

Shanghai Forum

Economic Globalization & The Choice of Asia

Fudan University, Shanghai, May 25-27, 2007

www.shanghaiforum.org

Trade Integration and Labor Standards. What Can We Do?

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1. INTRODUCTION

Civil society, trade unionists and many politicians have stressed the negative social consequences of globalization. Indeed, the increasing openness of developing countries has not been accompanied by a simultaneous improvement in labor standards. Reports from the International Labor Organization (ILO) and other official institutions² reveal the persistence of the worst forms of exploitation, like child and forced labor.

A demand for the respect of minimal labor standards in trade has then arisen in international, regional or national caucuses. For the economist Jagdish Bhagwati (2001), the problem with this “altruistic” demand is that it would not do the job. By making market access conditional to the respect of a set of minimal labor standards, such clauses would legitimate the use of trade sanctions as the way to improve standards and would promote the World Trade Organization (WTO) as the international institution in charge of the job. This opinion calls however for discussion. First, theory, literature and facts may explain and, sometimes, justify the “demand” for a trade labor linkage without referring to moral and “altruistic” arguments (Vasquez, 2001). Second, to consider social norm issues in trade agreements does not automatically imply negative trade sanctions. Finally, although the ILO is the qualified institution to deal with labor issues, the World Trade Organization (WTO) is not excluded as long as labor standards are a matter of concern for trade. Today, if labor standards are excluded from multilateral negotiations, they are frequently mentioned in bilateral and regional trade agreements. Thus, keeping the WTO out of the picture might jeopardize the multilateral system.

Section 2 shows how the world system prevents the adoption of labor standards at the multilateral level, but makes it possible at the bilateral or regional level. Section 3 discusses the existence of a trade-labor linkage and the expected effects of core labor standards on trade. Section 4 gives empirical results concerning this trade-labor linkage. We make propositions and conclude in section 5.

2. THE SOCIAL CLAUSE IN INTERNATIONAL AGREEMENTS

During the 1980s, developed countries were challenged by competition from low-wage countries, which encouraged the resurgence of the debate about harmful low labor

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

standards. The trade-labor linkage was unsuccessfully put forward during the Uruguay Round (1986-1993). The Singapore Ministerial Declaration (1996) denied the trade-labor linkage and the ILO was recognized as the only relevant organization to tackle labor standards.

However, the "social clause" debate is not over. Many preferential agreements incorporate a "social clause", which is frequently anchored to the labor standards regarded as fundamental by the ILO.

A WTO without a social clause

The WTO legal framework largely enables its members to choose the political and economic systems they want. National sovereignty is respected thanks to the consensus rule (Raustalia [2003]). This has prevented the inclusion of any explicit reference to core labor standards in the Marrakech Agreements even if the Havana Charter of 1947, article 7, laid down a link between international trade and labor standards: “The Members recognize that unfair labour conditions, particularly in production for export, create difficulties in international trade, and, accordingly, each Member shall take whatever action may be appropriate and feasible to eliminate such conditions within its territory.”

After the Havana Charter ratification process had failed, the General Agreement on Tariffs and Trade (GATT) tackled only one aspect of rights at work: the goods made with prison labor (GATT; article XX e).

An ILO without trade leverage

The Singapore Compromise (1996) always gives the multilateral position. Core labor standards only concern ILO conventions. In June 1998, the International Labor Conference adopted the “ILO Declaration on fundamental principles and rights at work”, which requires member countries to respect, promote and put into practice the fundamental rights: “[The International Labor Conference]... declares that all Members, even if they have not ratified the Conventions in question, have an obligation arising from the very fact of membership in the Organization, to respect, to promote and to realize, in good faith and in accordance with the Constitution, the principles concerning the fundamental rights” (see ADB-ILO [2006]). The eight fundamental conventions tackle four fields: freedom of association and right to collective bargaining (conventions 87 and 98), prohibition of forced labor (conventions 29 and 105), prohibition of discrimination at work (conventions 100 and 111) and minimum age for child labor and worst forms of exploitation (convention 138 and 182). Minimum wages, safety requirements, work time, unemployment compensation, social security and pension plans are not included in the ILO core labor standards.

