TRADE AND LABOR: THE ROLE FOR USAID

USAID's interest in addressing the connection between international trade and labor standards is prompted primarily by two factors: (1) the assurances demanded by American consumers that the goods that they purchase in the marketplace are not made under abusive working conditions and (2) the responsibility of the USG in supporting the efforts of developing countries to achieve economic growth while respecting core labor standards.

For USAID, an agency whose success is in part contingent upon the ability of host countries to succeed in the global economy, the issue is how to support workers' rights in conjunction with sustainable trade development. This is not unfamiliar territory for the Agency but the aftermath of the WTO debate in Seattle last year has created an environment for a renewed commitment to achieving this objective.

The U.S. Government Position at the WTO

At the Seattle Ministerial of the World Trade Organization (WTO), the U.S. government (USG) proposed the establishment of a Working Group on Trade and Labor. This proposal represented an effort to create an internal mechanism as a first step toward addressing the issue of workers' rights in an open and global trading environment. Related to the proposal, the USG also sought support for awarding observer status to the International Labor Organization (ILO), a relationship already enjoyed by the World Bank, the International Monetary Fund, and the UN Conference on Trade and Development. These actions reflected the latest attempt by the USG in its decades-long history to develop a formal linkage between multilateral trade agreements and labor standards.

In December of 1996, at the last ministerial meeting of the WTO in Singapore, members reaffirmed their support for the "observance of internationally-recognized labor standards" but declined to assume a more active responsibility for promoting members' compliance, preferring instead to defer to the relevant expertise of the ILO. The oldest of the specialized agencies under the umbrella of the United Nations, and with tripartite representation of governments, employers, and worker representatives, the ILO was chartered in 1919 at the conclusion of World War I to promote international regulations of conditions of work, recognizing that it was "urgent to improve working conditions of large numbers of people, as injustice, hardship, and privation produced such unrest that the peace and harmony of the world were imperiled." The preamble to its constitution remains eerily relevant to today's debate on core labor standards, acknowledging the interdependency between nations from the perspective of working conditions by stating, "the failure by any nation to adopt humane conditions of labor was an obstacle in the way of other nations which desired to improve conditions in their own countries."

Whereas the ILO has the substantive qualifications for leadership with regard to labor issues, it is the WTO that has responsibility for the promotion of a liberalized international trading system. The impact of trade on labor standards clearly falls within the intersection of the jurisdiction of the two organizations. It must also be noted that the ILO currently has no enforcement mechanisms and may not impose obligations on its members beyond regular reporting requirements, limited investigative authority, and moral suasion.

It was and remains the opinion of the Clinton Administration, therefore, that more concrete actions such as the establishment of such a Working Group and the institutionalization of cooperation between the WTO and the ILO are required in order to ensure that the benefits of free trade are shared by ordinary workers around the world, in the developed countries as well as in the developing ones. According to the U.S. Proposal on Labor Rights, the mandate of the Working Group would have encompassed an examination of the following issues:

- *Trade and Employment*: the effects of increased international trade and investment on levels and composition of countries' employment;
- *Trade and Social Protections*: the relationship between increased openness in trade and investment and the scope and structure of basic

social protections and safety nets in developed and developing countries;

- *Trade and Core Labor Standards*: the relationship between economic development, international trade and investment, and the implementation of core labor standards;
- *Positive Trade Incentives and Core Labor Standards*: the scope for positive trade policy incentives to promote implementation of core labor standards[1];
- *Trade and Forced or Exploitative Child Labor*: the extent of forced or exploitative child labor in industries engaged in international trade; and
- *Trade and Derogation From National Labor Standards*: the effects of derogation from national labor standards, including in export processing zones, on international trade, investment, and economic development.[2]

It was envisioned that at the end of its first two years of examination, the Working Group, whose actions would be limited to discussion, study, and analysis, would submit a report for consideration at the Fourth Ministerial Conference. This proposal did not require any changes in existing rules governing the work of the WTO and is consistent with the 1996 Singapore Ministerial Declaration.

