23 International labor standards and international trade: an economic overview
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1 Introduction
Questions surrounding international labor standards have long been a matter of intense debate among politicians, academics, business people and trade unionists. Politicians in many countries are caught in cross-currents among businesses, who advocate minimal regulation; labor leaders, whose interest in international labor standards depends on whether workers in their countries are seen as potential beneficiaries from or victims of international labor standards; and their own concerns about the effect of international labor standards on economic development (Fields 2003; Schaeffler 2007). The academic assessment of international labor standards depends on how one views the efficacy of unregulated markets (Srinivasan 1996; OECD 1996; Block et al. 2001).

Generally, matters relating to international labor standards are raised in the context of international trade agreements. The argument for international labor standards is generally framed as a debate about a ‘social clause’. By a social clause, one means the question of whether agreements to reduce trade barriers and encourage free trade among international trading partners should be contingent on the trading partners adhering to some internationally determined minimal level of labor standards for the domestic labor force in each country. The underlying premise is that a trading partner that does not adopt labor standards at the minimal level obtains an unfair trade advantage over its higher-labor-standards counterparts (Block et al. 2001).

The World Trade Organization (WTO), the international organization that governs international trade with the goal of minimizing preferences, has resolved internal debates over international labor standards by determining that it will not address them; disputes over international labor standards are to be addressed by the International Labor Organization (ILO) (World Trade Organization 2008). Thus, according to the WTO, trade and labor standards are unrelated.

In the United States, the debate over the ratification of the North American Free Trade Agreement (NAFTA) revolved around concerns
over whether relatively low labor standards in Mexico would give Mexican companies an ‘unfair’ advantage vis-à-vis United States companies (Block et al. 2001). This debate continues as union leaders contend that declining employment and stagnant wages in US manufacturing are due substantially to worker displacement resulting from NAFTA (Lee 2006, 2007).

Much of the debate over international labor standards is based on the application of a neoclassical economic model. This chapter will attempt to provide an overview of the economic perspective on international labor standards. In order to do so, the second section of the chapter will establish a definition of ‘international labor standards’. The third section of the chapter will briefly analyze the economic arguments used to criticize and support the establishment of international labor standards. The fourth section of the chapter will analyze two models of international labor standards: those promulgated by the ILO, and those promulgated by the European Union. The fifth section of the chapter will examine the relationship between three multilateral regional trading blocs and international labor standards. The sixth section will provide a summary and conclusions.

2 Definition of international labor standards

For the purposes of this chapter, a labor standard will be defined as a mandatory, governmentally established procedure, term or condition of employment, or employer requirement that is universal (covering all employers within the jurisdiction except those excluded via statute) and designed to protect employees from treatment at the workplace that society considers unjust, with legal sanctions upon an employer that fails to comply with the standard (Block et al. 2003, p. 35).

There are three key points that should be noticed. First, the standards are established by government rather than any private entity. Thus, provisions in a collective bargaining agreement in the United States that apply only to signatories of an agreement are not labor standards because they are not governmentally imposed.

Second, the standards are mandatory. Employers must comply with them or face legal sanctions. Third, the standards are universal; they apply to all employers within the political scope of the standard (city, region, state, country) unless specifically exempted.

Based on the foregoing definition, an ‘international labor standard’ may be defined as a mandatory procedure, term or condition of employment, or employer requirement that is established by an international body and designed to protect employees from treatment at the workplace that society considers unjust; the failure of a nation to apply that standard to
the employers within the nation brings internationally agreed-upon legal or other sanctions upon the nation and/or the employers in that nation.

The key difference, then, between an international labor standard and a domestic labor standard is the international imposition of that standard, with the result that any sanction may fall upon the nation and/or the employers in that nation rather than only the employers in that nation. In other words, an international labor standard would bind a sovereign nation and, by extension, the employers in that nation. In that sense, when a nation agrees to adopt an international labor with the resulting sanctions, it is ceding its sovereignty to a certain extent.