However, the cooperation between the WTO and the ILO is very loose.. The first common report was published only in 2007 and it devotes only one paragraph to recall that core labor standards exist (Jansen & Lee [2007])!

The social clause in regional and bilateral agreements

The core labor standards issue is paradoxical. Even though the post-war trade system is formally multilateral, social clauses are mainly included in regional or bilateral trade agreements.

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

In the 1990s, the number of preferential trade agreements dramatically increased. These agreements frequently include subjects not covered by WTO agreements, such as government procurement, foreign investment, and ... labor standards.

NAFTA, which was ratified before the Singapore Conference, introduced an additional agreement on labor, which is anchored to national laws. Specific institutions are in charge of arbitrating disputes between countries and have the power to impose sanctions (OECD [2000], Elliott [2001]).

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

In December 1998, Mercosur countries (Brazil, Argentina, Paraguay, Uruguay) adopted a social declaration about promotion and respect of ILO core labor standards.

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

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

Asian-Pacific countries are an exception. Few preferential trade agreements enclose a social clause: only 8 on 54 (36 have been notified to the WTO; see annex 1). Only three do mention ILO's core labor standards and one OECD country is then always involved: Japan-Philippines, USA-Singapore, and USA-Australia. However, United States is launching or negotiating new free trade agreements in Asia (Malaysia, Thailand, South Korea), which will have to consider labor standards provisions.

3. WHY TO INCLUDE LABOR STANDARDS IN TRADE AGREEMENTS?

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

Anti: The targeting argument

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

However, the facts show that all tradable sectors witness violations of core labor standards. From ILO's investigations, child labor is relatively scarce in non-farm domestic labor (except in countries such as Ethiopia; see Granger and Siroën [2006]). Yet, major problems are located in the agricultural sector, which is highly exposed to international competition. Manufacturing and trade (including tourism) are also concerned, although to a lesser extent. The trade-labor linkage could also be indirect through subcontracting between small companies in the non-tradable sector and exporting firms. The former group may produce non-tradable services (guarding, maintenance, professional services) and indirectly contribute to the competitiveness of the exposed firms.

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

Anti: The "rent-seeking" argument

The introduction of a social clause into trade agreements would be a protectionist reaction against low wage countries (Dasgupta [2000]). Economic theory, such as the Stolper-Samuelson theorem, confirms that opening trade to South countries, even favorable to the national real income, should harm the real income of unskilled labor, which is the relatively scarce factor in developed countries. The evolution is similar for the owners of specific factors located in the import sector (like land). Thus, North-South

trade might propagate low wages from South to North. Violations of labor standards in exporting developing countries would worsen these negative effects. Workers and specific factors' owners concerned by imports, may logically advocate protectionist measures and denounce the unfair competition from low labor standards countries. In fact, the AFL-CIO was one of the most activist organizations in defending the inclusion of social standards in international agreements, successfully in regional or bilateral agreements such as NAFTA. In this case, however, the optimal solution would then be transfers to losers or higher education to reduce again the amount of unskilled labor.

Ambiguous: the trade-labor linkage argument

Theoretically, violations of core labor standards exert two effects on trade flows. First of all, they decrease wages, thereby improving competitiveness. Secondly, child and forced labor lead to an increase in the unskilled labor endowment. According to a Heckscher-Ohlin analysis, this latter effect improves a developing country's comparative advantage in labor-intensive goods and fosters exports. Both effects have the same result: low labor standards are pro-trade. However, this argument is not valid for all labor standards since opposite effects on labor endowments theoretically occur with discrimination and possibly with trade union rights (Brown, Deardorff & Stern, 1996; Busse, 2002).

More sophisticated models question such evidence, emphasizing other effects (Maskus [1997]). The child labor endowment may be counter-balanced by the eviction of substitutable adult labor (Grottaert & Kanbur, [1995]; Basu & Van's [1998]). Moreover, the abolition of child labor does not necessarily imply a clear household income loss, insofar as it opens job opportunities for adults and may cause higher wages, to the extent that children and adults compete in labor markets. Abolition of child labor thus does not have clear and mechanical effects on household income, even in the short run (Basu [1999]; [2000]).

