their impact in practice may be a viable alternative to attempts at establishing a common or minimum criteria for labor standards.

- Although NAFTA lacks the enforcement mechanisms present in the GSP program with respect to the standards of freedom of association and the right of collective bargaining, the review process is much more rigorous because it is firm specific and therefore it may have a greater overall impact, especially in the long run.

- Enforcement mechanisms such as sanctions are less likely to be accepted in bilateral or multilateral agreements.

International Agreements and Actions

The primary role of improving labor standards in the international context has been and continues to lie with the ILO. The organization relies on moral suasion, technical assistance, and educational programs to promote its objectives and has been credited with many major achievements on behalf of workers. Although the potential precursor to the GATT, the International Trade Organization (ITO), explicitly linked trade and labor policies, the GATT and the WTO contain very little direct language pertaining to this issue.[22] Attempts by the United States and France to advance labor standards in the WTO have met with substantial resistance. A recent proposal by the ILO to add the WTO's enforcement power to its operations by including a social clause in the WTO have

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[21] Although the NAFTA labor agreement places less emphasis on standards considered to be basic rights than unilateral U.S. trade programs, the nature of the petitions thus far indicate that the rights of freedom of association and collective bargaining are still of foremost importance.

[22] The implementing document of the ITO, the Havana Charter, contained the following statement: "The Members recognize that unfair labor 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."

been deferred due to internal disagreements within the ILO. Key characteristics of the ILO and the GATT/WTO are outlined and the ILO proposal is evaluated below.

International Labor Organization (ILO)

Created by the Treaty of Versailles in 1919, the ILO has established over 170 conventions covering many important aspects of worker rights. In addition to promulgating its conventions, the ILO also provides technical assistance and training to member countries. However, the organization views the ratification and monitoring of conventions as a key function. Examination of country performance in the ratification process indicates that active participation is not seen as an essential activity by many of its member countries.

Table 12 presents ratification information by country for several ILO conventions typically identified as representative of fundamental human rights. The information suggests that while ratification *may* signal progress in that country with respect to the convention, non-ratification does not indicate a lack of attention to that standard. Among the industrialized countries, only Germany and France have ratified all four of the conventions. The ratification patterns of the other industrialized countries indicate that several of them have not ratified Convention 138 pertaining to minimum age of employment. Yet all of these countries have fairly stringent child labor laws that are generally well enforced. At the same time, non-ratification for some of the countries is truly a reflection of non-compliance. The effectiveness of the ILO could be enhanced if member countries attached greater commitment to the ratification process.

GATT and the WTO

The GATT protocols, and at present the WTO, contain very little language that has a direct bearing on the issue of labor standards. There is an indirect reference to "raising standards of living and ensuring full employment" in the GATT preamble and this has been incorporated into the WTO. At present, the only part of GATT that directly addresses labor practices is Article XX(e) which pertains to goods made by prison labor. The article does not prohibit trade in prison made goods, but rather allows governments to impose unilateral prohibitions against the import of prison goods. Prison labor does not appear to be a critical issue for most countries and Article XX(e) has been

Table 12: Ratification of Major ILO Conventions Pertaining to CLS

Country	Convention No.[1]			
	87	98	105	138
U.S.	N[2]	N	Y	N
High Income				
Japan	Y	Y	N	N
Canada	Y	N	Y	N
Germany	Y	Y	Y	Y
United Kingdom	Y	Y	Y	N
France	Y	Y	Y	Y
Singapore	N	Y	X	N
Hong Kong	N	N	N	N
Middle Income				
Upper Middle				
Mexico	Y	N	Y	N
Korea	N	N	N	N
Malaysia	N	Y	X	N
Lower Middle				
Thailand	N	N	Y	N
Philippines	Y	Y	Y	N
Low Income				
China	N	N	N	N
Indonesia	N	Y	N	N
India	N	N	N	N

Notes:
1. The conventions are as follows:
   87: Freedom of association and protection of the right to organize.
   98: Right to organize and collective bargaining.
   105: Abolition of forced labor.
   138: Minimum age.
2. "N" indicates not ratified, "Y" ratified and "X" indicates that the country has denounced the convention.

Source: *Lists of Ratification by Convention and by Country* (1994).

fairly non-controversial.[23] In contrast, the inclusion of a broader set of CLS in past, current, and future global agreements has been much more controversial. Despite extensive efforts by several governments to include CLS in the WTO, particularly during the signing of the Final Act in Marrakesh last year, the outcome was an agreement simply allowing this issue to be raised at the WTO prepatory meetings.[24] Although the WTO is moving forward with the inclusion of environmental issues, the Director-General Renato Ruggiero has indicated that it may be some time before the organization proceeds further with the labor standards issue.

