



# Trade, Labour Law, and Development

**David Cheong** (Trade and Employment Programme, ILO)

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# The Tanning Industry in Hazaribagh, Bangladesh





# Who is responsible? What can be done?

The report documents a **crisis situation** in terms of the **health and safety of workers**, the use of **child labour**, **community health**, **environmental degradation**, **poor enforcement of law**, and an **impotent state**.

**Hard to believe that these conditions would contribute to development in the short or long run!**

Who is responsible for these conditions?

What can be done to avoid falling into or to get out of this trap?



# ILO Declaration on Social Justice for a Fair Globalization (2008)

“**Convinced that in a world of growing interdependence and complexity and the internationalization of production:**

- the **fundamental values** of freedom, human dignity, social justice, security and non-discrimination are essential for **sustainable economic and social development and efficiency;**
- **social dialogue** and the practice of **tripartism** between governments and the representative organizations of workers and employers within and across borders are now more relevant to achieving solutions and to building up **social cohesion** and the **rule of law** through, among other means, international labour standards;
- the importance of the **employment relationship** should be recognized as a **means of providing legal protection to workers;**
- productive, profitable and sustainable **enterprises**, together with a strong social economy and a viable **public sector**, are critical to sustainable **economic development and employment opportunities;**”



# The ILO's Decent Work Agenda

- The **ILO's Decent Work Agenda** can be stated briefly as the **improvement of people's lives through their work.**
- The pillars of **decent work** are **employment, social security, workers' rights, and social dialogue.**
- Through the lens of **decent work**, we can assess how **policies or institutions related to labour** contribute to development in terms of **economic growth and social progress.**



# The Role of Labour Law

- Regardless of whether **workers** produce for **domestic consumption or export**, **labour law** governs the **conditions of their work** and the **relations between workers and employers**
- By regulating **working conditions** through **provisions on health and safety, child labour, minimum wages, and job security**, labour law **alters the incentives of workers and employers**
- Labour law's main role in promoting **development** is in facilitating **social justice**.



# Labour Law :

## Core Labour Standards around the World

Countries	Number of Countries	Child Labour	Freedom of association and Right to collective bargaining	Discrimination	Forced Labour
All	155	2.7	3.0	3.2	2.0
High Income	33	1.5	1.9	2.4	1.6
Middle Income	62	2.1	2.8	3.4	2.0
Low Income	60	4.1	3.7	3.4	2.4

Source: Bazillier (2008)

1= very strong compliance to 5= very weak compliance



# Labour Law and Economic Efficiency

- **Labour law** can also enhance **economic efficiency** and promote **economic growth**
  
- **Some examples:**
  - ✓ **Minimum Wage:** offset monopsony power; higher productivity through better nutrition, lower absenteeism and turnover; and multiplier effects.
  
  - ✓ **Restrictions on Working Hours:** prevent negative effects on worker's health and safety and harm to family and community life.
  
  - ✓ **Social security:** facilitates employment transitions, provides automatic stabilizer for vulnerable groups in society, and encourages economic activity beyond basic survival.

# Trade and Labour Law



*Prior to trade reform:* The **pure rent aspects of labour law** may **encourage** lobbying for **trade protection** and **discourage** export firms from seeking **trade opportunities**

# Trade and Labour Law

## Labour Market



*During and after trade reform:* The labour market may improve if the **pure rent aspects of labour law** are diminished by trade

Deteriorate if the **efficiency-enhancing and dynamic aspects of labour law** are eroded by trade.



# Are labour standards a drain on comparative advantage?

Flanagan (2003) found that the ratification of labour standards by countries had **no impact on labour compensation** between the early 1980s and late 1990s

Palley (2005), using the OECD index of freedom of association across several countries, found that **union rights** in the period 1985-1994 were associated with **higher wages**

Barry and Reddy (2008) **labour costs** in a “Southern” country would need to **increase** by a **multiple of at least three** in order to eliminate the country’s comparative advantage in labour-intensive goods vis-a-vis a “Northern” country

Pollin et al. (2004) found only a **weak relationship** between **changes in real wages and employment** in a study of 45 countries in the global apparel industry