More generally, violation of workers' rights has to be analysed as a market imperfection. Violation of workers' rights impedes labor mobility and favors monopsonistic practices by employers (Morici & Shulz [2001]; Granger [2005]; Shelburne [2004]). In such a situation, employers tend to reduce the demand for labor. For example, child labor restrained in agriculture might impede the development of exporting manufacturing industries. Moreover, higher exports fostered by low labor standards might imply decreasing world prices and, as a result, negatively affect the terms of trade (Dehejia and Samy [2004]).

Pro: the trade policy argument

If violations of labor standards foster exports, they can be seen as a substitute for trade policies. Non-observance of labor standards in some industries or areas means keeping wage costs under their market price –i.e. marginal productivity– and the distortion should be considered as equivalent to an export or production subsidy, which are actionable in the WTO. Similarly, Stiglitz [2006] considers that American goods produced using energy intensive technologies might impose a high tax on them, to offset the subsidy that those goods currently are receiving by low taxation. He notes that the United States itself has recognized this principle. It prohibited the importation of Thai shrimps that had been caught in “turtle unfriendly” nets.

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

Core labor standards violations might also be used to encourage foreign direct investments (FDI), particularly inside free trade zones, where the government grants fiscal and legal exemptions (OECD [1996], [2000], Maskus [1997], Rodrik [1998], Busse & Braun [2003]).

4. EMPIRICAL STUDIES

A link between trade flows and labor standards is a precondition to consider that social norms might be considered by trade agreements. We previously saw that theory is ambiguous and only empirical studies might settle the issue. Early studies showed the absence of correlation between labor standards and the volume of trade (OECD, [1996], [2000]; Mah [1997]) but they did not use reliable indicators. The number of ILO conventions ratified by a country is the most frequently used indicator in empirical studies (Rodrik [1998]; Busse [2003]; Cooke & Noble [1998]). Because of a gap between the content of conventions and their effective application, this indicator must be considered with caution (Chau & Kanbur [2001]).

Rodrik (1998) shows that timework and child labor contribute to a higher share of labor-intensive exports in total exports. Cees Van Beers (1998) finds that labor standards influence trade in 18 OECD countries. Granger (2005) has built her own indicators on the four core labor standards and concludes that violation by Southern countries tends to raise the volume of North-South trade. These last studies confirm the existence of a trade-labor linkage.

So far, the question has been tackled from a unilateral point of view: do countries observing core labor standards trade more with the world? However, trade relations concern couples of countries and are influenced by bilateral trade costs such as tariffs, transport and insurance costs. Moreover, the observance of labor standards might influence these trade costs for various reasons. Current-preferential agreement negotiations include labor standards provisions. Following Bagwell & Staiger (1998), two respectful countries should conclude more reciprocal tariff reductions, which imply lower trade costs. However, the respect of labor standards is costly and might impede exports, especially towards countries importing labor-intensive and high price-elasticity goods. Implementation of multinational firms in low-ranked countries to serve world markets might be detrimental to trade between high-ranked countries.

Our empirical study aims to verify whether and how labor standards affect bilateral trade.

A good framework is the Anderson and van Wincoop's specification of the gravity model. Gravity models predict bilateral trade by the product of national incomes (GDP) and the distance between partners. Distance is a proxy for transport costs and the model may be “augmented” by other variables affecting bilateral trade costs. The model

proposed by Anderson and van Wincoop [2003] introduce country fixed effects (export and import), which capture all unilateral effects as level of development or remoteness. They also impose unit income elasticities and the product of GDPs is then considered as a denominator of the independent variable, which is expressed in logarithm. The advantage is to circumvent two difficulties: collinearity with country fixed effects and a plausible endogeneity with trade variables.