3 The economics of international labor standards: a summary

A Economic arguments against the imposition of international labor standards

Fundamental to neoclassical economics are the principles of cost minimization and consumer welfare. The welfare of consumers is considered maximized when the prices consumers pay for goods and services of a given quality are minimized. In this model, labor (a worker) is a factor of production that is combined by firms with land and capital in the least cost, most efficient way to produce a product or service that is sold to consumers at the lowest possible price. Worker welfare as labor is not part of the model. The welfare of workers is considered maximized in their role as consumers if the prices they pay as consumers are minimized. Thus workers (labor) are considered a factor of production, an input into the production process (Block et al. 2004a).

The economic perspective on international labor standards is generally rooted in neoclassical theories of international trade which, consistent with neoclassical economics, are based on minimizing consumer prices. The foundation of international trade theory is the ‘factor cost model’. This model dictates that countries should specialize in producing those goods and services that they can produce at the least cost so that prices for those goods and services are minimized. Specifically, countries should specialize in those products in which they have an absolute advantage vis-à-vis other countries and those products in which they have a comparative advantage vis-à-vis other products that can be produced in that country. Thus, Country A may be able to produce Good 1 and Good 2 at less cost than Country B can produce Good 1 and Good 2. But if Country A can produce Good 1 at a lower cost than it can produce Good 2, neoclassical trade theory would dictate it should allocate all of its productive resources to producing Good 1, while Country B should produce Good 2 (Burtless 1995).
Costs are determined by endowments of various productive factors such as land, capital, climate and, most relevant to labor standards, labor. If some countries, such as developing countries, have a factor cost advantage in goods produced with low-wage, low-skilled labor, those are the goods in the production of which that country should specialize. International imposition of labor standards that requires firms in those countries to provide compensation in excess of the compensation warranted by the low-wage, low-skilled labor means that the absolute or comparative advantage of those countries will be arbitrarily reduced. The result will be increased costs of production and increased prices, reducing consumer welfare.

International labor standards will also decrease employment in the less developed country by discouraging some firms from producing there or by encouraging firms to hire less labor than they would otherwise hire because they are producing at a ‘suboptimal’ labor-capital combination. In other words, while some workers in the less developed country may benefit from the imposition of international labor standards, those benefits are realized at the expense of other workers who are unemployed but who, in the absence of the labor standard, would be employed at the below-standard market-determined wage. Those workers employed at the above-market labor standards wage also benefit at the expense of consumers who will pay higher prices for goods produced in that country than they would otherwise pay (Jepma et al. 1996).

It is also argued that workers in developing countries are often less productive than workers in developed countries; therefore, the absence of labor standards does not necessarily place developed countries at a disadvantage and give an advantage to developing countries (Srinivasan 1996). In other words, workers are compensated in accordance with their productivity. Thus, this model would require that international labor standards not be imposed, as such standards reduce the employment in developing countries, impair the economic development of those countries and reduce consumer welfare.

B Economic arguments supporting the imposition of international labor standards

Economic arguments that incorporate a relatively broad conception of labor use traditional economic theory to support the imposition of labor standards. Thus, if one examines the economy from a macro perspective and incorporates domestic considerations into the model by expanding the definition of economic development beyond the export market, it may be argued that imposing ‘high’ labor standards improves a country’s welfare. Labor standards, such as minimum wages, increase the income levels and standard of living of the domestic workforce and increase aggregate
demand in the economy. While in the short run the imposition of international labor standards may cause firms in developing countries to experience reduced productivity and labor demand and result in increased prices for consumers, eventually firms will adjust their production process to the higher cost labor standards such that they will operate as efficiently as they operated in the absence of labor standards. This is consistent with the principle of ‘efficiency wages’ – firms learn to manage to the ‘higher wage’ (Krueger and Summers 1988). Higher wages, in turn, increase aggregate domestic demand for goods and services (Block et al. 2001).

Economic models would also support the imposition of prohibitions on child labor. If children are not permitted to work, and if a country enacted mandatory school attendance, children would attend school, raising the education level and income level of the country as a whole. Over the long run the productivity of the workforce would increase, leading to higher incomes and offsetting any cost increases associated with the imposed labor standards. Adding an adult minimum wage and other labor standards would support prohibitions on child labor by assuring that terms and conditions of employment for adults are at a sufficiently high level to permit the population to eschew the income from child labor (Basu 1999).

