

Labor Standards and Trade Sanctions: Right End Wrong Means

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In the aftermath of the Uruguay Round (UR) Agreement, which led to the establishment of the World Trade Organization, the demand for making labor standards a part of trade agreements has become a central element in the trade policy agenda of developed countries, especially the United States. These countries would like the WTO members to adopt a set of uniform labor standards much as has they have done with respect to intellectual property under the Uruguay Round Agreement on Trade-Related Intellectual Property Rights. Like intellectual property, these standards will, in turn, be enforced by the threat of trade sanctions.

Not surprisingly, developing countries, which expect to be the principal targets of these sanctions, oppose the inclusion of labor standards into the WTO. The resulting tension between developing and developed countries became a key factor behind the failure of the WTO ministerial in Seattle to launch a new multilateral round in December 1999. As the WTO members prepare for the next ministerial in Qatar in November 2001, the threat of a deadlock continues to loom large. Therefore, it is important to understand the sources of pressures for the link between trade and labor standards demanded by developed countries and seek solutions that will enable the launch of the next round of multilateral negotiations.

There are two principal sources of the pressure for linking labor standards and market access. On one hand, we have ethically and morally driven groups that are keen to promote worker rights including an end to child labor worldwide while, on the other, we have protectionist lobbies in developed countries, which see higher labor standards in developing countries as an instrument of blunting competition from those countries in the

labor-intensive industries. Frustration with slow progress on labor rights has led the former group to join hands with the latter in demanding that labor rights be backed by trade sanctions.¹

The objective of improved labor standards worldwide espoused by morally and ethically driven groups is laudable and one with which reasonable individuals can sympathize. But trade sanctions are the wrong instrument to achieve this objective. Therefore, what we need are alternative instruments to promote labor standards.

In Section 2, I first describe briefly the labor standards that are at issue and then subject various arguments for their incorporation into the WTO to systematic dissection. In Section 3, I look at alternative instruments that can be deployed to promote higher labor standards. In Section 4, I conclude the paper.

2. Trade-Labor Link: A Critique²

To be sure, there is no agreement on the precise definition of which labor standards are to be promoted. Labor groups in the United States generally speak in terms of the “core” labor standards identified by the International Labor Organization (ILO). These standards are concerned with child labor, forced labor, rights of workers to organize and bargain collectively and non-discrimination.

Traditionally, seven ILO conventions have been included among the ‘core’ conventions: Forced Labour Convention, 1930 (No. 29), Abolition of Forced Labour

¹ A similar alliance has also come about between environmental groups and protectionist lobbies. Thus, with protectionist interests as the common factor, we now have a three-way alliance between worker rights groups, environmental groups and protectionist lobbies.

² This section is influenced greatly by Bhagwati (1995, 1997) and draws on Panagariya (2001).

Convention 1957 (No. 105), Freedom of Association and Protection of the Right to Organize Convention, 1948 (No. 87), Right to Organize and Collective Bargaining Convention, 1949 (No. 98), Equal Remuneration Convention, 1951 (No. 100), Discrimination (Employment and Occupation) Convention, 1958 (No. 111) and Minimum Age Convention, 1973 (No. 138). Recently, in 1999, a new convention called the Convention on the Worst Forms of Child Labor (C182) was signed. The ILO now lists this convention among the 'core' standards.

There is no agreement among countries on the detailed provisions contained in these conventions. For example, due to the differences in the standards imbedded in the domestic laws and those contained in the ILO conventions, the United States has so far not signed the core conventions other than the Convention on Abolition of Forced Labour, 1957 (No.105) and the Convention on the Worst Forms of Child Labor (C182). This fact alone should alert the reader to the falsehood of any claims that there is general agreement among nations on a set of core labor standards. There are perhaps shared values but precisely how these values are to be translated into action is quite contentious.