Santos Silva and Tenreyro (2006) point out that the standard practice of interpreting the elasticities of log-linearized models estimated by ordinary least squares (OLS), as in traditional gravity models (including Anderson and van Wincoop), can be highly misleading in the presence of heteroskedasticity: the error term is not statistically independent of regressors, violating the usual conditions of Ordinary Least Square (OLS) estimators. The log-linear model brings up an additional problem: trade between a pair of countries is frequently zero and $\text{Log}(0)$ is not a valid observation. Many empirical studies drop the pairs with zero trade flows. Others add a small value to trade or use a Tobit estimator.

To by-pass these problems, Santos Silva and Tenreyro (2006) advocate to test the trade variable in levels, *i.e.* X_{ij} (exports from country i to country j) instead of $\text{Log}(X_{ij}/\text{GDP}_i * \text{GDP}_j)$, and use a robust Poisson Pseudo-Maximum Likelihood (PPML) estimator, which is often used for count data. Because GDPs might be implicitly included in country fixed effects, they can disappear without bias for the estimation of other coefficients.

In the table 1 we simultaneously use an Anderson-van Wincoop specification with an unit income elasticity and a Santos Silva-Tenreyro model without GNPs with a PPML estimator.

We introduce a bilateral synthetic indicator of core labor standards to test their incidence on trade. Our indicator has been built from Granger's database [2005], which separately scores each core labor standard (child labor, forced labor, discrimination, union rights) from 1 (total violation) to 4 (total respect of the standard)³ and then gives two synthetic indicators of the effective respect of the four standards: the first one is a quantitative variable, corresponding to a grading from 0 (no respect at all) to 1 (full respect); the second one is qualitative, corresponding to the classification in three groups (respect, partial respect and no respect). Annex 1 presents the indicator for the 63 countries in our sample.

Granger's indicator is unilateral since it states the situation for a given country i . From this indicator, a bilateral (dyadic) one must be built to account for the situation in country i compared to the one in country j . Our bilateral indicator is defined as follows : $LR1$ and $LR0$ are dummy variables. $LR1$ is equal to 1 when both countries respect the standards (otherwise $LR1=0$) and $LR0=1$ when both countries are characterized either by partial or no respect (otherwise $LR0=0$). We also consider three other cases: one

³ The ranking is based on the exploitation of a large amount of qualitative and quantitative information from various sources, such as ILO, US Department of Labor, US Department of State, NGOs reports.

country fully respects labor standards, the other not ($LR01$), the exporter respects, the importer, not ($LRi1j0$) and inversely ($LRi0j1$).

Columns (1) and (2) give similar results with our two different estimators. Common high labor standards significantly depress bilateral trade relatively to other cases (low standards by at least one country). Columns (3) and (4) show that the same happens when both countries disrespect labor standards! This apparently contradictory result might mean that trade would benefit from differences between countries in regard of labor standards. Columns (5) and (6) confirm this point: bilateral trade increases when only one country respects labor standards. When we make a distinction between exporters and importers -see columns (7) and (8)-, no difference appears (coefficients are no longer statistically significant) what means that, all things remaining unchanged, respectful export countries trade more with disrespectful countries and the inverse is also true! The conclusion is that, as expected by theory, labor standards influence comparative advantages and, therefore, the specialization of countries. Labor standards influence the volume and the nature of trade. Plausibly, it is not without consequences on the delocalization process: high standard countries export components to low standard countries and re-import final products.

Theoretically, the four labor standards might have different influences on bilateral trade (see above). We have consequently replaced the synthetic indicator by ones specific to each standard. A country is considered as respecting a labor standard if it is scored 1 or 2 and not-respecting it for 3 or 4. Table 2 gives coefficients for each variable, which consider the case where one country respects standard, the other not. Table 2 only gives coefficients for this variable of interest. First, we test in column (9) the equation with the four core labor standards. Taken together, all coefficients are positive. However, forced labor and discrimination are not significant. We can anticipate that variables are highly correlated. Therefore, we individually test each of them; coefficients are in columns (10) to (13). Taken individually, each coefficient is highly significantly positive what confirms that heterogeneity between countries fosters their bilateral trade.