# Do labour standards affect trade?

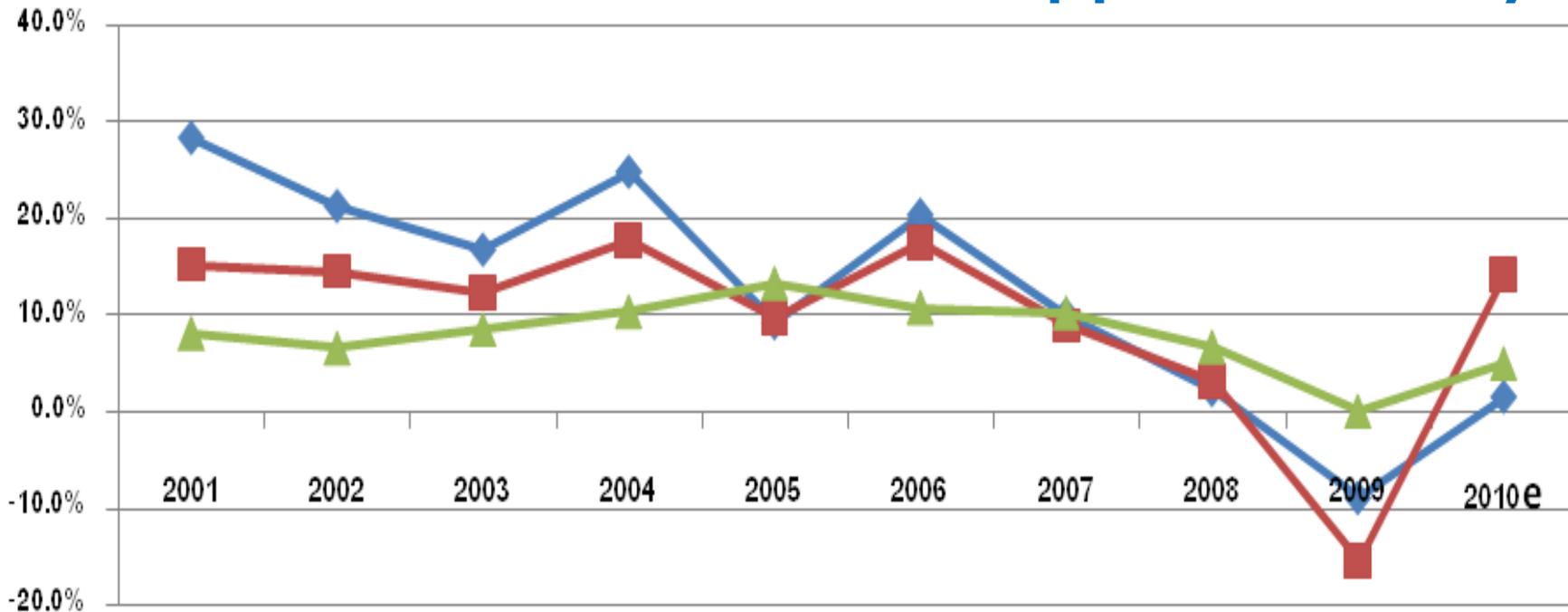
**Labour standards had no effect on trade:** Rodrik (1996), Busse (2002: union rights no effect), Flanagan (2003), Dehejia and Samy (2009), Bakshi and Kerr (2010: child labour and discrimination no effect)

**Labour standards had negative effects on trade:** Mah (1997 - **union rights** and discrimination), Busse (2002 - child labour and **forced labour**), Dehejia and Samy (2004), Bakshi and Kerr (2010 - **union rights** and **forced labour**, but small effects)

**Labour standards had positive effects on trade:** Busse (2002 + discrimination), Kucera and Sarna (2006 + union rights), Dehejia and Samy (2009 + child labor)



# Conditional Market Access and Labour Standards: The Cambodian Apparel Industry



Source: Dasgupta, Poutainen and Williams, 2012.

- ◆ GDP growth of textile, wearing apparel and footwear
- GDP growth of manufacture
- ▲ GDP growth

In Cambodia, **growth in garments exports** is closely linked to **economic growth** and **led by women**.

