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following conclusion with regard to the new agreement on trade-related aspects: "Without appropriate protection – and one which can effectively be enforced – of intellectual property rights, investments will be misdirected, trade flows falsified and individual and entrepreneurial achievements misused."¹⁴ The protection of patterns and fashions, as well as that of markets, is apparently given more weight than the protection of trade union rights or safety provisions for children.

The regulations and procedures for the settlement of disputes agreed upon in the agreement on trade-related aspects include among other things the creation of a new appeal body to examine decisions and rules regarding sanctions, which in the extreme case make possible the intersectoral withdrawal of trade concessions vis-à-vis a member state which obstinately does not comply with the treaty. In order to suppress international trade with copied or counterfeit goods there are much more effective international rules than for example in the case of blatant violation of trade union rights. But that which applies to intellectual property should apply equally to basic workers' rights.

The aim of social clauses is to combat the violation of human rights worldwide. Since they are limited to the eradication of the crassest forms of exploitation they can

only be one factor among many. It is of great importance to persuade multinational enterprises to observe basic social standards and to oblige the other international bodies to observe the ILO's basic social standards. Finally, the industrial countries themselves must set an example in the ratification of international agreements.

Basic social clauses are an important contribution to this. They are a key factor with regard to the strengthening of the framework for an open world trading system. The concept of social clauses is feasible and enforceable. It represents a continuation of tested procedures and mechanisms. Between 1980 and 1990 in the European Community alone 400 anti-dumping and anti-subsidy procedures were initiated and 900 resolutions published. On average there were fourteen final tariff and price obligations per annum. It is urgently necessary that these trade policy regulations are extended to include rules to prevent cut-throat competition at the cost of human rights at work. This concept is equally in the interest of both those industrial and those developing countries which are attempting to combat the violation of human rights worldwide and to improve conditions for workers.

¹⁴ Cf. Aktuelle Beiträge zur Wirtschafts- und Finanzpolitik, No. 11, 1994, p. 35. (Our translation.)

Harald Großmann and Georg Koopmann*

Minimum Social Standards for International Trade?

Ever since Jacques Delors suggested the introduction of social "progress clauses" to govern trade relations with third countries while addressing the issue of strengthening European competitiveness at the EC's Copenhagen Summit in June 1993, the idea has been intensively debated in Europe. A mixture of humanitarian and commercial motives lies behind this. The intention of introducing minimum international social standards and establishing mechanisms to enforce these effectively is to help banish scandalous living and working conditions as well as political repression in Europe's trading partner countries while at the same time preventing the emergence

of economic and social disadvantages for the European Union itself as a result of trading with them. Apart from the fact that sub-standard social policies are a violation of fundamental human rights, other specific arguments put forward are

- that they encourage a high concentration of income, thus preventing the development of purchasing power across a broad front (which also would mean more export markets) in the countries concerned;
- that they create an artificial comparative advantage which distorts international competition;
- that they also provoke ruinous competition among developing countries, particularly damaging the countries

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which are striving to achieve more balanced social development;

- that they undermine the international competitiveness of European companies;
- that they lead companies to shift labour-intensive production abroad;
- that they intensify migratory pressures towards Europe;
- that they threaten the social standards built up in EU countries over the years;
- and that they exacerbate social inequality in the EU as higher and lower wage-earners drift ever further apart under the pressure created by cheap imports, and lower-skilled employees tend to be laid off more readily than their more highly-skilled counterparts.

Call for Social Standards

In France, Jacques Delors' initiative met with a positive response at the highest levels. President Mitterand gave his support by demanding that trade sanctions be imposed on countries providing inadequate social protection, and prime minister Balladur declared that protection from social dumping would be a key to the very survival of western societies. The issue is one of defending civilisation – and the social welfare privileges we have built up over the years – against the (free market) law of the jungle. The rhetorical question posed was whether “we (western Europeans can) take it for granted that we will remain sufficient leaders in a sufficient number of sectors to survive – in the face of countries with populations infinitely larger than ours and with levels of social protection infinitely smaller?”¹ This is similar to Delors' own line of argument, advocating “a new social pact” and issuing the warning that “the whole of society is threatened – its values, its traditions and its future”.² The call for social clauses to be written into the system of multilateral trade regulations also received official approval from Ireland, Greece, Italy, Portugal and Spain as well as the EU entry candidates of Norway, Austria and Sweden. The European Parliament called for the relevant changes to the Gatt

Agreement in February 1994: it stated that Article 20(e) of the Gatt which allows defensive measures to be taken against products made by prisoners should be extended to cover not only child and forced labour but also the refusal of trade-union and collective-bargaining rights.