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

Independent variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Log($X_{ij}/GD_{i \times GDP_i}$)	X_{ij}	Log($X_{ij}/GD_{i \times GDP_i}$)	X_{ij}	Log($X_{ij}/GD_{i \times GDP_i}$)	X_{ij}	Log($X_{ij}/GD_{i \times GDP_i}$)	X_{ij}
	MCO	PPML	MCO	PPML	MCO	PPML	MCO	PPML
Log(distance)	-1,279 (28.29)**	-0,685 (20.13)**	-1,266 (27.96)**	-0,687 (20.08)**	-1,274 (28.14)**	-0,686 (20.10)**	-1,279 (28.29)**	-0,685 (20.13)**
Common border	0,093 -0,64	0,527 (7.51)**	0,081 -0,56	0,527 (7.51)**	0,086 -0,59	0,527 (7.51)**	0,093 (0.64)	0,527 (7.51)**
Common official language	0,687 (8.00)**	0,188 (3.10)**	0,696 (8.08)**	0,185 (3.05)**	0,691 (8.03)**	0,187 (3.08)**	0,687 (8.00)**	0,188 (3.10)**
Former colonial tie	0,498 (4.47)**	-0,031 -0,29	0,513 (4.59)**	-0,032 -0,3	0,505 (4.53)**	-0,032 -0,3	0,498 (4.47)**	-0,031 (0.29)
Common membership to WTO	-0,19 -0,56	0,222 -1,09	-0,232 -0,68	0,221 -1,08	-0,206 -0,6	0,224 -1,1	-0,190 (0.56)	0,222 (1.09)
Common membership to a trade agreement	0,298 (3.85)**	0,614 (7.74)**	0,244 (3.14)**	0,608 (7.67)**	0,273 (3.52)**	0,612 (7.71)**	0,298 (3.85)**	0,614 (7.74)**
Both respect labor standards ($LR1$)	-0,543 (6.31)**	-0,493 (4.58)**						
Both disrespect labor standards ($LR0$)			-0,329 (3.76)**	-0,487 (4.50)**				
One respects labor standards, the other not ($LR01$)					0,225 (5.23)**	0,247 (4.54)**		
Exporter respects labor standards, importer not ($LRiIj0$)							0,859 (1.84)	0,260 (0.78)
Importer respects labor standards, exporter not ($LRi0jI$)							-0,316 (0.67)	0,233 (0.69)
country fixed effects	yes	yes	yes	yes	yes	yes	yes	yes
nil values for xij	withdrawn	considered	withdrawn	considered	withdrawn	considered	withdrawn	considered
Constant	-39,12 (63.34)**	8,405 (20.13)**	-39,241 (63.52)**	9,2 (16.11)**	-39,398 (64.30)**	8,705 (16.11)**	-38,259 (65.06)**	8,405 (20.13)**
Observations	3784	3901	3784	3901	3784	3901	3784	3901
R-squared	0,55		0,55		0,55		0,55	
Pseudo-R squared		0,95		0,95		0,95		0,95
F	40,28		40,27		40,29		40,28	3901
Wald chi2		72776		72625		72659		72776

Robust t (MCO) or z (PPML) statistics in parentheses

* significant at 5%; ** significant at 1%

^a X_{ij} : FOB Bilateral exports from i to j, in U.S. \$, (*IMF, Direction of Trade Statistics*); Y_i (Y_j): Gross Domestic Products in U.S. \$ (*World Bank, World Development Indicators*). ^b distance ij Great arc circle kilometric distance between the two capitals of countries i and j (*CEPII database*). ^c : common official language 1 if countries share the same language (*CIA World Factbook*). Former colonial tie 1 if countries have ever had a colonial link (*CEPII database*). Common membership to WTO 1 if countries are members of a same trade agreement (*WTO*). Labor standards: dummy variables from Granger's database (see text)..