The ILO, the WTO, and a Social Clause

In June of 1994, the ILO Secretariat initiated a comprehensive research program on the integration of social welfare and trade policy. The main impetus for this action was the desire to support ILO objectives with a stronger enforcement mechanism. One of the outcomes of the research program, the ILO document "The Social Dimension of the Liberalization of World Trade", suggested that the ILO should work together with the WTO in overseeing core labor standards. The ILO proposed that core labor standards, defined as freedom of association, the right of collective bargaining and freedom from forced labor, be included as a social clause in the WTO.[25] Complaints and progress would be monitored by the ILO while the WTO would be responsible for the enforcement of core labor standards through sanctions. This proposal has been extensively discussed in ILO working party meetings and in early 1995 the ILO decided to remove the idea of sanctions from their mandate due to internal disagreements over this issue.

Non Government Alternatives

In addition to international agencies and unilateral and bilateral trade agreements, there are a number of non-governmental organizations (NGOs) working towards the improvement of labor

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[23] The United States was the first country to ban imports of goods made by convicts in the Tariff Act of 1890. The law was broadened to include imports made by "forced labor" in the Smoot-Hawly Tariff Act of 1930. Exemptions to this were formulated under the Hendrick Rule in 1956. Historically, the law has not been applied to products for which U.S. production is insufficient to meet demand.

[24] The major supporters were the United States and France. The United States began proposing the inclusion of labor standards in the GATT as early as 1953.

[25] The organization expressed the desire to include freedom from child labor as a core labor standard but did not formally advocate it.

standards. Two important outcomes of such efforts, namely the development of business codes of conduct and the promotion of voluntary labelling, are outlined below.

Multinational Corporation (MNCs) Codes of Conduct

The first corporate code of conduct was developed by Levi Straus Inc. in 1992. The code stipulates a set of conditions that its contractors overseas have to abide by in order to maintain their business with Levi Straus. The coverage of worker rights is extensive and includes provisions on freedom of association, prison labor, child labor, minimum wage, work hours, as well as occupational health and safety. The code is enforced by sending "Inspectors" to the contracting factories on a regular basis.

A number of other firms have also established similar codes of conduct for a combination of reasons including concern for worker welfare, concern that not having a code would preclude an important marketing advantage and/or concern for the company's reputation. The list of such firms includes Liz Claiborne, Nike, Reebok, Roebuck, Sears, Timberland, and Walmart.

These codes of conduct are beneficial in that they promote responsibility on the part of both the domestic U.S. firms and the foreign firms. The difficulty lies in the implementation of the code. Of particular concern is the potential for conflict between a domestic and foreign firm when the MNC code is more stringent than domestic laws. Levi Straus faced this situation when its contractors in Turkey and Bangladesh were employing children under the age of 14. This did not violate local law but did not match the 14 year old age requirement in Levi's global souring guidelines. Levi's solution was to arrange with the contractor to pay for the childrens' education until they reached the age of 14 at which time they were to be offered jobs in the factory. Although Levi's was able to find a feasible solution acceptable to all parties, the general principle for resolving this issue still needs to be established.

Consumer Labeling

In addition to corporations, consumers are also becoming actively involved in the labor rights issue. A number of organizations are educating and mobilizing consumers to make more "informed" choices with their money. The Child Labor Coalition, formed in 1989, comprises a number of religious, human rights, and union groups that work together to inform consumers and reduce imports of products made under poor labor conditions. They are presently working to restrict

imports of rugs from South Asia made by child labor. In addition to educational activities, the Coalition is sponsoring a voluntary certification program named the "Rugmark" campaign. Producers that do not use child labor will be provided with a "Rugmark" label that they can attach to their exports. A number of other industries are also instituting voluntary labelling procedures in response to actual or perceived demands from consumers. These types of activities, while not free from measurement and other problems, are an important way for consumers to voice their views about labor conditions in other countries.

If the improvement of labor standards is an important goal, regardless of the linkages between trade, labor standards and labor conditions, it is possible and perhaps necessary to utilize a range of governmental, private, and multilateral vehicles to achieve this objective.

V. Conclusion

The tremendous growth experienced by the Asian NICs and the structural adjustments underway in many industrialized countries have focused attention on labor conditions in both industrialized and developing countries. The central issues are whether developing countries are using low labor standards to gain an unfair advantage in trade and whether trade between countries with differing labor standards is reducing living standards in the countries with higher labor standards.

Debate over the linkages between trade, labor standards, and labor conditions has polarized individuals and groups into "labor advocates" concerned with worker welfare and "trade advocates" concerned with promoting global business. The successful conclusion of present and future trade negotiations requires that those on opposing sides of this debate develop a common framework. This paper examines three central issues in the trade and labor standards debate, namely, (1) which labor standards (if any) should be considered fundamental or core labor standards, (2) what impact trade has on labor standards and labor market conditions in both industrialized and developing countries, and, (3) what are the most effective mechanisms for simultaneously improving labor standards and increasing global economic integration.

At present, there is some variation in the standards considered to be CLS by different groups in the United States, the ILO and the OECD. A common component in all of the definitions is the treatment of freedom of association, the right of collective bargaining, and freedom from forced labor as basic rights. At issue is whether child labor, occupational health and

safety, and other standards such as those pertaining to acceptable conditions of work, should be considered basic rights and thus core labor standards. The criteria used by these groups to distinguish between CLS and other standards is the concept of *rights* which includes those standards that all workers are entitled to regardless of the country's level of development, and *other labor standards* which includes those standards that are dependent on the country's level of development. The generation of different sets of CLS by the application of the same criteria indicates the inability of this criteria to provide a definitive separation of labor standards into rights and other standards.

