CHAPTER-X

WTO AND LABOUR STANDARDS

10.1 INTRODUCTION

The relationship between trade and labour is known as an issue of social clause or social standards. The linkage between trade and social standards is probably one of the most controversial issues in the current trade debate.

The distrust on connection of labour standards with trade measures are reasoned on the following grounds:

(i) Trade and labour issue is an attempt by the developed countries, particularly of EU and US, to make everything under the sun relating with trade, as far the issue serves their interests that becomes trade-related subject matter.

(ii) The interpretation of social clause is also biased. Because the transboundary movement of workers is excluded from the subject matter of multilateral agreement under WTO and left it to be dependent on bilateral agreement.

(iii) The issue has been raised by US and EU in an opportune manner. While there was good growth and high employment in West and less trade competition from Asia, the issue never raised. But when the developing countries are attaining their viability to compete in international market with their
comparative advantage the West is using labour issue to harass the developing countries, and

(iv) Its linkage gives legitimacy to a country to ban import of goods produced in another country violating predefined international labour standards. It is the enforcement of labour standards by linking it with trade, especially, through the instrumentality of WTO or other multilateral trade institutions that gives the social clause its specificity.

The five Core Labour Standards are as follow:

(i) Freedom of Association
(ii) Freedom to organise and bargain collectively,
(iii) Freedom from forced or compulsory labour,
(iv) A minimum age for the employment of children, and
(v) Measures setting minimum standards in respect of conditions of work.

The Role of ILO

The idea of social clause already has a long history. The ILO, set up in 1919, is in principle 'itself the biggest social clause'. In addition, the GATT's predecessor, the Havana Charter, drawn up in 1948, included a clear link between trade and labour standards, but it was never ratified. The preamble to the GATT agreement itself linked trade to standards of living, the later need only to be core clearly defined. The preamble of the Agreement Establishing WTO
also recognizes the relationship between trade and standard of living.

As the Singapore Ministerial Conference assured that the ILO is the competent body to set and deal with core labour standards and the role of WTO is to support for its work in promoting, them, is a subtle implication that the role of WTO in this regard of core labour standards is not bypassed at all.

The ILO is trying to build a consensus among governments, employer's organizations and trade unions on the subject of linking social clause issues with international trade. And ILO does not seem reluctant and rather seems pacemaker to link social clause issues with trade, and the result of Singapore Conference enhanced its interest but this should not be done in a protectionist way against the interest of developing countries. The ILO's World Labour Report 1994 says the trend of globalization is likely to intensify in the years ahead and have major impacts on employment. Globalization enables capital to roam the world in search of cheap and productive labour-transferring jobs from one country of another. Moreover, economic reforms in response to global competition will also encourage job movement - particularly from the public to private sector. So for the millions of workers employment position will remain uncertain for many years.

10.2 FAVOURABLE EFFECTS ON LABOUR

Some questions do naturally arise hereon. Such as, whether there is relationship between trade ad social clause? If yes, what
sort of relationship does exist there? And how for it is convincing to build minimum standards in this respect?

While the integration process becomes more intense the need to form international standards also becomes more prominent. But there are several important studies from both of the sides of the proponents and opponents on trade and the minimum labour standards. No doubt, most of these studies have fund and established relationship between trade and working conditions. The nature of the findings may not be similar and supportive to each other. In fact some have found positive relationship, while some have found negative relationship between trade and labour standards. The following are the favourable effects of WTO on labour standards:

1. **Enhanced Labour Market Institution**

   Some labour standards are desirable because they enhance the efficient operation of the labour market. Labour standards enhance operation of the labour market through protected collective bargaining and enhance the stability of social relationships and may lead to more efficient production strategies. Labour market institutions may have positive spillovers to the rest of society. It is arguable that the Solidarity movement and Western pressure for free trade unions in Poland had as much of an impact on the rise of democracy and markets in Central and Eastern Europe as the US military buildup.
2. **Labour Standards and Social Progress**

Figueroa, argues that labour standards can not be viewed only as costs. In a society with a high degree of economic and social inequality, as is the case in most developing countries, policies that raise labour standards, however slight or imperfect the improvement, may help to reduce social inequality or discrimination. Greater equality will reduce political instability and allow for the growth of a more modern society. Modern literature suggests strongly that countries with extreme inequality do not attract much private investment. Not every type of economic growth will bring about social progress and economic development. Most Latin American countries have experienced periods of rapid economic growth, and yet social progress is lagging. Taiwan, China, applied policies including land reform designed to reduce high levels of inequality, resulting in improvements in both growth and equity a decade later. Social progress in industrial countries was the result, among other things of social policies not just of pure economic growth.