Table 2: Specific influence of each core labor standards on bilateral trade (PPML estimator; year 2000)

Independent variable : X_{ij} ; coefficients for the variable of interest (only one country respects the core labor standard)					
	(9)	(10)	(11)	(12)	(13)
Union Rights	0.153 (2.39)*	0.215 (3.54)**			
Child Labor	0.134 (2.05)*		0.231 (4.52)**		
Forced Labor	0.091 (1.09)			0.248 (3.30)**	
Discrimination	0.052 (0.89)				0.166 (3.01)**

Robust statistics in parentheses

* significant at 5%; ** significant at 1%

Data from Granger's database (see text)

5. CONCLUSION: WHAT CAN WE DO?

These results are ambiguous in terms of political implications. On the one hand, they support the Havana Charter negotiators, who affirmed the trade-labor linkage. On the other hand, empirical evidence can reinforce the Singapore Declaration, which considers that a "level playing field" is a harmful constraint for trade in developing countries, which are more concerned by low labor standards (see annex 2). Following Srinivasan [1996], a sudden rise in labor standards would lead to a contraction of Southern exports to Northern countries and keep them out of the global world economy. However, our empirical study symmetrically shows that developed countries would also decrease their exports to southern countries.

However, an optimal specialization based on comparative advantages does not mean a maximal volume of trade. Let us imagine two identical closed economies, which produce undifferentiated goods in a pure and perfect competition framework for all goods and factors, including labor. Because both economies bear exactly the same costs, the elimination of trade barriers would not create any trade. This optimal no-trade equilibrium is associated with the maximal income for both countries. Now, let us assume that inside one country, some employers have a monopsonistic power giving them the ability to reduce wages under the labor marginal productivity. In this country, a distorted comparative advantage appears in the monopsonistic sector, attracting factors from other sectors. A symmetric reallocation takes place in the other country. A distorted comparative advantage generates a sub-optimal specialization, which is trade-creating but income-reducing. Our empirical study shows that low labor standards increase trade with high labor standards countries in conformity with this theoretical hypothesis, which denies the frequently evoked virtuous circle: low labor standards

drives to higher exports (it might be true) causing higher growth (this is questionable because distortions) and finally higher labor standards (has to be prove).

Ignoring the trade-labor linkage in the WTO provides an incentive to deal with the issue outside the organization, contributes to the proliferation of regional and bilateral trade agreements, and stresses the decay of the most-favored nation principle what could be harmful for least-developed-countries. .

The first way is to impose sanctions to country in violation with ILO's core labor standards (Singapore Declaration of 1996; ILO's Declaration of 1998). However, these commitments are general and not only focused on trade. Moreover, some countries make real efforts to improve core labor standards. It would be unfair and probably counter-productive to sanction them because they have difficulties to make instantaneously effective the implemented social laws.

The second way is not to sanction country but penalize firms what means that anti-dumping or anti-subsidy rights would be enlarged to sanction import goods produced in the worth labor conditions, especially in exporting industries, which are frequently located in export processing zone. It is exactly what Stiglitz [2006] advocates for polluting goods. However, if low environmental standards concern developed as well as developing countries, low labor standard issue is focused on lowest-income countries. Moreover, if greenhouse effect is typically a pure "international public bad" concerning everyone in the world, this statute is more questionable for labor standards, which are frequently viewed as a national matter of concern even we have to consider the "race-to-the-bottom" process. Finally, to go "hand-to-hand" with development and to spare countries to confront perverse effects (child prostitution, street work), prohibition of worst form of exploitation, like slavery or child labor, would have to be accompanied by specific policies what implies a tighter cooperation with other international organizations and governments.

For Bagwell and Staiger [1998], low labor standards could be the consequence of GATT rules, which are mainly concerned with tariff trade barriers. Negotiating countries must achieve balance between the level of standards and the level of tariffs. High customs duties might reflect higher cost associated with high labor standards. Moreover, if the countries could simultaneously negotiate labor standards and trade policy, the author's model makes it possible to achieve zero customs duties equilibrium paired with a certain level of labor standards. However, negotiations on labor standards are excluded from WTO rounds what would lead to an inefficient theoretical outcome where positive customs duties are mixed with regressed labor standards.