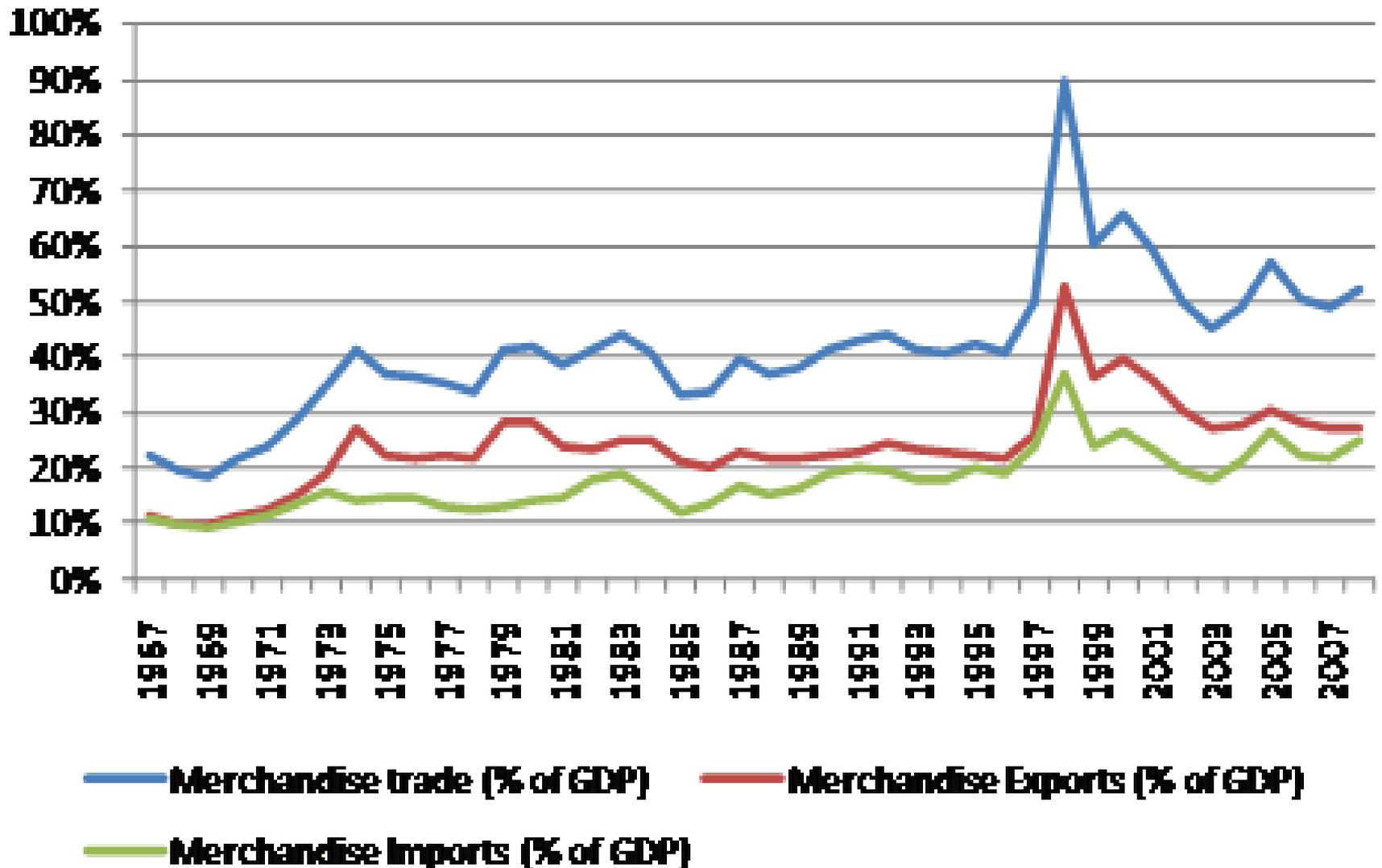


# Conditional Market Access and Labour Standards: The Cambodian Apparel Industry

- In the late 1990s, Cambodian-US trade negotiations resulted in generous annual quota increases to the US clothing sector IF Cambodia adhered to basic labour standards.
- Compliance was monitored by Better Factories Programme set up in 2001.
- In the highly competitive global apparel market, Cambodia created for itself a niche market based on labour compliance.



# Indonesia Merchandise Trade % of GDP (1967 – 2008)





# Indonesia Labour Market Reforms in 2000s

- ✓ Responsibility to enforce occupational safety regulations delegated to local governments following the Law on Decentralisation in 2000
- ✓ Act No. 21 of 2000 concerning Trade Unions
- ✓ Act No. 13 of 2003 concerning Manpower
- ✓ Law No. 40 of 2004 on National Social Security System
- ✓ Act No. 2 of 2004 concerning Industrial Relations Disputes Settlements
- ✓ Law No. 23 on Child Protection in 2002
- ✓ In 2006, the Government tried to extend social security coverage to self-employed workers and to provide injury benefits in particular for workers in informal employment
- ✓ In 2007, the Government formed the National Occupational Safety and Health Council, which is a tripartite body



# Conclusions and Policy Implications

- ✓ Important to understand and respect **existing labour law** and standards which are embedded in a country's **social order**.
- ✓ **Cross-country comparisons** and **historical experience** of industrialized countries offer **lessons** on how **labour law** can help countries **cope with** pressures from **globalization**.
- ✓ For effective and coherent **trade and labour reform**, important to understand the **interaction** between the two spheres and to encourage **knowledge-sharing** and **debate** among all **stakeholders**.
- ✓ Trade and labour reform should aim to **protect the welfare of workers** adversely affected by trade **without impinging on firms' abilities to adjust** to changing conditions.



**Thanks for your  
kind attention!**

**ILO Trade and Employment Programme**  
**<http://www.ilo.org/employment/areas/trade-and-employment/lang--en/index.htm>**

