



Do Labor Standards Affect Comparative Advantage in Developing Countries?

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Summary. — This paper focuses on the question of whether labor standards can affect comparative advantage in unskilled-labor-intensive goods in developing countries, and thereby influence trade flows. Using a Heckscher–Ohlin framework, the effects of low labor standards depend on the type of standard: Forced and child labor lead to an increase in the endowment of unskilled labor, and hence improve comparative advantage in unskilled-labor-intensive goods; the opposite occurs with discrimination against females; and with basic trade union rights, the outcome is ambiguous. The empirical results confirm the theoretical outcome, but also show that weaker union rights are associated with a stronger comparative advantage.

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1. INTRODUCTION

The debate over whether labor standards should be imposed in international trade has come to the forefront of the international trade policy agenda in recent years. It has attracted not only interest from economists, governments and trade policy agencies, but also a large public audience, including humanitarian organizations, partly due to concerns about the increasing globalization of the world economy. Unlike the more recent disputes about environmental standards, the discussion about labor standards has been on and off the policy agenda since the late 19th century. In 1890, for example, the United States banned the entry of foreign goods manufactured by convict labor. Seven years later, the British Parliament prohibited imports of goods produced in “any foreign prison, gaol, house of correction or penitentiary” (quoted in Charnovitz, 1987, pp. 569–570).

More recently, during the Uruguay Round of GATT talks, the United States and France tried unsuccessfully to put labor standards on the agenda. The next attempts, at the World Trade Organization (WTO) conferences in Singapore in 1996 and in Seattle in 1999, again failed. Unlike its predecessor, the current Bush administration seems to have lost interest in international labor standards. As a conse-

quence, the United States, previously one of the main supporters of labor standards within the framework of the WTO, is not driving the matter forward as before.

The European Union, on the other hand, is still calling for discussion of links between trade and fundamental workers’ rights and brought the issue forward at the WTO conference in Doha in November 2001. This attempt was rejected by developing countries, which fear that rich countries will seek to justify protectionist measures against foreign competition by alleging their rivals abuse workers’ rights. It has been agreed that the issue of labor standards remain in the sphere of influence of the International Labor Organization (ILO). The WTO has been asked, however, to “take note of work under way in the ILO on the social dimension of globalization” (WTO, 2001) and will hold talks on an expert level about labor standards. Since trade unions, human right activists, and some governments of developed (high standard) countries show an ongoing interest in the matter, it is highly likely that labor standards will appear on the agenda of future international trade talks again and remain an important issue of international trade policy.

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The international discussion of the relationship between labor standards and international trade consists basically of two issues: (a) whether countries can improve their competitiveness, and therefore increase production and exports of labor-intensive goods with lower labor standards, and (b) whether there might be, partly as a result of the first issue, "social dumping" and a "race to the bottom" on such standards. To ensure a "level playing field," advocates of labor standards then go on to favor effective import barriers against products imported from countries with low labor standards, preferably within the WTO.

This paper concentrates on the first issue and focuses on the question of whether countries can derive comparative advantage in unskilled-labor-intensive goods from low labor standards, and thereby influence trade flows. Since the impact of labor standards is likely to be felt most strongly in unskilled-labor-intensive goods, only these goods are considered in the analysis. Moreover, in the sense that the issue of labor standards has been objected to by developing countries, focus is placed on non-OECD developing countries. Apart from discussing the underlying theoretical aspects, the paper consists of an empirical test of the influence of labor standards on exports of unskilled-labor-intensive goods.

Accordingly, the paper is structured as follows: After a brief introduction to different concepts of labor standards in the next section, previous empirical work is reviewed in Section 3. Sections 4 and 5 consider the trade and welfare effects of labor standards and changes in factor endowments from a theoretical point of view. Section 6 presents the estimation results and finally, some concluding remarks as well as a summary of the major results are found in Section 7.

2. DEFINITION AND SCOPE OF LABOR STANDARDS

Partly as a result of the lack of agreement on a definition or a common list of labor standards, the discussion about any effects on trade and comparative advantage has become increasingly confusing. Obviously, labor standards vary from country to country, depending on the income level as well as cultural, political, and social preferences and conditions (Brown, Deardorff, & Stern, 1998). As the choice of labor standards will definitely influence empirical

results, it is necessary to outline carefully the set of labor standards used. For the purposes of analyzing the effects on comparative advantage and trade, and for more clarity, the distinction between "core" and other labor standards is crucial. Core (or fundamental) labor standards focus on important human rights and include basic union rights, freedom from forced labor, equal opportunity in employment, and the abolition of child labor.

Other standards, like minimum wages or safety and health standards in the workplace, are related to actual labor market outcomes and working conditions. These other labor standards, sometimes called "acceptable conditions of work," are highly controversial, whereas core labor standards receive prevailing acceptance. This can be seen from the fact that more than 130 countries have ratified three United Nations acts on core labor standards (UN, 2002).¹

Apart from the United Nations acts, the ILO conventions on core labor standards come close to an internationally agreed set of standards. The ILO was created in 1919 primarily for the purpose of adopting international standards to cope with the problem of labor conditions involving "injustice, hardship and privation" (ILO, 2002a). Even though the ILO standard setting mandate was broadened in 1944 to include more general, but related, social policy and human and civil rights matters, core labor standards remained one of the most important issues. International labor standards are essentially expressions of international tripartite agreement on these matters. The tripartite representatives consist of workers' and employers' organizations and governments. Since its foundation, the ILO has adopted more than 180 conventions, which are international treaties subject to ratification by ILO member states, and more than 190 recommendations, which are purely advisory and nonbinding instruments. As the ILO does not have any enforcement power, it relies on voluntary compliance and monitors the carrying out of the ratified conventions.

There are eight ILO conventions on core labor standards. These include two conventions, each on union rights, forced labor, child labor, and discrimination. These conventions are also reflected in the ILO Declaration on Fundamental Principles and Rights at Work, which was adopted in June 1998 (ILO, 1998). In general, this Declaration committed ILO member states to respect these core labor

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