These different definitions of core labor standards could be unified through a slight reformulation of the criteria and related terminology. As above, CLS should be synonymous with the concept of basic rights. However, all of the following standards--freedom of association, the right of collective bargaining, freedom from forced labor, freedom from child labor and standards pertaining to occupational health and safety--are basic rights and thus should be considered CLS. However, within the set of CLS, a distinction should be made between standards that are *labor processes* and those that refer to *labor outcomes*. Thus, freedom of association, the right of collective bargaining, and freedom from forced labor would be labor processes. Since the standards on child labor and occupational health and safety can be defined using a widely acceptable minimum criteria, they would be designated as labor outcomes. Countries could be expected to work towards the establishment of all core labor standards and be required to exhibit progress in attaining labor processes, labor outcomes and/or some combination thereof.

Current provisions on labor standards emphasize the standards grouped above under labor processes. A majority of cases addressed by the ILO, the U.S. GSP program, and NAFTA have dealt with freedom of association and the right of collective bargaining. This emphasis on labor processes is based on the view that the establishment of labor processes will facilitate the attainment of labor outcomes. However, the intractibility of these first two rights as well as their close association to issues of human rights and/or democracy suggest that it may be more useful to pursue either labor outcomes or labor outcomes and labor processes simultaneously, especially in the short run.

The successful implementation of this set of core labor standards depends fundamentally on mutual understanding amongst different parties about the sources and consequences of inadequate labor standards. The analyses of information on labor standards, trade, FDI, employment and wages, contained in this paper indicate that although trade has an important impact on labor markets,

the export success of the developing countries is not predicated on unfair advantages due to the suppression of worker rights. Furthermore, trade between the United States and countries with lower labor standards is not a major determinant of the decline in wages and employment in the U.S. economy. This is found to be true even under the extreme assumption that all imports from certain sectors are produced under poor labor conditions.

While low labor standards are not significant explanatory variables for trade patterns and for labor conditions in importing countries, the improvement of labor standards is nevertheless an important objective. The lack of a strong relationship also does not imply that trade agreements will be *a priori* ineffectual and thus should be automatically excluded as a potential tool.[26] The appropriate question is what mechanisms are the most effective for the simultaneous attainment of improved labor conditions and global integration. International trade and labor market policies suggest the following lessons:

- The use of trade policy instruments is not a first best solution to the problem of inadequate labor standards. Poor labor standards are not unique to exporting sectors and/or firms. In fact, the lack of unionization and child labor is likely to be more prevalent in non-traded sectors such as agriculture and services. To the extent that the improvement of labor standards is predicated on economic development or simply requires financial assistance, including stipulations in trade agreements will not address the fundamental problem.[27]

- Inclusion of the core labor standards--freedom of association, the right of collective bargaining and freedom from forced labor--in the WTO will be ineffective because the dispute process of the WTO requires that the injury or subsidy be measurable. Establishing a valid minimum criteria for these labor processes that is easily applicable to many countries would be extremely difficult. The use of a vague or general criteria would simply enable countries that truly are violating CLS to easily "satisfy" the necessary requirements thus making the action ineffectual.[28]

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[26] The argument that trade agreements should by definition not include anything pertaining to labor standards is increasingly losing legitimacy. The WTO has already incorporated intellectual property rights and environmental issues, and indicated that it will ultimately address the labor standards issue in some manner.

[27] Existing unilateral trade programs and bilateral trade agreements such as the U.S. GSP program and NAFTA that have proven to be effective should of course be continued.

[28] Present trade measures, such as countervailing duties, can only be used to counteract low labor standards if the extent of subsidization and injury is quantified. These labor standards may also not be allowable under the present regulations in the GATT/WTO. A recent GATT ruling pertaining to environmental concerns indicated that countries do not have the right to dictate or restrict production processes in other countries.

- The experience of the ILO indicates that consideration of country specific characteristics is essential to meeting its objectives. This same flexibility was exercised in the development of the NAFTA labor side agreement and may be an essential component of any bilateral or multilateral effort to improve labor standards.

- Although moral suasion has limited impact, historical evidence on the use of sanctions, particularly trade sanctions, indicates that they are often not an effective measure and should be employed only as a final resort. The ILO has recently decided to remove the inclusion of sanctions from its future goals due to internal disagreement over their usefulness. NAFTA does not provide for the use of sanctions in cases dealing with violations pertaining to freedom of association and the right of collective bargaining. However the agreement has contributed to promoting these labor standards; the three cases that have been raised thus far have all dealt with these two standards rather than other standards, some of which are backed by sanctions.

- Several viable and potentially effective alternatives to the use of trade policy exist and should be more forcefully utilized. These include governments working more closely with agencies such as the ILO and with private groups such as NGOs and the development of voluntary codes of conduct by corporations. Consumers in industrialized countries can also play an important role in improving labor standards by becoming informed and voting with their purchasing power.

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