Developed country groups, which advocate linking labor standards and market access make two key arguments. First, if a country has outlawed certain objectionable practices within its borders, it has the moral right to suspend the imports of goods produced under similar practices abroad. Second, producers in the countries with higher labor standards are placed at a competitive disadvantage relative to their counterparts in the countries with lower labor standards. "Fair" trade requires that these standards be harmonized internationally. Stated differently, trading freely with countries with lower

standards may force one's own standards down and the denial of market access under such circumstances is justified.

In the following, I will discuss these arguments in detail and also make a number of points questioning the wisdom of a link between trade and labor and of bringing labor standards into the WTO. Among other things, I will argue that while the goal of raising labor standards around the world is desirable, trade sanctions are the wrong instrument for promoting it. Moreover, the WTO, which is designed to promote trade liberalization, is the wrong institution for promoting labor standards, which is a non-trade issue. I begin with the consideration of the argument that trade sanctions on goods produced under lower labor standards than one's own are a legitimate instrument of preserving the higher moral standards.

2.1. Preserving One's Moral Values

The trade-labor link effectively requires countries to raise standards to the level desired by importing countries or face trade sanctions by the latter. It is argued that a country that adheres to higher labor standards within its national boundaries has the moral right to suspend trade with another country that does not adhere to equally high labor standards. For instance, if the United States subscribes to values that do not admit child labor and has itself outlawed the practice, it should also have the right to suspend imports made by child labor in other countries. Why should the U.S. citizens have to compromise their values to accommodate the imports from abroad?

There are two problems with this line of reasoning. First, when the United States chooses to outlaw child labor from its territory, it also chooses to pay the cost of the change by forgoing the output produced by potential child workers and by committing resources to

educational facilities for them. But when it asks other countries to also abandon the practice *because it will help promote a value held dear by its own citizenry*, the cost in terms of the output foregone and additional resources spent on education is borne by the trading partners. These costs are not trivial. According to a study done by Consumer Utility and Trust Company (CUTS), a NGO based in India, it will cost anywhere between \$12 billion to \$18 billion per annum in India alone to send all existing child workers to schools. It is unlikely that the United States and other developed countries would be willing to bear even a tiny fraction of this cost.

Second, even if we accept the argument that all countries share certain “core” moral values, there is much disagreement on how and at what pace they are willing to translate them into action. For example, in abstract, most parents are likely to share the value that child labor is “wrong”. But when forced to choose between child starvation and child labor, most will choose the latter. In the less extreme form, countries have much greater tolerance for child labor in agriculture than industry. And within industry, they are less willing to tolerate child labor in hazardous activities than in safe activities. In the United States, no one questions the morality of children distributing newspapers in the neighborhood or working as babysitters.

This problem becomes even more serious when we consider issues such as worker rights. For instance, workers are frequently represented on the boards of firms in Europe but not the United States. Indeed, with labor unions being absent from most factories in the United States, it is not even clear how this could be accomplished there.

Thus, the commonality of some abstract shared values notwithstanding, the agreement on what actions to take and at what pace is far from universal. Proponents of

trade-labor link often give the impression that there is a general agreement on the so-called “core” labor standards among WTO member. To substantiate the argument, they refer to the ILO Conventions on core labor standards that many countries have ratified. Quite apart from the fact that the ratification may simply reflect aspirations of the countries, the conventions are quite far from being universally ratified. For example, as noted earlier, the United States itself has ratified only two (one of which is the recently concluded Convention on the Worst forms of Child Labor, C182) of the eight core ILO Conventions.

Recently, Rodrik (1997) has offered a subtler defense of the “preservation of moral values” argument as follows. Suppose there is a U.S. corporation, which must find a cheaper source of supply of some of its labor-intensive components if it is to survive. Suppose further that it has two options. Under the first option, it can outsource the components to a local Honduran firm that runs a sweatshop operation. Under the second option, it can open a domestic sweatshop at the Mexican border and employ the same Hondurans as migrant workers. The costs of production, the wages received by Hondurans workers (net of migrations costs) and working conditions are identical under the two cases. Therefore, if one approves of one option, he must approve of the other option as well. Rodrik notes, however, that this is not so. To quote him (Rodrik 1997, p. 34),

“Interestingly, the vast majority of the economists who have no difficulty with the outsourcing example would also accept that it is not good public policy to relax labor standards for migrant workers to the point of allowing sweatshop conditions. Clearly, there is an inconsistency between these two positions. There seems to be a greater coherence in the behavior of the lay public, which reacts with

equal outrage to the two versions of the parable—outsourcing versus migration—than in the perception of the economists.”