Although the USG proposal fell far short of advocating for the adoption of a "social clause"[3], a stance for which there would be insufficient support, agreement on the formation of a Working Group on Trade and Labor would have accomplished the following:

(1) legitimized WTO discussions on the implications of liberalized trade on employment levels, social safety nets, core labor standards, and labor laws at the level of the nation-state;
(2) required advanced academic collection and review of empirical data on the connections between globalized trade and employment standards[4]; and
(3) laid the foundation for eventual action by the WTO if the Working Group concludes that existing rules of trade fail to benefit workers[5].

Outstanding Issues

With the failure to reach agreement on the US proposal at the Seattle Ministerial of the WTO, USAID is challenged to continue to address these issues through other mechanisms, such as UNCTAD, that allow for close cooperation with other industrialized nations and the developing countries.

This is a difficult topic for the developing countries for those industries which are competitive in the international marketplace are often extractive of natural resources or labor intensive and it is through low labor costs that they have traditionally achieved their comparative advantage. According to several economic models, adoption of core labor standards is likely in the short run to increase labor costs[6],

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[1] "Core Labor Standards" are generally accepted to include: (1) freedom of association; (2) right to collective bargaining; (3) freedom from forced or compulsory labor; (4) prohibition of exploitative child labor; and (5) non-discrimination in employment. Other standards of employment, e.g., safety and health conditions and levels of minimum wage, are considered to be directly tied to the level of a country's economic development and not a "basic human right."

[2] WTO's Forward Work Programme: Proposed Establishment of a Working Group on Trade and Labor, USG, 10/30/99.

[3] This term refers to that part of a trade agreement which formally ties trading privileges to adherence to labor standards and is enforceable through economic sanctions. Such a clause is included as a side agreement to the North American Free Trade Agreement (NAFTA), for example.

[4] Current research and analysis is inconclusive and subject to a diversity of interpretations.

[5] Governing documents of the WTO require that any action it takes with regard to imposing sanctions be based upon its own determinations, i.e., it cannot merely accept the investigative findings and recommendations of individual countries, groups of nations, or other international bodies.

[6] There is also evidence, although limited, that a *rise* in labor standards may be accompanied by economic growth and a *decrease* in labor costs. This was found in Puerto Rico where an increase in the minimum wage was related to a decrease in worker absenteeism and turnover and in developed countries where an increase in safety and health standards resulted in a decrease in lost work hours due to injuries, workers'

therefore, the vast majority of the governments of these countries[7] allege that the U.S. stance on core labor standards is merely an attempt to undermine the ability of developing countries to compete and is a form of veiled protectionism[8]. In addition, many of the developing countries often argue that determination of what constitutes acceptable levels of labor standards is a role for national governments and that the imposition of international standards is a threat to national sovereignty.

The U.S. position is also challenged by some industrialized countries and neoliberal economists on the grounds that:

- labor standards are determined naturally by the economic development of a country and therefore the market can and should determine the optimum level of labor standards;
- economic development, and the attendant rise in working conditions and living standards, is best promoted by more liberalized trade not additional barriers to trade;
- social dumping, the lowering of wages and benefits in industrialized countries due to competition from countries with lower wages and benefits, is merely a market-correction of wages and benefits inflated by non-market mechanisms such as collective bargaining agreements;
- low labor standards and low wages reflect the relative abundance of predominantly unskilled labor and degree of low productivity in developing countries and are not induced by trade;
- the United States lacks credibility in seeking to impose adherence to core labor standards on others given its own failure to ratify the relevant ILO conventions (i.e., do as I say not as I do);
- forced compliance with core labor standards may in fact have an adverse effect on their intended beneficiaries (e.g., forcing children out of export industries may force them into even less desirable and more hazardous employment in domestic industries); and
- adoption of core labor standards will curtail foreign direct investment.

Implications for USAID

While there are sound economic principles and models to support both sides of the argument surrounding core labor standards, the bottom line for USAID as a development agency committed to the expansion of democratic governments, economic growth, sustainable development, and humanitarian assistance, is to embrace the value of core labor standards and leverage its activities to enable developing countries to achieve them. Furthermore, we have an obligation to the citizens of our own nation who, as consumers, understandably oppose the free trade of goods produced under objectionable labor conditions. As a starting point, we can echo Michael Porter's call to developing nations to identify and build up their *competitive* advantage as opposed to, or if appropriate, in addition to, their *comparative* advantage. A nation whose economic growth strategy uses low labor costs as its fundamental assumption, subjects its people to poverty in a race to the bottom and risks losing foreign direct investment to those economies that invest in human capital and technological enhancements. The marketplace of the global economy places a premium on quality, customization, timeliness, variety, and productivity, criteria which rewards the aforementioned investments.

