

Public Affairs 856
Trade, Competition, and Governance
in a Global Economy

Lecture 29

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Labor Standards and Trade

Labor principles and standards are not subject to World Trade Organization (WTO) rules and disciplines. The International Labor Organization (ILO), an arm of the United Nations founded in 1919, is the multilateral organization with responsibility for labor issues. For nearly 90 years, the ILO has been working to create, through adoption at its annual International Labor Conferences of Member countries, *Conventions*, which set international standards.

The ILO has adopted at least 183 Conventions, eight of which define four “core labor” principles. This occurred when first, a U.N. Social Summit in Copenhagen, Denmark, in 1995 declared that four categories of principles and rights at work are fundamental: (1) freedom of association and collective bargaining; (2) the elimination of forced labor; (3) the elimination of child labor; and (4) the elimination of discrimination in respect of employment and occupation.² The ILO then responded by pulling these together as the 1998 *ILO Declaration on Fundamental Principles and Rights at Work and its Follow-Up*. The *Declaration* commits all ILO Member States, whether or not they have ratified the specific conventions, to respect the labor principles in these four key areas. *The Follow-Up*, among other things, calls for reports by developing countries that have not ratified one or more of the core Conventions, on the status of their implementation of the various rights.³

Standards in FTAs

- Model 1: Nafta

Side agreement, not enforceable through same mechanism as commercial clauses

- Model 2: Jordan

Labor and commercial issues use same dispute resolution procedure

- Model 3: Seven FTAs

One enforceable clause, “nonenforcement”

- Model 4: May 10th Agreement

May 10th Agreement

- (1) a fully enforceable commitment that Parties to free trade agreements would adopt and maintain in their laws and practices the *ILO Declaration*;
- (2) a fully enforceable commitment prohibiting FTA countries from lowering their labor standards;
- (3) new limitations on “prosecutorial” and “enforcement” discretion (i.e., countries cannot defend failure to enforce laws related to the five basic core labor standards on the basis of resource limitations or decisions to prioritize other enforcement issues); and
- (4) the same dispute settlement mechanisms or penalties available for other FTA obligations

TPP

The TPP is based on the May 10 agreement, plus a few additional provisions designed to strengthen adherence to labor principles. Under these new provisions: (a) each country shall “adopt and maintain” statutes and regulations governing acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health; (b) Each party shall discourage “through initiatives it considers appropriate” the importation of goods produced in whole or in part by forced labor, including forced child labor; (c) Each party shall “endeavor to encourage” businesses to “voluntarily adopt” corporate social responsibility initiatives on labor issues “endorsed or... supported” by that party; and (d) Parties may use “corporate labor dialogue” to resolve labor issues expeditiously, to help them mutually agree on a course of action.

Issues

- Only some provisions are enforceable
- Different Enforcement Procedures for and Caps on Penalties for Labor Provisions
- Limits Placed on Scope of Definition of a Term in Labor Provisions
- Differentials in Procedures for Considering Disputes on Labor vs. Other Provisions

Empirics

- Kamata (2014) tabulates RTA's
- Evaluates labor clauses
- Investigates whether labor conditions vary when RTA's include labor clauses
- RTA's with labor clauses sometimes have an effect
- Sometimes decrease trade flows

**Table 4.1. Overall Impacts of RTA intensity on Labor Conditions:
RTA intensity based on the current trade shares**

	Dependent variable: Labor Condition Measure			
	Mean Monthly Earnings	Mean Weekly Hours actually worked	Fatal Occupational Injury Rate (%)	No. of ILO Core Conventions ratified
	(log)			
RTA intensity _{t-1}	.303 (.729)	-9.58 (11.5)	2.13 (1.83)	-.188 (0.382)
ln(GDP per capita)	-15.7 (9.95)	230.6 (149.7)	-4.80 (17.4)	11.3 (3.60)
ln(GDP per capita) ²	1.04* (.547)	-14.8 (11.0)	.179 (1.08)	-.575*** (.198)
Industry employment (% in total emp.)	.0160 (.0742)	-2.85* (1.44)	.0090 (.180)	-.0226 (.0332)
Manufacturing VA (% of GDP)	-.0455 (.0583)	-.977 (1.24)	-.0598 (.137)	-.0254 (.0277)
Political rights index	-.0544 (.357)	9.35** (4.54)	1.52 (1.01)	-.173 (.120)
Civil liberty index	-.627 (.391)	-3.77 (5.19)	-.650 (0.888)	.0272 (.170)
N	193	173	134	324
Adjusted R ²	.765	.674	.658	.820

Fixed-effect regressions for countries. Time dummies are also included. Clustered standard errors are reported in parentheses. *, **, and *** indicate the significance at the 10%, 5%, and 1%, respectively.