C Comparing the arguments

Although the economic arguments against labor standards are more developed than the arguments that support labor standards, as noted, there are valid economic arguments supporting the latter. There are also differences in the assumptions underlying the arguments. Economic arguments against the imposition of labor standards assume a market in which labor productivity changes only minimally and in which producers and consumers are the major economic actors. They also assume that all products are produced for export and that the domestic economy is irrelevant. Finally, they assume that all adjustments are instantaneous and cost-free. Firms and workers in the developed countries will quickly shift to products or services in which they have an absolute or comparative advantage.

Arguments in favor of labor standards implicitly relax some of these assumptions. Applying a human capital framework and taking into account investment in human capital, they demonstrate that if the assumption of unchanging labor productivity is relaxed, the imposition of labor standards can raise that productivity and increase aggregate domestic demand. Such a framework would suggest the imposition of minimum wage rates, child labor prohibitions and mandatory schooling.

Relaxing other assumptions strengthens the case for the imposition of international labor standards. Thus, if one assumes that workers in developed countries have an investment in the present industrial structure
and cannot quickly change jobs, and if one assumes that some firms have similar investments, then the absence of international labor standards imposes costs on the workers and (some) firms in developed countries. Social costs may be imposed on communities and firms who must absorb the impact of closed facilities and unemployed workers. The model says little about the distribution of the burden of these social costs.

Similarly, the standard model also assumes that labor markets operate efficiently in the absence of labor standards, both workers and employers are price takers with no market power (neither workers nor employers can influence the price of labor), and information is full and complete. But suppose the price-taker assumption does not hold and employers have monopsonistic market power they use to establish a wage lower than the market wage. In such a situation, employers would be receiving rents from paying a wage less than they would be required to pay if the labor market were competitive. Then, the imposition of international labor standards may reduce the market wage–paid wage gap. This would occur if the internationally imposed wage/labor standard is closer to the market wage/term or condition of employment than the employer-determined wage/term or condition of employment. If it is true that, in the short run, employers generally purchase labor in local labor markets even when they market their goods and services nationally or globally, then it is likely that employers are not price takers in the product market.

4 Selected models of international labor standards: the International Labor Organization and the European Union

Despite the general inconsistency between neoclassical economics and labor standards, considerations of social costs as well as a view that the functioning of the market does not always provide workers with socially acceptable terms and conditions of employment have resulted in attempts to establish labor standards at the international level. Two models are worth noting: the International Labor Organization (ILO) model and the European Union (EU) model. These will be examined separately.

A The International Labor Organization

The ILO is a tripartite organization created in 1919 to address low labor standards throughout the world. Initially a component of the League of Nations, it was transferred to the United Nations (UN) when the UN was created after World War II. The membership consists of countries, with each member country sending labor, management and union delegates (International Labor Organization 2008c).

The main function of the ILO is to improve living standards and working conditions around the world. This is accomplished through research and
direct aid, but primarily through the enactment of conventions which are really labor standards. As of February 2008, there were 187 active conventions (International Labor Organization 2008b). Member states are encouraged to ratify conventions. A member state has an obligation to comply with the conventions it ratifies but, as a general rule, only those conventions it ratifies. Thus, the interest of countries in sovereignty is protected (Block et al. 2001).

Recognizing that not all conventions were equally important, however, in 1998 the ILO designated eight of its conventions as ‘fundamental’. These are conventions that address forced labor, child labor, anti-discrimination and freedom of association/collective bargaining. In declaring these conventions ‘fundamental’, the ILO also declared that all member states were expected to comply with them whether or not the member state chose to ratify the convention (International Labor Organization 1998; Block et al. 2001).

Ratification of these fundamental conventions can provide a sense of the extent to which countries have voluntarily agreed to comply with the most important ILO conventions and, therefore, a sense of the ILO labor standards system. Table 23.1 presents ratifications of these conventions by selected countries. These countries were selected based on level of development as well as size. As can be seen, with the exception of the United States, the countries with the largest economies in the world have ratified these conventions. The United States has ratified fewer conventions than any of the other countries and fewer than Canada, Mexico and Brazil, which are all Western Hemisphere countries with large economies and important trading relationships with the United States.