On the surface, this appears to be a compelling critique of the position taken by the opponents of trade sanctions against countries with low labor standards. Yet, upon closer examination, contrary to Rodrik’s contention, it is the position of the ‘lay public’ that is logically inconsistent and the view of the ‘vast majority of the economists’ that is consistent. Thus, when the ‘lay public’ shows outrage against the poor treatment of migrant workers, it wants them to be treated at par with U.S. workers with the cost of such treatment falling on the corporation and hence the U.S. economy. But when the ‘lay public’ shows outrage against sweatshops in Honduras, it wants trade sanctions that place the burden of upholding their moral values on the Hondurans! Logical consistency would require that the ‘lay public’ be willing to offer the Honduran government the cost of bringing the working conditions in Honduras to the U.S. level as well.

Likewise, the apparent contradiction in the position of the ‘vast majority of economists’ is resolved once we recognize that when foreigners come in the midst of post-Renaissance societies, especially the United States, the local population begins to view them as one of their own. The willingness to confer the same rights on migrant workers as those available to local workers is an outcome of this empathy. Moreover, the acceptance of sweatshops abroad is a vote not against the rights and well being of the workers employed therein but against trade sanctions that will otherwise visit them.

Indeed, the position attributed by Rodrik to the ‘lay public’ looks more coherent and understandable when considered from the purely selfish viewpoint of the United States labor. Within the framework of his parable, weaker labor standards in Honduras mean

greater competition through trade in labor-intensive industries in the United States. Likewise, permitting sweatshop conditions for migrant labor on the U.S. soil gives greater incentive to U.S. firms to employ the latter. Both policies put pressure on the wages paid to local workers.

2.2 *The Fair Trade Issue*

Yet another argument offered by the proponents of trade-labor link is that lower labor standards in developing countries give them “unfair” competitive advantage over their developed country counterparts. Deep down, this is essentially the age-old pauper labor argument that labor unions have repeatedly used to seek protection for labor-intensive industries in developed countries. Traditionally, the argument has relied primarily on the existence of low wages in labor-abundant countries as the source of “unfair” advantage. In its current incarnation, the reach of the argument has been widened by including a whole host of labor standards among the sources of unfair advantage.

As has been pointed out repeatedly by economists in textbooks and op-ed articles alike, this argument is in direct conflict with the basic principle of comparative advantage. Virtually every textbook on international trade describes the pauper labor argument as a common fallacy. The simple point is that high wage countries are perfectly capable of competing against low wage countries due to their higher productivity. What they cannot do is to compete against the latter in goods in which they have a *comparative disadvantage*.

The contention that lower labor standards give poor countries an “unfair” advantage begins to look even sillier when we consider the enormous advantages enjoyed by developed countries in the areas of technology and capital. Thus, for instance, if we were to poll individuals in New Delhi on whether the superior access to technology and capital give

developed countries unfair competitive advantage, almost all of them will say “yes”. And they will also overwhelmingly support provisions in the WTO that will require developed countries to share technology with developing countries at low or no cost. But does that make good economic sense? The very essence of the gains from trade is that due to differences in underlying fundamentals, countries differ in their abilities to produce different products. Developing countries have a comparative advantage in labor-intensive goods and developed countries in capital- and technology-intensive goods.

