



International Trade and Core Labour Standards

Introduction

In 1996, the OECD published a pioneering study entitled *Trade, Employment and Labour Standards: A Study of Core Workers' Rights and International Trade* which was instrumental in helping foster a high degree of international political consensus about the definition of a limited set of core labour standards. Since the 1996 OECD study, there have been wide-ranging developments, at the national and international levels, bearing on the question of trade, employment and core labour standards.

This *Policy Brief* draws on a new OECD study, published under the title *International Trade and Core Labour Standards*, which analyses these developments. It shows that the major findings of the 1996 study remain largely valid. At the same time, certain aspects of the complex interplay between trade, employment and core labour standards continue to attract differing views, including among OECD Member countries. The new publication aims to widen the area of common ground on one of the most sensitive issues of the ongoing policy dialogue about globalisation and the intensification of international trade and investment. ■

What has occurred at the ILO in recent years?

June 1998 saw the adoption of the ILO Declaration on Fundamental Principles and Rights at Work, which succinctly stated four principles and rights, committed the ILO's member states to respect them and stressed that labour standards are not to be used for protectionist trade purposes. According to the ILO Declaration, these principles and rights include: a) freedom of association and the effective recognition of the right to collective bargaining; b) the elimination of all forms of forced or compulsory labour; c) the effective abolition of child labour; and d) the elimination of discrimination in respect of employment and occupation.

While recalling the importance of the corresponding ILO conventions (known as fundamental conventions), the ILO Declaration extended the range of reporting on the application of the fundamental principles and rights to include countries that have not ratified these conventions. In June 1999, the ILO members adopted a new fundamental convention (No. 182) banning the worst forms of child labour. With its entry into force scheduled for November 2000, it is set to become the eighth fundamental convention. Since the 1996 OECD study, the number of countries that have ratified all of the seven original fundamental conventions has more than doubled. In addition, the new fundamental convention on the worst forms of child labour has experienced a rapid pace of ratification. Although the country coverage of ratifications is extensive, follow-up is still required to improve monitoring and to include non-ratifying countries.

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Moreover, there remains a continuing gap between the international recognition of core labour standards and their application. Based on published observations of the ILO Committee of Experts on the Application of Conventions and Recommendations, the OECD study finds no indication in recent years of substantial progress overall in reducing non-compliance with respect to freedom of association and the right to collective bargaining among a broad sample of 69 countries that have ratified the two corresponding ILO fundamental conventions.

The 1998 ILO Declaration established a follow-up mechanism to promote the fundamental principles and rights at work, including a special annual report designed to provide a dynamic global picture of the situation and facilitate the assessment and prioritisation of ILO technical co-operation activities. Through this mechanism and other initiatives, the ILO is giving renewed impetus to its already substantial technical co-operation efforts. While it will take time before the full effects of these changes are felt, it appears that some countries are responding to the increased international scrutiny and assistance. A future challenge will be to focus international attention on the most serious shortcomings in a way that leads to early improvements, while maintaining efforts to promote increased respect for labour standards in the law and practice of Member countries in general. ■

...and at the WTO?

At Singapore in December 1996, WTO members renewed their commitment to the observance of internationally recognised core labour standards, supported collaboration between the WTO and ILO Secretariats, rejected the use of labour standards for protectionist purposes and recognised that the ILO

is the competent body to set and deal with core labour standards. At the Third WTO Ministerial meeting at Seattle, in December 1999, the US proposed establishing a WTO Working Group on Trade and Labour. The EU favoured a joint ILO/WTO Standing Working Forum on the issue, and Canada suggested a WTO Working Group on the relationships between appropriate trade, developmental, social and environmental policy choices in the context of adjusting to globalisation. These proposals were opposed by a number of WTO Members. Given that no Ministerial Declaration was concluded, the future of proposals to set up working groups appears uncertain. ■

What about developments at the regional and national level, and in international organisations?

Efforts have continued within the North American Agreement on Labor Cooperation to resolve labour law issues by promoting enforcement of existing labour laws in the three Member countries. Two regional economic integration agreements – Mercosur and SADC (Southern African Development Community) – have both recently advanced towards adoption of social charters endorsing a series of labour principles and providing for monitoring of implementation.

Under the US Generalised System of [tariff] Preferences (GSP) scheme, benefits were suspended in a case involving bonded child labour and failure to allow for freedom of association. And country practice reviews are used to obtain improvements in worker rights in certain countries. Under the European Community GSP scheme, the main focus is the provision of additional trade preferences to countries that can demonstrate their

compliance with certain core labour standards. The EC GSP scheme also allows for temporary suspension of preferences, to be decided under certain circumstances.