Two issues have been raised with respect to ILO conventions: universality and enforcement. The question subsumed under universality is whether all countries that ratify a convention must promulgate standards at some established minimum in order to be considered in compliance with the standards ratification obligation. Ratifying developing countries have argued that, given their level of development, they cannot be expected to provide labor standards at the same level as developed countries (Block et al. 2001).

The second issue with respect to ILO conventions is enforcement. Enforcement is generally either by moral suasion or publicity. A complaint by another country that one country is not complying with its obligations under one or more ratified convention can, ultimately, trigger the involvement of the International Court of Justice (International Labor Organization 2008a). But there have only been eleven of these complaints filed, most recently complaints against Myanmar that it is violating the forced labor convention (International Labor Organization 2008a). Representations by labor or employer organizations can only result in
publicity (International Labor Organization 2008e; de la Cruz et al. 1996; Block et al. 2001). Ultimately, the ILO represents a model of voluntary assumption of labor standards through ratification. Enforcement is weak. Generally, however, such measures can be effective with smaller and/or less developed countries that wish to be part of the global community and who may wish to have access to other ILO services.

### B The European Union

Unlike the ILO, which relies on voluntariness, the EU has established a system of binding international labor standards. Three EU treaties – the Treaty of Rome in 1957, the Treaty of European Union (Maastricht) in 1992, and the Treaty of Amsterdam in 1997 – give the EU the right to legislate in the social (labor and employment) field (Block et al. 2001).

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Originally the EU, then called the European Economic Community, was primarily concerned with eliminating trade barriers among member countries and creating a ‘common market’ within Europe. The free movement of labor and workers among member countries was a foundation of the common market. Thus, under the Treaty of Rome, any citizen of a member state could move to another member state for the purposes of employment (Treaty of Rome 1957; Springer 1994).

At the same time, through its legislative process, the EU issues directives (legislation/laws) that are binding on all member states. All member states are obligated to bring their domestic legislation into compliance with an EU directive in the field in which the directive is issued. Any citizen of a member state who claims that the domestic legislation is inconsistent with an EU directive may bring the case to the European Court of Justice (ECJ). The ECJ’s rulings are binding on the member state and can require the member state to alter its legislation to comply with the directive (Borchardt 2000; Block et al. 2001).

Between the Treaty of Rome and the Maastricht Treaty, the EU moved carefully in the labor standards area. Because directives would be binding, there was resistance within the EU’s decision-making bodies to imposing European-level regulation on what had long been a domestic matter – employer treatment of citizens/workers. Specifically, the United Kingdom, which subscribed to the neoclassical model of labor markets, was unwilling to submit to European control of its labor market. Countries of continental Europe did not accept the neoclassical assumption to the same extent as the UK. The unanimity requirement within the EU legislative process gave the UK effective veto power (Hepple 1993; Hantrais 1995; Block et al. 2001).

Maastricht solved this problem by permitting the UK to opt out of any directives in the social area. Thus, the EU began to legislate in the social area. In 1997, with the change in government of the UK from Conservative to Labour, the UK withdrew from its opt out (Block et al. 2001).

The EU has issued directives on a range of labor standards. The major labor standards are discussed below.

(i) Working hours The EU has enacted directives on working hours in order to protect the health and safety of workers. Workers in EU nations are entitled to a minimum rest period of 11 hours in 24 hours, a break when working more than six consecutive hours, and a minimum uninterrupted rest period of 24 hours in a seven-day week. In addition, the average workweek may not exceed 48 hours in a seven-day period. All workers are entitled to at least four weeks of paid annual leave (European Council 1993).
(ii) Collective bargaining Although the EU does not directly address collective bargaining, the Treaty of Amsterdam requires that unions and management at the EU level be consulted on all matters affecting social policy. This gives unions a formal voice in the EU policy-making process (Block et al. 2004b).

(iii) Discrimination The EU provides for equal treatment of men and women in the workplace and in occupations (European Council 2000a, 2000b). The EU also prohibits discrimination based on race and ethnic origin.