A slightly different twist to the fair trade argument is that trading freely with countries with lower labor standards may lead to a decline in one’s own standards. This is the so-called “race to the bottom” argument. As commonly made, the argument states that competition for capital and jobs may lead countries to adopt ever-declining labor standards. Therefore, there is a need to set labor standards cooperatively. While this theoretical possibility exists, its empirical relevance depends on two key factors: (i) responsiveness of capital to labor standards and (ii) degree to which countries compete for capital by lowering labor standards. These are both empirical questions on which to-date the proponents of the race-to-the-bottom argument have provided little evidence. Levinson (1996) looked at the first of these two questions in the context of environmental standards and found very weak evidence, at best, in favor of capital mobility in response to differences in standards. Though no direct evidence is available on the second question, it is unlikely that countries set labor standards so as to make them attractive to capital. As already argued earlier with the help of the Indian example, dominant considerations in setting labor standards are domestic. Moreover, as Bhagwati (1995) argues, governments typically play the game of

attracting capital through tax breaks, land grants at highly subsidized prices, cheap electricity and so forth.

2.3 *The Efficiency Issue*

In assessing the appropriateness of making labor standards a part of the WTO, two simple analytic points may be made. First, in general, optimal labor standards are not uniform over time or across countries either from the national or global welfare standpoint. The changes in marginal benefits and costs of labor standards as, for example, due to changes in income or productivity in “supplying” labor standards, cause optimal labor standards to vary over time as well as across nations.

For example, suppose we define the labor standard with respect to child labor in terms of the number of hours worked by children. The lower the number of hours worked the higher the standard. Suppose further that the households derive positive utility from adhering to a higher standard. Then, since the marginal utility of income declines as income increases, we will expect the optimal level of labor standard to rise as wages rise. This effect can be made even stronger by assuming that the income elasticity of demand for the standard exceeds unity. To the extent that countries may build these “optimal” standards into their laws, there is no presumption that the observed differences in labor standards between two countries must imply deviations from optimal standards in at least one of them. Nor is there a case for the harmonization of labor standards internationally (or over time) on the ground that it promotes efficiency at the global or national level.

Second, the targeting literature, pioneered by Bhagwati and Ramaswami (1963) tells us that when an economy is in a sub-optimal equilibrium, the first best policy is to correct the underlying distortion at source. Once this is done, there is no need to intervene

elsewhere in the economy. Thus, if the market happens to produce sub-optimal labor standards, we should correct this distortion directly rather than through an indirect instrument such as trade sanctions.

For instance, suppose child labor is the result of under-investment in education by the government. Parents would prefer to send their children to schools but there are not enough schools. Then, rather than leave the children to roam the streets, they choose to send them to work. In such a situation, the targeted solution to the problem is increased investment in schools. Trade sanctions that aim at child labor can in principle make matters worse by forcing children out of work and on to the streets.

This is reminiscent of the Harris-Todaro model of unemployment. In that model, the urban wage is rigidly fixed above the rural wage. This leads rural workers to migrate to the city. But not all of them get employment. The targeted solution to this problem is to remove the wage rigidity, which is often the result of a government policy in the first place. But if a tariff to protect the urban output is used instead, it may lead to such a large migration from rural areas that urban unemployment actually increases!

If the distortion is fixed at the source, free trade remains a welfare enhancing policy. Thus, in the Harris-Todaro model, once we remove the wage rigidity, there is no case for a tariff. Likewise, in the child labor example, the provision of schools eliminates any need for trade sanctions. Purely from an efficiency standpoint, a case cannot be made for linking trade and labor standards.

2.4 Evaluating the Appropriateness of Pursuing Labor Standards in the WTO

As just argued, if labor standards were set at their optimal levels everywhere, the discussion of raising them through the WTO instrumentality will be moot. Instead, we will

only need for the WTO to promote further trade liberalization. To proceed, therefore, we must assume that the existing labor standards are sub-optimal, possibly in developing as well as developed countries. The question then is whether the WTO is the right institution to achieve this goal.

A subject must fulfill two conditions if it is to be included into the WTO. First, it should be sufficiently closely related to trade. We must ask, do countries choose the policies in this area principally to influence trade or to fulfill other objectives? Second, the inclusion of the subject must improve the welfare of each WTO member.