The US has passed legislation prohibiting the manufacture or import of goods produced by forced or indentured child labour. The US has negotiated a statement of co-operation with a major exporter of labour-intensive goods allowing US embassy officials to visit prisons suspected of operating factories with goods for export. Commitments to core labour standards were also included in a partnership agreement between the European Community and the Africa, Caribbean and Pacific States (ACP) and a trade, development and co-operation agreement between the European Community and South Africa.

The contribution of development co-operation programmes to eradicating exploitative forms of child labour has become more focused and result-oriented. The OECD Development Assistance Committee (DAC) Strategy of 1996, “Shaping the 21st century: The Contribution of Development Co-operation” commits donors to assist partners in achieving universal access to primary education in *all* countries by 2015.

Core labour standards and their operational implications have taken on heightened importance for the World Bank, within its mandate on poverty reduction and economic and social development, and for many other international financial institutions.

Efforts are also continuing to harness international investment and multinational enterprises to promote core labour standards worldwide. For example, a comprehensive review of the OECD Guidelines for Multinational Enterprises was completed in June 2000. The Review aimed to ensure the continued relevance and effectiveness of the

Guidelines. It added recommendations in relation to those core labour standards that were missing from the earlier text (child labour and forced labour, in particular). The revised recommendations make it clear that they apply to enterprises operating in or from adhering countries and that they are relevant for their operations in all countries. The Guidelines are part of a broad and balanced package of instruments, under the OECD Declaration on International Investment and Multinational Enterprises, designed to further international co-operation in the field of international investment and multinational enterprises.

Voluntary codes of conduct – written expressions of commitment to a given standard of business conduct – have continued to grow in number. For example, in the US, most Fortune 500 companies have adopted codes of conduct or internal guidelines, dealing with a variety of matters, including core labour standards. In the UK, over 60% of the top 500 companies have similar codes; a decade ago the figure was only 18%. The social partners from the textiles and clothing, footwear and commerce sectors in the EU have negotiated codes of conduct based on core labour standards. ■

What is the situation concerning export-processing zones and foreign direct investment?

There are several hundred export-processing zones (EPZs) operating in China. Outside China, EPZs have grown from some 500 at the time of the 1996 study to about 850, employing 27 million people. In some countries national labour legislation does not apply to EPZs. And the ILO concludes that problematic factors such as high labour turnover, absenteeism, stress and fatigue, low

rates of productivity, excessive wastage of materials and labour unrest are still too common in some EPZs. At the same time, wages in EPZs tend to be higher than average wages in the rest of the economy.

Increasing international competition is changing the priorities for foreign investors who tend to favour investment locations with highly skilled workers and modern infrastructure. “Smart” EPZs have adopted strategies to ensure that labour productivity is continuously upgraded. More broadly, recent FDI data confirm that MNEs invest principally in the largest, richest and most dynamic markets. With the notable exception of China, countries where core labour standards are not respected continue to receive a very small share of global investment flows. There is no robust evidence that low-standard countries provide a haven for foreign firms seeking to gain a competitive advantage by this route. ■

Has recent research shed new light on the subject?

A search of relevant literature in the public domain, since the 1996 study was completed, allows a number of tentative conclusions to be drawn.

Countries which strengthen their core labour standards can increase economic growth and efficiency by raising skill levels in the work force and by creating an environment which encourages innovation and higher productivity. Some recent studies consider the links between trade, democracy and wages. The results suggest that countries that develop democratic institutions – here taken to include core labour rights – before the transition to trade liberalisation will weather the transition with smaller adverse consequences than countries without such institutions.

A few recent studies suggesting a negative relationship between observ-

ance of labour standards and trade performance do not challenge the finding of the 1996 study that countries with low core labour standards do not enjoy better export performance than high-standard countries because these recent studies focus on labour standards generally, and not on core labour standards. This distinction is crucial for analytical purposes because core and non-core labour standards are expected to have different, and often opposite, effects on economic outcomes.

There continues to be disagreement among researchers on the size of the impact of trade with developing countries on sectoral employment patterns and/or wage inequality relative to the impact of other forces, e.g. technological progress, international migration and institutional change. Many studies confirm a role for trade, but the contribution is limited. Moreover, the fact that relative wage inequality has risen in some developing countries (as well as in some OECD countries) poses a problem for standard trade theory. Had trade been the main driver, one would have expected that developing countries, exporting unskilled labour-intensive goods, would have experienced a convergence in the relative wage of skilled and unskilled workers rather than growing inequality.