The German, British and Dutch governments, however, have been critical of the initiative. Reservations have also been voiced by the European Commissioner responsible for foreign trade, Sir Leon Brittan. While accepting that there should be no objection in principle to using economic policy instruments to serve social purposes, Sir Leon felt that issue would have to be looked into very carefully given the considerable danger that these objectives could be misused as a front for protectionism. However, he does believe attention should be given to a “concept of graded social security standards” according to which countries would be expected to fulfil ever stricter requirements the higher their levels of development.³

Social Conditionality

The first concrete application envisaged for the EU's new principle of social conditionality is in the policy of preferences granted to developing countries. The European Commission's guidelines on the role of the Generalised System of Preferences (GSP) during the 1995-2004 period propose that certain practices of social exploitation (slavery and prison labour, if the resulting products are exported) should be punished with the removal of preferential status. Above all, though, it is simultaneously proposed that the effective conformity to certain international labour organisation conventions (particularly the agreement on freedom to organise in trade unions, the right to collective bargaining and the minimum age for child labour) should at the same time be rewarded by granting additional preferences – i.e. above and beyond the basic preferences, to help compensate for the additional costs associated with more progressive social regulations – for goods which have been demonstrably produced in conformity with the respective ILO regulations.⁴ During the initial application period of the new GSP scheme from 1995 to 1997, the Commission proposes an additional preference of 20 percentage points above the base preference⁵ for those countries which have

¹ Quoted in Andrew Gowers and David Buchan: EU action over “unfair” trade urged by Balladur, in: Financial Times, October 31, 1993.

² Quoted in Benn Steil: “Social correctness” is the new protectionism, in: Foreign Affairs, January/February 1994, p. 18.

³ Cf. “Brüssel zieht eine positive Bilanz und richtet den Blick auf neue Themen”, in: Handelsblatt, April 11, 1994. This means that the EU's Foreign Trade Commissioner is moving closer to the American position which he had originally considered to be exaggerated (cf. Julie Wolf: EU Commission urges US to dismantle trade barriers, in: The Wall Street Journal Europe, March 11/12, 1994).

⁴ Commission of the European Communities: Mittel und Wege zur besseren Integration der Entwicklungsländer in den Welthandel. Die Rolle des APS in dem Jahrzehnt 1995-2004, COM (94) 212 final, Brussels, June 1, 1994, pp. 10ff.

⁵ This means a reduction in the preferential tariff for “sensitive” goods from 80% to 60% of the most-favoured-nation tariff, and from 40% to 20% in the case of “semi-sensitive” goods. “Non-sensitive” goods are, of course, already free of import tariffs (cf. Commission of the European Communities: Vorschlag für eine Verordnung des Rates zur Anwendung des neuen APS-Schemas für die Periode 1995-97, COM (94) 337 final, Brussels, September 7, 1994, pp. 2 and 4f.).

granted the freedom to organise and the right to collective bargaining, and which do not tolerate child labour below a given minimum age. After a two-year initial period, this positive incentive is to be granted for the first time in 1997.

Effective Policy on Trade Preferences?

Europe's trade policy is thus going down a similar road to that of the USA in the 1980s. It too incorporated a linkage with social standards, starting with the policy on trade preferences. In contrast to the EU's (planned) system of positive incentives ("carrots"), the American policy emphasised the "stick" approach of refusing preferences. For example, US imports from Caribbean countries are liable to be excluded from the free trade granted by the Caribbean Basin Initiative (CBI) of 1983 if workers in these countries are not granted "reasonable" working conditions or trade-union and collective bargaining freedoms. There are a number of countries in the region (Dominican Republic, El Salvador, Haiti, Honduras) in which this restriction appears to have set in motion a number of social reforms.⁶