It is immediate that trade policy, which the WTO has been designed to oversee, meets both of these conditions. The principal objective behind trade barriers is to restrict trade flows.³ Moreover, trade liberalization is beneficial to all countries that engage in reciprocal bargains under the auspices of the WTO. It is a win-win activity.

Trade-labor link fails to meet either of these conditions. Countries choose labor standards based on the prevailing socio-politico-economic conditions. In developing countries such as India, child labor existed long before trade acquired any significance at all. Likewise, much of the labor legislation in the country was enacted to fulfill the perceived needs of labor rather than to fulfill the needs of the industry to be competitive vis-à-vis foreign sources either at home or abroad. Quite the contrary, the prevailing political economy led to such high labor standards along some dimensions that many domestic firms

³ Interestingly, when the principal objective is viewed to be different from protection, WTO often accommodates trade restrictions. Thus, it permits temporary quantitative restrictions when the objective is to overcome temporary balance of payments difficulties. Likewise, in the past, when economic thinking (now largely discredited) admitted a role for trade restrictions to achieve the development objective, the General Agreement on Tariffs and Trade (GATT), the predecessor institution of the WTO, readily permitted permanent quantitative restrictions in developing countries.

could only survive behind a high protective wall.⁴ In the view of many economists, today, these labor laws constitute a barrier to successful trade liberalization. In effect, we have a case of labor standards driving trade policy rather than the other way around.

Turning to the other two criteria, the link between trade and labor is not a win-win policy and may very well lead to a decline in the world welfare. Chances are that the trade-sanctions bullet will miss its target. Thus, consider child labor. One possibility is that countries will fail to meet the WTO standards leading to the imposition of trade sanctions. If so, no improvement in labor standards will be achieved and the gains from trade will be reduced. The world welfare will be necessarily reduced. Alternatively, child workers may simply be moved from producing exports into alternative activities. Again, there will be no net reduction in the aggregate volume of child labor while the wages received by the children in alternative employments will be lower or working conditions worse. Once again, world welfare will be reduced.

2.5 *Ineffectiveness of Trade Sanctions in Raising Labor Standards*

Many developing countries do recognize the need for raising labor standards. Child labor in India is a case in point. To begin with, poor parents love their children just as much as the rich ones. They send their children to work not out of wickedness but sheer economic necessity. Moreover, there are numerous non-governmental organizations (NGOs) in the country working towards alleviating the child labor problem and the government is under continuous pressure from them. Finally, there are also laws against child labor of the worst

⁴ In the organized sector, workers are paid wages that are substantially higher than elsewhere in the economy and cannot be fired. This means that even when a firm becomes unprofitable, it cannot exit. Often such firms are declared “sick” with the government taking charge of them and paying the high wages at the taxpayer’s expense.

form but their enforcement remains beyond the means and ability of the government. It is unlikely that trade sanctions can significantly change this reality.

Indeed, there are reasons to believe that trade sanctions will have the opposite of the desired impact. This is evidenced by the experience of Bangladesh in 1993 when merely the threat of U.S. sanctions led the terrified owners of garment factories in Dhaka to dismiss all children below age 16. According to a recent article by Jeremy Seabrook in the *Financial Times*, anecdotal evidence suggests that many of these children met a fate worse than in the factories, ending up in workshops and factories not producing for export, or as prostitutes and street vendors.

More broadly, few advocates of trade sanctions against child labor realize that, worldwide, only 5% of the working children are employed in export industries. This percentage can be reduced to zero by simply moving the children to produce similar goods sold domestically and have adults produce the goods sold in foreign markets. The resulting increase in the costs of exports will provide some additional protection to the corresponding U.S. and European industries but do nothing at all to lower the aggregate level of child labor.

Likewise, export-processing zones employ a tiny fraction of the labor force, well below 1%. A stricter enforcement of labor right there is going to do little for labor rights in general. The bulk of labor force in developing countries is employed in the informal sector that hardly engages in international trade. The inevitable conclusion is that the proposed link will do virtually nothing to improve labor's fate whether child or adult.