3. **Rising labour standards in developing countries**

Rising labour standards in developing countries may not immediately result in burdensome high price of goods and services for the consumers of developing countries, rather it may ensue to meet the preferences of the consumers of developed countries.
4. **The tariff cutting method**

The tariff cutting method is appealing to trace the problem. An asymmetrical order is to be sought. The developed countries are to be attributed to higher standards, developing countries less stringent and the least developed more flexible standards.

5. **Special and differential treatment**

Special and differential treatment to the developing and particularly the least developing countries is to be accorded, including specified but longer time period for compliance.

6. **Minimum international labour standards**

Minimum international labour standards do in fact help the developing countries to fill the income gap and poverty reduction, though, this mission must not be left as a burden only of the developing countries but developed countries should take part in helping developing countries to attain this mission, and

7. **Multilateral standards on trans-boundary movement of workers**

Most importantly, multilateral standards on trans-boundary movement of workers must not be alienated from the scope of international labour standards. Because, the Human Rights aspects of this problem must not be judged partially.

If these conditions are met it makes no difference that who should handle and retain surveillance on trade labour interface.
10.3 UNFAVOURABLE EFFECTS

1. Efficient Competitive Market and the Political Economy Model

According to this model labour standards cannot raise the welfare of a country as a whole, although they can make some workers better off at the expense of other workers, consumers, or employers. If a common set of labour standards were imposed on countries, the net gains from trade would be reduced. Similarly, Hansson, Bhagwati and Srinivasan argue that the demand for linkage between trading rights and observance of standards with respect to labour would seem to arise largely from protectionist motives to prevent competition from developing countries based on comparative advantage. But Kruger refuses this model calling the prevailing political economy view of international labour standards.

2. Redistribution

Another logic is that an efficient private market may fail to generate a distribution of incomes or working conditions that is desired by the public. For example, wages for the least skilled workers may be so low as to impoverish a large segment of the workforce. Thus society may wish to redistribute income toward people with very low incomes. The desirability of labour standards as a redistributive tool would depend on a society’s interest in redistributing income and on the comparative strengths and weaknesses of other programs that could be used to redistribute income. And the rising of minimum standards found little or no
distorting effect on employment. The distortionary effect of a minimum wage and other labour standards in developing countries may be diminished by endogenous compliance.

It is also important to compare the net benefits of labour standards with the net benefits of feasible alternative policies. Labour standards often are not targeted to the poorest in society because the very poor either are not working or are working in the informal sector, where labour standards are not followed.

3. Market Failure

The supporters of trade-social clause linkage argue that in absence of the international labour standards market failure, particularly labour market failure is imminent. There are several factors, which work for market failure, such as; imperfect and asymmetric information system, unequal market power, forced labour pattern, child labour pattern, etc. In this respect core labour standards such as prohibition against forced labour and discrimination, is always economically efficient, while other standards such as a fixed minimum work age, is efficient in some countries and inefficient in others, depending on the level of development. Standards could potentially move the economy to a more efficient equilibrium, or they could reinforce an inefficient one. Little evidence as available to test whether standards help overcome market failure.
4. **Race to the Bottom**

One version of the race to the bottom model assumes that in some countries labour is exploited by the political or economic leadership, through the means of lower standards, it induces other countries either to lower their labour standards or bear risk of higher unemployment. The best exposition of the 'race to the bottom' in Marshall words is 'a basic principle of highly competitive markets is that bad standards tend to drive out the good.' In other words, it can be stated that the international standards would raise world welfare if implemented by all countries simultaneously-will reduced national welfare if implemented unilaterally. Thus the independent actions of national governments in the absence of international standards on these issues can lead to a 'race to the bottom' with global standards far too lax.

5. **Labour Standards and Improvement of Technology**

Relationship between labour standards and the improvement of technology is established by the study of Rodric. He reveals the fact that lower working standards mean low grade or level of production technology. Similarly, resistance to minimum labour standards intends to sustain interface with protection of lower level of technological standards. He argues that labour standards are a type of restriction on technology, and it is difficult to see why a particular sort of technology, that which is embodied in international trade, should be immune from the same type of considerations. To a worker in an industrial country who is
displaced by an underage child labourer, it makes difference whether that child works at home or abroad.

From the above discussion and on the basis of questionnaire the conclusion that has been drawn is that the impact of WTO on Indian labour standards in both positive and negative. The Indian Government should take such steps which are helpful in getting maximum advantage from the WTO's provision for labour standards.