In fact, USAID already supports some programs and activities which support the objectives of core labor standards, a sample of which are as follows:

1) Support for the establishment of the Fair Labor Association (FLA): This not-for-profit organization is committed to providing the

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compensation costs, and employer-provided health care.

[7] It is important to note that frequently while it is the position of the governments to oppose core labor standards, this does not necessarily reflect the wishes of the general population or the free and independent trade unions within the countries. This is underscored by the fact that in Seattle, the International Confederation of Free Trade Unions, which includes representation from the developing world is expected to support the U.S. proposal and call for an even more aggressive stance by the WTO.

[8] By way of rebuttal, one U.S. study examined the voting positions on anti-child labor legislation of U.S. members of congress from districts with high concentrations of low-skill workers and jobs, those most likely to be threatened by foreign competition and child labor, and found no such correlation.

public with accurate information regarding the working conditions under which the products they purchase are produced. The FLA represents the culmination of the work of the Apparel Industry Partnership formed in August of 1996 at the urging of President Clinton as a means to address violations of internationally-recognized labor rights in the apparel and footwear industry in the U.S. and abroad. In April of 1997, the AIP announced a voluntary workplace code of conduct which addressed such issues as the prohibition of child labor and forced labor, workplace discrimination, inadequate safety and health standards, onerous overtime requirements, and the payment of low wages. In November of 1998, the AIP released the FLA Charter which included the details of a monitoring plan for manufacturing facilities, primarily located in developing countries. USAID, with support provided by economic support funds, has entered into a one-year $739,000 cooperative agreement with the FLA to support its initial start-up and implementation costs.

2) Support for the International Labor Rights Fund (ILRF): USAID (G/LAC/DOS-ESF) is providing $400,000 to the ILRF to develop the capacity of indigenous NGOs and trade unions to monitoring and report on workplace conditions and employment standards in two, as yet undetermined, USAID-presence countries, one in Asia and one in the Americas. This program will focus on the apparel and footwear industry and use the AIP code of conduct and monitoring program discussed above. These two mutually-reinforcing efforts capitalize on voluntary, private sector initiatives, respond to the demand-side of the equation, and build the internal capacity of the developing countries.

3) A five-year commitment to the American Center for International Labor Solidarity (the Solidarity Center) to nurture, inter alia, the development and maintenance of an enabling environment for the adoption and protection of core labor standards. For example, the Solidarity Center program in Bangladesh includes activities focused on training the predominantly female workers in the garment industry to effectively use the Bangladesh labor court system to enforce existing laws that protect their basic rights. Another activity, a regional program in the Americas, advances the inclusion of workers' representatives in a policy dialogue with business and governments regarding the economic integration of the region, including discussions related to the concept of a social clause in multilateral trade agreements

It is incumbent upon USAID to encourage sustainable economic growth in developing countries that benefits workers and their families. Assuming sufficient levels of additional funding, USAID should initiate support, continue to support, or augment support for programs and activities which advance the objectives of core labor standards. In brief, ideas for consideration include the following:

- Rule of Law: Support for the fair and speedy resolution of labor disputes, including mechanisms for mediation and arbitration;
- Governance: Technical assistance for the development or enforcement of national laws protecting the rights of workers and implementing effective and comprehensive social safety nets;
- Civil Society: Further the understanding by civil society organizations, defined broadly to include NGOs, trade unions, and the media, of the relationship between trade and development and on economic theories and their pragmatic consequences;
- Political Parties: Providing support for the inclusion of economic issues and workforce issues in public policy-making fora and making them central to national reforms;
- Economic Growth: Investing in the human capital of developing countries, providing them with a competitive advantage based on skills vs. low wages; and
- Child Survival: Explore opportunities for moving children out of workplaces and into schools without causing financial hardship to their families.