2.6 Trade Sanctions can Potentially Wreck the Trading System

To-date, much of the discussion on labor standards has focused on low standards and their violations in developing countries. As a result, the presumption has been that trade sanctions will only be used by developed countries against developing countries. But as I have argued recently (*Economic Times*, December 20, 2000), the reverse is as likely to happen. And that will mean an end to the trading system, as we know it.

Thus, in a recent report entitled *Unfair Advantage: Workers' Freedom of Association in the United States under International Human Rights Standards* (August 31, 2000), Human Rights Watch offers a stunning indictment of the laws governing worker rights and their enforcement in the United States. Based on systematic field research in California, Florida, Michigan, New York and numerous other states, the report offers an unusual window to the violations of worker rights that happen routinely in the country. Addressing the US laws on the rights of workers, the report states: "Millions of workers are expressly barred from the law's protection of the right to organize. The US legal doctrine allowing employers to permanently replace workers who exercise the right to strike effectively nullifies the right. Mutual support among workers and unions recognized in most of the world as legitimate expressions of solidarity is harshly proscribed under the US law as illegal secondary boycotts."

The report is even harsher when it comes to the protection of worker rights actually conferred by the existing laws. Based on the first-hand evidence gathered from field studies in a large number of states, it concludes: "Many workers who try to form and join trade unions to bargain with their employers are spied on, harassed, pressured, threatened, suspended, fired, deported or otherwise victimized in reprisal for their exercise of the right

to freedom of association." The report goes on: "The cases studied in this report are not isolated exceptions in an otherwise benign environment for workers' freedom of association."

The weaknesses of labor laws and poor their poor enforcement in the United States exposes it to possible trade sanctions by other countries if such sanctions are incorporated into the WTO charter. Thus, suppose that a consensus can be forged among nations on the desirable minimum labour standards. As a concrete example, take the recent ILO Convention on the Worst Forms of Child Labour, 1999 (C182). This convention has been signed by all 175 members of the ILO with a promise to rapidly ratify it. What will happen if this set of standards is enforced through the WTO instrumentality? We can be sure that either we will achieve no progress in the standards or end up in a trade war.

To invoke trade sanctions against a country, we must first determine whether it is effectively enforcing the standards. But how is this determination to be made? Should we simply accept the government's word for it or ask an independent agency such as the Human Rights Watch? If the former, no country is likely to be found in violation and little progress on the standard will be made. And if the latter, every country is likely to be found in violation and trade war can scarcely be avoided.

To date, while assessing the role of trade sanctions in enforcing labour standards, proponents of these sanctions have focused exclusively on the possibility of their use by developed against developing countries. But in view of the lax enforcement of labour laws in developed countries themselves, we must worry equally about sanctions by developing on developed countries. And, indeed, there is much danger of developing countries imposing

sanctions on one another. Thus, a disaster is likely to visit the trading system if labour standards are enforced through trade sanctions.

Some may argue that since trade sanctions by developing countries on developed will hurt their own national interests, they are unlikely to target the latter. This is a naive argument. Trade policy in developing countries is driven as much by producer interests as in developed countries. Anyone who doubts this fact need look only at the large number of anti-dumping actions that developing countries have been taking recently against both developed and developing countries. Thus, according to Finger et al. (2000), during 1995-1999, developing countries initiated 559 anti-dumping cases compared to 463 by developed countries. India, which had imposed its first anti-dumping duty on January 1, 1993, had initiated as many as 83 cases by 1999.

2.2 Alternative Instruments and Future Research Agenda

There are a variety of alternative instruments that can be deployed to promote labor standards without establishing a formal link between trade and labor standards as also to defuse the pressures for this link. I provide a brief discussion of these below. Future research must explore them in detail.