In comparison to the *specific* preferences governed by the Caribbean Basin Initiative, there has been a marked intensification of (negative) social conditionality in the *generalized* system of preferences granted by the USA to developing countries. In the latter instance, the fulfilment of social standards has been among the selection criteria expressly laid down in legislation (not merely at the President's discretion as in the case of the CBI) since 1984. Thus if a country which would normally be entitled to trade preferences fails to honour "internationally recognised employee rights" the President is called upon to refuse tariff preferences to this trading partner, or to rescind preferences already in operation. Section 503 a) of the 1984 Trade and Tariff Act lists the relevant criteria as "the right of associating, the right to organise and bargain collectively; a prohibition on the use of any form of forced or compulsory labor; a minimum age for the employment of children; and acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health". A number of developing countries have lost

their preferential status in the USA because of these requirements, but some of those in turn have had them restored once they had initiated the necessary reforms.⁷ The most recent case of a country being refused preferences for social reasons is Guatemala where, among other things, employee demands for the payment of the legal minimum wage have ended in their being dismissed or their demands being thwarted by violent means.⁸

For similar reasons, the USA has also for the time being denied Central American and Caribbean countries the planned tariff equality with Mexico which, under the terms of the North American Free Trade Agreement (NAFTA), will be granted free access to the markets of its North American neighbours until 1997. The resulting discrimination of the other developing countries in the region especially affects the textile and garment industries. The average import tariffs imposed by the United States are 17% (textiles) and 21% (garments); nor have these industries enjoyed the CBI advantages mentioned earlier since the beginning of 1994.⁹ In NAFTA itself, the countries which are party to the Agreement did not impose any new social standards upon themselves, but a supplementary "Agreement on Labor Cooperation" does ensure that adherence to existing national regulations will be monitored.¹⁰ If a country is persistently ineffective in enforcing its own regulations, trade sanctions (i.e. the suspension of NAFTA preferences) are permitted as a last resort.

This provision takes account of widespread US fears – which have also been heavily played on in political debate – that the elimination of tariff protection would also mean the loss of protection against social dumping (together with a southward migration of domestic capital and the jobs which depend upon it). So the rule is intended to help prevent NAFTA making jobs "the USA's number-one export sensation".¹¹ Based on the terms of this supplementary agreement, complaints have already been filed against a number of multinational corporations (General Electric, Honeywell and Sony). The chief accusation made against these companies is that they have blocked the establishment of independent trade unions (i.e. independent of the ruling party) in Mexico.¹²

⁶ Cf. Steve Charnovitz: Fair labour standards and international trade, in: *Journal of World Trade Law*, Vol. 20, No. 1, 1986, p. 66.

⁷ Cf. Steve Charnovitz: Environmental and labour standards in trade, in: *The World Economy*, Vol. 15, No. 3, 1992, p. 350. The new conditionality in the USA's generalized system of preferences was chiefly aimed at the newly-emerged industrial countries of Taiwan, South Korea and Hong Kong (cf. Valerie J. Pellegrini: GSP: A system of preferences, not a bargaining lever, in: *Law and Policy in International Business*, Vol. 17, No. 14, 1985, pp. 879f.).

⁸ Cf. Nancy Dunne: Guatemala trade hopes threatened by labour claims, in: *Financial Times*, September 27, 1994.

⁹ Cf. Edward Orleber: U-turn by US hits Caribbean exporters, in: *Financial Times*, October 11, 1994.

¹⁰ This arrangement does not rule out the possibility of the contracting parties introducing new legislation, which could be a retrograde step for employee rights relative to existing regulations. Changes of that kind to the core NAFTA Agreement would not be possible.

¹¹ Cf. Edgar Göll: Das Nordamerikanische Freihandelsabkommen "NAFTA" – Neue Herausforderungen für die US-Gewerkschaften, in: *WSI Mitteilungen*, No. 1, 1994, p. 41.

¹² Cf. Nancy Dunne: US unions bring first charges under NAFTA, in: *Financial Times*, August 5, 1994, and James Harding: Unions accuse Sony under NAFTA accord, in: *Financial Times*, August 17, 1994.