A number of recent studies point out that there are major constraints on a “race to the bottom” in labour standards. Any firm that attempts to gain a competitive advantage by cutting benefits without paying increased money wages is essentially trying to cut wages below the workers’ marginal value product. In competitive markets, pressure from other employers will ultimately force the firm to return the total compensation package to the original level if the firm expects to be able to hire workers. But where such competitive pressures are weak the outcome may be different. Often there are

costs to finding out what wages other firms are offering, and even greater costs associated with moving from one employer to another. However, again it should be recalled that, insofar as discussion of a “race to the bottom” focuses on wage levels, it is not relevant to the question of core labour standards.

Some recent literature suggests that governments of countries in which children are employed may choose to change their laws rather than bear the cost of trade sanctions. It is also suggested that, in certain circumstances, a ban on child labour may be effective in shifting the economy into an equilibrium where adult wages are high and children do not work. This could apply to countries with relatively high labour productivity that are able to support all their

children without sending any to work. However, the literature also suggests that, in very poor countries, a ban may worsen the condition of households. Moreover, a ban on the import of goods which have used child labour as an input might drive child labour out of export industries but is likely to do little to prevent child labour in the informal sector which is the major employer of child workers in such countries.

Recent analysis, drawing on experience in Brazil and Mexico, suggests that a subsidy to families to keep their children in school is likely to be a superior policy to, for example, trade interventions, in terms of curbing child labour. Trade interventions are not an optimal instrument to abolish exploitative child labour and expand human capital formation. ■

Summing up

In recent years, a broad international political consensus has emerged concerning the definition and recognition of a set of core labour standards. This has been accompanied by agreement that these standards should not be used for protectionist trade purposes. At the same time, there is evidence of a continuing gap between the recognition and the application of core labour standards. Moreover, the complex and multi-faceted nature of the issues surrounding core labour standards has led to considerable debate in the international community and has highlighted the importance of the various, potentially complementary, promotional mechanisms which aim to address one or more of the reasons for non-compliance. ■

For further reading

- [International Trade and Core Labour Standards](#), *Forthcoming*
ISBN: 92-64-18535-6, US\$20, 98p.
- [Trade, Employment and Labour Standards: A Study of Core Workers' Rights and International Trade](#) - *Free on Internet:*
www.oecd.org/ech/pub/lbstd.htm
- [International Trade and Core Labour Standards: A Survey of Recent Literature](#), *Forthcoming* - *Free on the Internet:*
www.oecd.org/els/labour/els_lab.htm#2.
- [Open Markets Matter: The Benefits of Trade and Investment Liberalisation](#), 1998
ISBN: 92-64-16100-7, US\$20, 116p.

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Where to contact us

FRANCE

OECD Headquarters
2, rue André-Pascal
75775 PARIS Cedex 16
Tel: 33 (0) 1 45 24 81 81
Fax: 33 (0) 1 45 24 19 50
E-mail: sales@oecd.org
Internet: www.oecd.org

GERMANY

OECD BERLIN Centre
Albrechtstrasse 9/10
D-10117 BERLIN
Tel: (49-30) 2888353
Fax: (49-30) 28883545
E-mail:
berlin.contact@oecd.org
Internet: www.oecd.org/deutschland

JAPAN

OECD TOKYO Centre
Landic Akasaka Bldg
2-3-4 Akasaka, Minato-Ku
TOKYO 107
Tel: (81-3) 3586 2016
Fax: (81-3) 3584 7929
E-mail: center@oecdtokyo.org
Internet: www.oecdtokyo.org

MEXICO

OECD MEXICO Centre
Av. Presidente Mazaryk 526,
Colonia: Polanco,
C.P., 11560, Mexico D.F.
Tel: (00.52.5) 281 3810
Fax: (00.52.5) 280 0480
E-mail:
mexico.contact@oecd.org
Internet: www.rtn.net.mx/ocde

UNITED STATES

OECD WASHINGTON Center
2001 L Street N.W.,
Suite 650
WASHINGTON D.C. 20036-4922
Tel: (1-202) 785 6323
Fax: (1-202) 785 0350
E-mail:
washington.contact@oecd.org
Internet: www.oecdwash.org
Toll free: (1-800) 456 6323