Table 5.1. Impacts of Labor-clause Inclusive vs. Non-inclusive RTA on Labor Conditions: RTA intensities based on the current trade shares

	Dependent variable: Labor Condition Measure			
	Mean Monthly Earnings (log)	Mean Weekly Hours actually worked	Fatal Occupational Injury Rate (%)	No. of ILO Core Conventions ratified
RTA intensity $t-1$ with Labor Clauses	5.19*** (1.60)	-6.79 (37.3)	-14.9 (24.0)	-.204 (.690)
RTA intensity $t-1$ w/o Labor Clauses	-3.55 (.579)	-9.91 (13.5)	2.50 (2.12)	-1.85 (.418)
ln(GDP per capita)	-20.1** (9.89)	226.6 (139.1)	-1.78 (19.0)	11.3*** (3.63)
ln(GDP per capita) ²	1.31** (.541)	-14.5 (10.2)	-.0194 (1.17)	-.576*** (.199)
Industry employment (% in total emp.)	.0705 (.0622)	-2.80 (1.90)	.0206 (.188)	-.0227 (.0342)
Manufacturing VA (% of GDP)	-.0383 (.0500)	-.966 (1.24)	-.0666 (.139)	-.0255 (.0281)
Political rights index	.136 (.310)	9.43** (4.41)	1.61 (1.00)	-.173 (.121)
Civil liberty index	-.696* (0.401)	-3.79 (5.15)	-.764 (.918)	.0275 (0.169)
N	193	173	134	324
Adjusted R ²	.778	.670	.654	.819

Fixed-effect regressions for countries. Time dummies are also included. Clustered standard errors are reported in parentheses. *, **, and *** indicate the significance at the 10%, 5%, and 1%, respectively.

**Table 6.1. Impacts of Labor-clause Inclusive vs. Non-inclusive RTA on Labor Condition for Countries in Different Income Levels:
RTA intensities based on the current trade shares**

	Dependent variable: Labor Condition Measure			
	Mean Monthly Earnings (log)	Mean Weekly Hours actually worked	Fatal Occupational Injury Rate (%)	No. of ILO Core Conventions ratified
RTA intensity $t-1$ with LC, Hi income	-3.87 (2.87)	156.9 (235.2)	-3.82 (24.8)	2.31 (1.99)
RTA intensity $t-1$ w/o LC, Hi income	-.482 (.630)	-2.08 (14.1)	.760 (1.60)	.204 (.492)
RTA intensity $t-1$ with LC, Md income	6.14*** (1.28)	-16.9 (36.4)	-764.9*** (267.7)	-.410 (.644)
RTA intensity $t-1$ w/o LC, Md income	-.125 (.863)	28.8 (22.1)	6.85*** (2.78)	.688 (.516)
RTA intensity $t-1$ with LC, Lo income	N.A. (--)	N.A. (--)	N.A. (--)	N.A. (--)
RTA intensity $t-1$ w/o LC, Lo income	23.0 (14.5)	368.3 (342.4)	47.4 (35.6)	-17.1*** (4.10)
ln(GDP per capita)	-18.9* (10.2)	238.1 (145.1)	-13.3 (18.6)	9.81*** (3.37)
ln(GDP per capita) ²	1.24** (.564)	-14.9 (10.6)	-.829 (1.10)	-.498*** (.174)
Industry employment (% in total emp.)	.0581 (.0604)	-3.15 (2.10)	-.0500 (.232)	-.0177 (.0329)
Manufacturing VA (% of GDP)	-.0394 (.0560)	-.195 (1.28)	-.101 (.125)	-.0288 (.0280)
Political rights index	.150 (.313)	9.45** (4.57)	1.67 (1.02)	-.184 (.126)
Civil liberty index	-.711* (0.402)	-1.62 (5.47)	-.753 (.873)	.0711 (0.163)
N	193	173	134	324
Adjusted R ²	.779	.669	.680	.827