One of the prime aims of the supplementary agreement is felt to be to limit the scope for the signatory governments to attract FDI by means of regressive labour policies.¹³

US Initiatives

Inadequate social standards have also long been a stumbling block in the United States' *non-preferential* trading relations. The country prohibited imports of prison-made goods as long ago as 1890, and extended the terms of the prohibition in 1930 to cover the products of forced labour. Whereas these provisions, and also the trade prohibition on matches produced with white and yellow phosphorus laid down in 1912, were essentially attributable to humanitarian motives and were deliberately aimed against specific products,¹⁴ later measures were supposed to deal with what was perceived as the general unfairness of sub-standard social policies in trading-partner countries, so general punitive measures were made possible rather than confining these to individual

products. Thus the list of "unreasonable" foreign trade practices contained in the 1988 Trade and Competitiveness Act also included "a persistent pattern of conduct that denies worker rights" for the first time. Those rights are specified in the same terms as for the granting of preferences discussed above. The President's chief trade negotiator is empowered to impose retaliatory measures such as punitive tariffs or quantitative import restrictions if the social injustices concerned cannot be eliminated by negotiation and if America's trade is impaired by the incriminated practices. However, the law does not stipulate any definite need to take such action. Likewise, the trading partner's overall level of development should be taken into account, and credit should also be given for any progress already achieved in asserting employee rights.¹⁵ The fact that the provisions have been softened up in this way can be presumed to be one reason why they have yet to be applied in practice.

The United States also took a stand for minimum social standards on a *multilateral* level at quite an early stage. It proposed to the other Gatt signatories in 1953 that the agreement should include a more general means of dealing with unfair working conditions beyond prison labour alone. The proposal was that working conditions should be considered unfair if they were below a standard permitted by the level of productivity.¹⁶ However, no consensus was reached on this definition at the time. In 1954, the Randall Commission on US foreign economic policy defined sub-standard wages as wages "well below accepted standards in the exporting country" for the specific products concerned.¹⁷ Thus social dumping

¹³ Cf. UNCTAD: *World Investment Report* 1994, p. 360.

¹⁴ However, to qualify these humanitarian motives, it should be noted that the restrictions were always suspended whenever a situation arose in which domestic production was insufficient to meet domestic demand (cf. Steve Charnovitz: *The influence of international labour standards on the world trading regime. A historical overview*, in: *International Labour Review*, Vol. 126, No. 5, September/October 1987, p. 570).

¹⁵ The 1988 Trade and Competitiveness Act distinguishes these "unreasonable" trade practices from other cases in which the USA is bereft of privileges due to it under existing trade agreements or in which "unjustifiable" trade practices are pursued. In such cases the chief trade negotiator is *compelled* to take action. In other words, the disregard for employee rights falls into the more leniently treated category of unfair trade practices. Their inclusion in the catalogue of "301" cases (which refers to Section 301 of the Trade Act of 1974) was controversial. The "pro" arguments put forward in Congress (the prevention of artificial competitive advantages, comparability between employee repression and capital subsidies or dumping, the improvement of living standards for employees, consumers and producers) were chiefly countered by the Reagan administration of the time with the argument that the unilateral adoption of a worker rights standard, without any basis in internationally agreed trade rules, would subject US exports to counter-retaliation, and would block trade rather than improve worker rights practices (cf. Judith Hippler-Bello and Alan F. Holmer: *The heart of the 1988 Trade Act: a legislative history of the amendments to Section 301*, in: *Stanford Journal of International Law*, Vol. 25, No. 1, Fall 1988, p. 19).

¹⁶ The exact definition was: "maintenance of labour conditions below those which the productivity of the industry and the economy at large would justify" (cf. US Commission on Foreign Economic Policy: *Staff Papers*, February 1954, pp. 437f.). The USA simultaneously maintained a position that Article 23 of the Gatt would already be sufficient to allow retaliatory measures against unfair working conditions (cf. Charnovitz, *The Influence of ...*, op. cit., p. 575).

¹⁷ Cf. US Commission on Foreign Economic Policy: *Report to the President and the Congress*, January 1954, p. 62.

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would be presumed to be occurring if a wage differential existed between domestic and export production.