3.1 Making the ILO More Effective

The proponents of trade sanctions have steadfastly argued that the ILO has no enforcement power. This argument can be easily overstated. To some degree, the weaknesses of the ILO are the result of deliberate policy choices whereby this institution has been starved for funds. The United States has provided minimal financial support to it. The recent experience with the Convention on the Worst Forms of Child Labor

(C182) would seem to suggest that on the standards on which countries are in agreement, ILO is able to help initiate action successfully. At the initiative of the United States, all 175 ILO members agreed to sign and implement the provisions of this convention. For countries such as India, this amounted to undertaking extra obligations including the enactment of new laws. Thus, when the conviction to translate certain values into action is truly shared and a major power such as the United States takes initiative, ILO has been shown to generate action. In contrast, universal conviction to translate the values contained, for example, in the Minimum Age Convention, 1973 (No. 138) has been lacking. Labor lobbies are, thus, simply wrong to assert that ILO fails because it lacks enforcement power. Instead, its failure has more to do with a lack of consensus. Therefore, the natural course for ILO would seem to be to forge consensus and bring moral pressure on the countries. Here one could bring the experience of the Trade Policy Review Mechanism (TPRM) at the WTO to bear upon labor standards. Periodic reviews of labor practices in member countries could help build the necessary pressure to speed up their promotion symmetrically across developing and developed countries.

3.2 Socio-Labels

These may offer the consumers in developed countries who would want to avoid having to consume products manufactured under objectionable labor practices. An example of this type of socio labels is Rugmark, which inform the buyer on the absence of child labor in carpets. This option clearly needs to be studied. Why does market fail to produce them while it seems to adequately supply quality labels. If labels are introduced, should they remain largely voluntary? Should we promote multiple labels to

allow product suppliers a choice or allow monopoly? What impact are the labels likely to have on standards? These are some of the questions that future research must try to address.

3.3 Education

Since child labor is a major issue and the pressure for eradicating it rapidly intense, we may wish to ask what the cost will be of building schools rapidly and of the income the families must forgo as children move out of labor force. At the same time, what are the benefits from increased future productivity from increased education? Given that teacher training itself takes time, how will the expansion of education be phased?

3.4 Trade Liberalization

Trade restrictions in developed countries are by far the highest on products exported by developing countries: textiles and clothing, footwear, fisheries and agricultural products.⁵ If these countries are sincere in their wish to see higher standards in developing countries, they should begin by opening their markets to labor intensive goods. They cannot take the high moral ground and then make developing countries pay for it. Charity must begin at home. It goes without saying, of course, that developing countries must likewise liberalize their own trade if they want labor-intensive exports to grow and workers to benefit. Thus, one could also try to study how trade liberalization can be used as an instrument of promoting labor standards in the poor countries.

⁵ See Panagariya (1999) for detailed evidence.

3.5 Cost of Trade Sanctions

One can also study the potential cost of enforcing higher standards through trade sanctions. A study of this kind can be particularly effective in dissuading the advocates of the link. Poor countries are already paying a huge cost of the inclusion of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) as dramatized by the lack of access to AIDS medicines in Africa. Labor standards could result in similar costs.

3.6 Developed Country Standards

Finally, for symmetry, one should also look closely at labor laws and their enforcement in developed countries. Here one could build on the work of the Human Rights Watch group mentioned above. One must ask whether violations in developed countries could lead to actions by developing countries and hence trade war between them. Enlightening the public with respect to this possibility will help defuse the pressures for linking trade and labor.

4. Conclusions

In this paper, I have offered a systematic critique of the arguments for forging a link between trade and labor standards. Based on this critique, I conclude that a logically coherent case for such a link simply does not exist. Nevertheless, there is considerable merit in pushing for higher labor standards. But this objective should be pursued via alternative instruments such as the ILO, socio-labels, faster expansion of education and trade liberalization in both developed and developing countries. In this respect, the WTO ministerial conference in Qatar in November offers an unusual opportunity. The member

countries must launch a new trade liberalization round that can remove the remaining barriers to international trade, at least in the industrial products.

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