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The impact of core labour standards on exports

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Abstract

Developed countries contend that trade in goods whose production is not in conformity with internationally recognized basic labour standards should be restricted, while developing countries view any attempt to link trade and labour standards as a form of protectionism that intends to end their comparative advantage. This paper provides an empirical examination of the relation between trade and core labour standards. It develops an export supply function and uses OLS techniques to test it for 58 non-OECD countries. It finds that only one core standard, the right to organize and collective bargaining, has a statistically significant negative impact on exports. The results are insensitive to the level of development of the countries included in the study. The main conclusion that emerges is that, ignoring the right to organize and collective bargaining, core labour standards do not play a significant role in trade performance.

Keywords: Labour standards; Labour standards export; Core labour standards export

1. Introduction

There is a growing concern in developed countries about the low labour standards in the developing countries. The developed countries see it as both morally unacceptable and economically threatening. They argue that low labour standards violate the basic human rights of workers in developing countries and threaten the living standards of workers in developed countries (Bhagwati, 1996). Facing disadvantage vis-

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à-vis their developing country competitors, firms in developed countries often shut down, move production to developing countries, or demand lower labour standards domestically. It is claimed that developing countries' low labour standards often lead to a race to the bottom in the developed countries. Consequently, developed countries have called for inclusion of a social clause in multilateral trade negotiations to restrict or ban trade in goods whose production is not in conformity with internationally recognized basic labour standards. In their opinion, this will stop social dumping in developed countries and level the playing field for them (Freeman, 1996; Sengenberger, 1994).

The developing countries, on the other hand, view the developed countries' new emphasis in linking labour standards to trade as disguised protectionism to raise barriers against import of goods produced mainly by developing countries. According to them, a premature inclusion of labour standards will end their comparative advantage and reduce economic growth. They object to a social clause in a trade treaty as an interference in their internal affairs and doubt the sincerity of the developed countries for their reluctance to link capital flows to labour standards. They find it hard to comprehend why developed countries want to impose a standard on them when, ironically, developed countries themselves are currently eliminating or diluting the social protection that workers have traditionally enjoyed. In addition, they question the moral underpinning of developed countries for their move to tighten legal and illegal immigration from developing countries.

Multinational corporations (MNCs), who often use developing countries as platforms for export and locations for foreign direct investment, have legitimate reasons to worry about the legislations that propose to link market access with labour standards. No company likes its operations and suppliers to be associated with low labour standards in poor countries. Companies worry about negative coverage in the media, orchestrated boycott of company products and stores, and divestment of stocks by investment managers (Sanyal, 2001). They may be compelled to reconcile commercial goals with the competing social, legal and economic goals of various nations. Faced with a potential to lose market access, MNCs may have to deal with new and less manageable political risks. While an individual firm can enjoy a temporary advantage by restoring to repressive labour practices, it may lead to sub-optimal performance of the economy, and thus, cannot be beneficial for MNCs in the long run (Gadbaw and Medwig, 1996). In addition, they worry about a negative public sentiment associated with their dealing with a foreign plant or supplier that violates internationally recognized labour standards.

The idea of linking trade to labour standards is not a new one. Its origin dates back to the consideration of labour treaties during the late nineteenth century (for a historical overview, see Charnovitz, 1987). Early research in this area was mainly devoted to arguments for and against establishing a uniform labour standard across nations. Surprisingly, that tradition has continued, at least until recently. There is a growing body of literature that discusses the pros and cons of linking trade to labour standards (e.g., Sengenberger, 1994; Bhagwati, 1996; Haworth & Hughes, 1997). With few exceptions, systematic empirical research on this issue is lacking. The purpose of this paper is to fill this gap by providing an empirical examination of