Sub-standard social conditions in exporting took their place alongside health- and life-threatening working conditions (due to toxic substances) on the Americans' list of unfair practices to be tackled during the Gatt's Tokyo Round (1973-79); the USA endeavoured to establish multilateral agreement to lay down appropriate punitive mechanisms.¹⁸ The only other members to give them active support in this were the Scandinavian countries who advocated that the Gatt should legalise selective import restrictions against countries with too low social standards; however, the proposal was successfully resisted by the developing countries. They also managed to prevent the question of social clauses being placed on the agenda of the Uruguay Round and a Gatt working party being established to investigate the links between working conditions and international trade, as the USA had suggested at Punta del Este in 1986.¹⁹ Mexico and India were particularly critical of this concern for employee rights as a form of covert protectionism, stating that the appropriate negotiating forum for such matters would be the International Labour Organisation.

Social Standards in the WTO

The United States has continued its campaign for multilateral rules to assert fair working conditions since the Uruguay Round. Its demand is that a certain hard core of labour standards should be assured worldwide, regardless of a country's stage of development, and that breaches of those standards should be punished with specifically targeted import bans (say for products manufactured by prisoners, slave labour or very young children) or by general trade restrictions (say for suppression of the freedoms of assembly and organisation or of the right to collective bargaining). Beyond that, it was conceded by Secretary of Labor Reich at the ILO that the international community of nations could on no account attempt to dictate working hours, minimum wages, welfare benefits, or health and safety regulations equivalent to those prevailing in the United States or other industrial nations, but he added that countries would be expected to raise their social standards in line with the progress they made in economic

development, which in turn ought to improve the market prospects for exporters from industrial countries. Countries with an increasing standard of living for the masses, said Reich, would provide such improved markets, but those pursuing a policy designed to freeze such living standards at a low level and to restrict the benefits of trade to a small elite were turning the promise of free trade on its head and undermining its logical foundations.²⁰

To add additional weight to these expectations, a broad spectrum of possible measures is proposed, ranging from technical assistance via blocks on lending through to targeted trade-policy intervention. Owing to continuing resistance from developing countries, social standards were not expressly adopted, as environmental standards were, as a focal operational field for the future World Trade Organisation (WTO) in the Marrakesh declaration which completed the Uruguay Round on April 15, 1994.²¹ However, in view of the support now being given to the United States on this matter by the European Union and other industrial countries (Canada, Japan, Sweden and Australia)²² it is fairly safe to assume that social progress clauses will in fact be a central issue in the work of the WTO.

As trade liberalisation progresses and the outcomes of the Uruguay Round are implemented, competitive pressure in the old industrial countries will inevitably increase due to the lower labour costs in the young industrial countries and developing countries. On the one hand, that will entail higher adjustment costs but on the other – probably the stronger effect – it will also increase the gains from trade. What is questionable, though, is whether it ought still be possible to speak of advantages of free trade when international labour cost differentials are derived from the violation of fundamental human rights and from similarly distorting foreign intervention.

Effects on Trade

Traditional foreign trade theory does point out, in the domestic distortions approach, that a *laissez-faire* economy may not necessarily be the best of all possible options. However, if the distortions arise from disruptions in *foreign* factor markets there will be no disadvantages from free trade for the domestic economy. Indeed, the

¹⁸ The mission written into the 1974 Trade Act which served as the legislative basis for the USA's participation in the Tokyo Round (Section 121 a) 4) was to work for the "adoption of international fair labor standards" in the Gatt.

¹⁹ The USA laid these proposals before the Gatt Council in 1987 and again in 1990.

²⁰ Cf. "Reich fordert internationale Arbeitsnormen", in: Amerika Dienst, No. 23, June 15, 1994, p. 2.

²¹ As a compromise, the preparatory committee for the WTO was empowered at Marrakesh "to discuss suggestions for the inclusion of additional items on the agenda of the WTO's work programme" (Gatt Focus, No. 107, May 1994, p. 4). Social clauses can be assumed to be at the forefront of the "additional items".