Then, the third way would be to consider labor standards improvements in tradable goods and services as a concession as such as tariffs or agricultural subsidies. This inclusion would respect national sovereignty and would permit to all countries - developed countries on the demand-side, developing countries on the supply-side- to arbiter between their priorities. It would be a response to the suspicion of "disguised protectionism" from developed countries, which is the main argument opposed by developing and emerging countries to deny the inclusion of social clauses in multilateral trade agreements.

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Annex 1 : Core Labor Standards Indicator

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

Source : Granger (2005)

Annex 2 – Asian Trade agreements and labour standards (source : Asian Development Bank and World Trade Organization for notification))

	WTO notification	Labor Standard	Comments
Armenia-Georgia Free Trade Area	yes	no	
Armenia-Kazakhstan FTA	yes	no	
Armenia-Kyrgyz FTA	yes	no	
Armenia-Moldova FTA	yes	no	
Armenia-Russian Federation FTA	yes	no	
Armenia-Turkmenistan FTA	yes	no	
Armenia-Ukraine FTA	yes	no	
ASEAN Free Trade Area	yes	no	
ASEAN-China Free Trade Area	yes	no	
ASEAN-Korea Free Trade Area	yes	no	
Asia-Pacific Trade Agreement	yes	no	
Australia-New Zealand Closer Economic Relations Trade Agreement	no	yes	Harmonized standard regulation
Azerbaijan-Georgia FTA	yes	no	
Commonwealth of Independent States Free Trade Area	no	no	
Economic Cooperation Organization Trade Agreement	no	no	
Eurasian Economic Community Customs Union	no	yes	Labor mobility and social norms (including education, social protection, security,...)
European Free Trade Association-Singapore FTA	yes	no	
India-Afghanistan Preferential Trading Agreement	no	no	
India-Chile Preferential Trading Agreement	no	no	
India-MERCOSUR Preferential Trade Agreement	no	no	
India-Singapore Comprehensive Economic Cooperation Agreement	no	no	
India-Sri Lanka FTA	yes	no	
Indo-Nepal Treaty of Trade	yes	no	
Japan-Malaysia Economic Partnership Agreement	yes	yes	Cooperation in education and human resource development;
Japan-Mexico Economic Partnership Agreement	yes	no	
Japan-Philippines Economic Partnership Agreement	no	yes	Mutual respect of core labor standards
Japan-Singapore Economic Agreement for a New-Age Partnership	yes	no	
Kazakhstan-Georgia FTA	yes	no	
Korea-Chile FTA	yes	no	
Korea-European Free Trade Association FTA	yes	no	

Korea-Singapore FTA	yes	yes	Cooperation in training
Kyrgyz-Kazakhstan FTA	yes	no	
Kyrgyz-Moldova FTA	yes	no	
Kyrgyz-Russia FTA	yes	no	
Kyrgyz-Uzbekistan FTA	yes	no	
New Zealand-Singapore Closer Economic Partnership	yes	no	
Pacific Island Countries Trade Agreement	no	no	
Pakistan-Sri Lanka FTA	no	no	
People's Republic of China-Chile FTA	no	yes	cooperation ion labor and social security
People's Republic of China-Hong Kong Closer Economic Partnership Arrangement	yes	no	
People's Republic of China-Macao Closer Economic Partnership Arrangement	yes	no	
People's Republic of China-Pakistan FTA	no	no	
Singapore-Australia FTA	yes	no	
Singapore-Jordan FTA	yes	no	
Singapore-Panama FTA	no	no	
South Asian Free Trade Area	no	no	
South Pacific Regional Trade and Economic Cooperation Agreement	no	no	
Taipei,China and Panama FTA	no	no	
Thailand-Australia FTA	yes	no	
Thailand-New Zealand Closer Economic Partnership Agreement	yes	no	
Trans-Pacific Strategic Economic Partnership Agreement	no	no	
Turkmenistan-Georgia FTA	yes	no	
United States-Australia FTA	yes	yes	ILO core labor standards
United States-Singapore FTA	yes	yes	ILO core labor standards