²² Cf. Trade officials open way for discussion of labor issues, in: U.S. Information Agency: U.S. Policy & Texts, April 8, 1994, p. 9.

domestic economy could actually benefit from such distortions since low labour costs will induce price reductions in labour-intensive industries, thus improving the terms of trade for industrial countries which tend to export more capital-intensive goods. To this extent, the distortion of trade flows arising from low social standards in the developing economies would not appear to be a major problem for industrial countries. It would, however, be in the interests of the developing countries to take action to correct the distortions.

Numerous papers on strategic trade policy have raised doubts as to the meaningfulness of traditional foreign trade theory. Under the conditions of oligopolistic competition prevailing on world markets, there are always previously unthought-of opportunities available for government intervention or omissions to create competitive advantages for domestic companies and thus to increase national welfare at the cost of trading partners. Low social standards could also be used strategically by particular countries under certain circumstances with the aim of rent shifting. Conversely, other countries could also seek to pursue the same objective by prescribing higher social standards for their trading partners.

For example, Brander and Spencer²³ have shown on the basis of an international duopoly with Cournot competition that the existence of comparatively strong trade unions in a particular country can represent a strategic disadvantage for that country's domestic industry. Although employees in the industry will benefit from higher wages or improved working conditions, for the economy as a whole the loss of profit resulting from reduced production will have a more dominant impact. Similarly, it can be shown using Brander and Spencer's model that a welfare-reducing impact on industrial countries may result if companies in developing countries possess a strategic advantage on the strength of low labour costs.

However, the assumptions of this model are unlikely to be fulfilled in reality as the structural circumstances of trade between industrial and developing countries do not satisfy the necessary conditions for strategic competition. The sectors in which developing countries are internationally competitive do not normally have highly-concentrated markets, nor is the intensity of potential competition reduced by means of high entry barriers. In other words, these are not sectors in which the industrial countries are at any great risk of suffering macroeconomic damage due to lost rents. The one thing they should not do

in order to safeguard their prosperity is to cling on to the production of goods which only yield a low rent and could be produced at a lower cost in developing countries.

Significance of Capital Exports

The conclusions are less clear, though, if international capital movements are included in the analysis. Low labour costs in the Third World present a relative locational advantage to industrial companies, and this can lead to the migration of certain types of production. Production is most likely to be shifted in those areas in which standardised goods are produced using uniform technology, with the result that international competitiveness is essentially reduced to comparative wage and non-wage labour costs. Yet the real magnets for capital inflows in the past have not been the countries with relatively low social standards, nor have labour-intensive industries been the main focus of foreign direct investment. Evidently, other motives play a larger part in investment decisions.

The export of capital induced by lower labour costs in developing countries probably therefore only has a limited direct negative impact on the domestic product of industrial countries. Moreover, that direct impact is compensated for by positive indirect effects: for one thing, the terms of trade are thought to shift in the industrial countries' favour and for another, firms earn higher profits as a result of their foreign investment. Thus it is quite possible that national income in the industrial countries will actually rise as a result of their capital exports. Sub-standard social conditions in the foreign countries concerned could reinforce any positive or possibly negative effects on national income. In whatever direction though, the actual influence is likely to be relatively insignificant and, in the negative case, it would be insufficient to cancel out the positive welfare effects of "pure trade".

Pressure on Less Skilled Workers

Of course, increasing competitive pressure due to lower labour costs in less developed countries does not leave everyone a winner in the industrial countries. The fear is that less skilled workers would either have to accept lower pay or, if wages are not very flexible, might lose their jobs. This kind of effect is quite plausible in theoretical terms. The Stolper-Samuelson theorem predicts that a reduction in trade barriers will reduce the income earned by the relatively scarce factor of production, which effectively becomes more abundant as a result of trade; factor prices balance out internationally. Applying this prediction to trade between industrial and developing countries and to

²³ Cf. James A. Brander and Barbara J. Spencer: Unionized Oligopoly and International Trade Policy, in: *Journal of International Economics*, Vol. 24, 1988, pp. 217-234.

the factor labour – viewed for the sake of simplicity in terms of a skilled and unskilled component – one would expect the earnings of unskilled workers in the industrial countries to approach the level prevailing in developing countries.

Empirical studies to test this hypothesis have led to differing conclusions. In the USA, Lawrence and Slaughter found contrary to expectations that the relative prices of internationally-traded goods which involve a relatively large input of unskilled labour had not fallen but if anything had tended to increase. They draw the conclusion that foreign trade does not provide an explanation for the growing spread in wage earnings.²⁴ A stronger though not precisely definable influence of foreign trade on wage inequality in the United States was detected by Sachs and Shatz in a disaggregated analysis covering 131 different industries and more than 150 trading partners.²⁵

Both of these studies draw attention to the crucial role of technological change, though it may itself have been partly caused by import pressure. The significance of such “defensive innovations” is stressed by Wood in a study which also includes the other industrial countries; he finds that north-south trade is the main cause of social decline among less skilled workers in the old industrial countries.²⁶ To cope with the problem, the author does not recommend erecting trade barriers but instituting a policy of improved education and training. In the context under examination here, too, this would be the appropriate response to social distortions in developing countries particularly as their *autonomous* influence on the distribution of income in industrial countries would appear to be rather insignificant.²⁷ The most sensible course would appear to be to take measures designed to improve the productivity and mobility of less-qualified workers.

Conclusions

From a macroeconomic (and static) point of view then, the industrial countries have little incentive to apply foreign trade sanctions or other forms of pressure to urge developing countries to adhere to minimum social standards. However, a different justification for correcting social distortions in developing countries which would also make economic sense for the industrial nations is that

such a positive change would strengthen the process of growth in the Third World and hence also increase the demand for imported capital goods and consumer goods. So child labour – quite apart from the moral despicability of it – is not actually damaging to the industrial countries because, for instance, imported carpets will be very cheap there, but because the growth of human capital in the developing countries could well suffer as a result. However, it should be understood that the alternative for the children concerned may not be education or schooling, but having to live on the streets in destitution. So instead of using trade prohibitions to punish producers using child labour, a more constructive course of action might be to initiate targeted development campaigns to promote the formation of human capital.

It is highly doubtful whether the imposition of international social standards is a suitable means of eliminating existing distortions and of preventing growth being disrupted in this way in future. Rather, the fear must be that if minimum standards are set too high this will impede the developing countries in their bid to catch up economically, ultimately also having an adverse effect on prosperity in the industrial countries. One part of the problem is that it would probably be impossible to lay down operational criteria and threshold values. Another is that not all of the intentions underlying calls for adherence to social standards are good ones, and these may represent an attempt to restrict imports from countries with lower labour costs on a humanitarian pretext. The countries of the Third World will only really be in a position to improve their populations’ living and working conditions if they can continue with their overall progress on the development front.

Social advances are more likely to be encouraged by trade liberalisation than by trade restrictions. In this sense, there is a danger that the use of trade sanctions to enforce minimum standards may do more harm than good. In principle, granting trade preferences to particular countries also amounts to no more than upholding trade restrictions against the other developing countries which are not prepared to bow to pressure from the industrialised world. That does not mean at all that blatant violations of fundamental human rights should be tolerated, but what it does mean is that the WTO is not a suitable forum for dealing with such “pathological” cases.

²⁴ Cf. Robert Z. Lawrence and Matthew J. Slaughter: International trade and American wages in the 1980s: Giant sucking sound or small hiccup?, in: Brookings Papers on Economic Activity, Microeconomics, No. 2, 1993, pp. 161ff.

²⁵ Cf. Jeffrey D. Sachs and Howard J. Shatz: Trade and jobs in U.S. manufacturing, in: Brookings Papers on Economic Activity, No. 1, 1994, pp. 1ff. Sachs and Shatz, contrary to Lawrence and Slaughter, found that the prices of wage-intensive goods had indeed fallen relative to those of technology-intensive goods. Their calculations are adjusted for the extraordinarily sharp fall in computer prices.

²⁶ Cf. Adrian Wood: North-South Trade, Employment and Inequality. Changing Fortunes in a Skill-Driven World, Oxford 1994.

²⁷ Unfortunately, no systematic enquiries have been made into just how many goods produced with low social standards are actually traded internationally (cf. Philip von Schöppentau: Sozialklauseln: die falsche Waffe im Kampf um Menschenrechte und soziale Standards, in: Internationale Politik und Gesellschaft, No. 3, 1994, p. 254).