(iv) Occupational safety and health In addition to the safety-and-health-related rationale for requiring employees in the EU to receive paid time, the EU also has enacted requirements directly related to employee safety and health. The EU has created standards for chemical contaminants and unsafe practices. The EU also requires employers to consult with employees on safety matters, to provide information to employees, and to provide training to employees. In addition, the EU definition of health incorporates psychological factors (Blainpain 1999; Block et al. 2004b).

(v) Notice of large-scale layoffs The EU requires 30 days of notice to employees of large-scale layoffs in an enterprise. In addition, the EU requires that employers contemplating a large-scale layoff consult with employee representatives and listen to proposals in order to minimize or avoid the layoffs, if possible (European Council 1992).

(vi) Employee participation The EU provides for employee participation in firms that operate in more than one EU member state. All ‘Community Scale’ undertakings – firms with 1000 employees within a member state and 150 employees within each of two member states – are required to have a Special Negotiating Body that represents employees. The company must consult with this body and enter into a written agreement, if appropriate (European Council 2001b).

(vii) Maternity and parental leave The EU provides maternity leave and parental leave separately. Maternity leave may be up to 14 weeks (Blainpain 1999; Block et al. 2004b). Three months of parental leave is provided for each child up to age 8 (Blainpain 1999; Block et al. 2004b).

(viii) Transfer of ownership When there is an ownership change in a firm, the EU prohibits the successor from changing the employment ‘contract’ – the basic terms and conditions of employment provided to the
employees by the predecessor. EU employees are protected from dismissal due solely to the change in ownership and are entitled to information and consultation with their representatives. If there is a collective agreement in place, it must be honored (Blainpain 1999; European Council 2001a).

5 Trading blocs and labor standards

A fundamental question with respect to international labor standards is the relationship between such standards and international trade. As noted above, the WTO has taken the position that labor standards are unrelated to trade and that any sanctions under the WTO should be related to trade violations only. But the WTO is not the only system that is involved in multilateral trade issues. Countries within various regions of the globe have also established regional trading blocs to create open markets for trade among the nations in the (regional) bloc. Three such blocs are in North America, South America and Southeast Asia. These are, respectively, the North American Free Trade Agreement (NAFTA), MERCOSUR (Mercado Comun del Sur, or the Common Market of the Southern Cone), and ASEAN (the Association of Southeast Asian Nations). This section of the chapter will analyze how each of these blocs has addressed labor standards.

A NAFTA

The North American Free Trade Agreement (NAFTA) was established in 1993 by agreement among the United States, Canada and Mexico. During the debate in the US Senate over NAFTA ratification, objections were raised because NAFTA failed to address issues of labor standards. The argument made against NAFTA was essentially a ‘social dumping’ argument that low labor standards in Mexico would encourage US firms to move to Mexico and that low-priced Mexican imports manufactured under those low Mexican labor standards would be favored by consumers over higher-priced US goods manufactured under (presumably) high US labor standards (Block et al. 2001).

The result was the North American Agreement on Labor Cooperation (NAALC), often called the labor side agreement to NAFTA. Importantly, the NAALC did not impose any internationally established labor standards on any of the three NAFTA signatory countries. Rather, under the NAALC, each signatory agreed to fully enforce the labor standards it domestically enacted. The NAALC also established a Commission on Labor Cooperation composed of the Secretaries/Ministers of Labor of the three signatories (Block et al. 2001).

Enforcement of the NAALC is housed in a National Administrative Office (NAO) in each signatory country. In the US, the NAO is currently the Division of Trade Agreement Administration and Technical
Cooperation in the Bureau of International Labor Affairs in the US Department of Labor.

The NAO reviews submissions alleging that one of the signatories is failing to enforce its labor laws or labor standards. If the NAO decides to review a submission, it may consult with the other signatory’s NAO regarding administration and enforcement of its laws, with the other NAO being obligated to provide publicly available data. Based on the review, the NAO may request ministerial consultations and the ministers must attempt to resolve the matter (Block et al. 2001).

Disputes involving occupational safety and health and other technical labor standards may proceed through a process that culminates in the decision of a five-person arbitration panel. The panel may impose a monetary remedy no greater than 0.007 per cent of the volume of trade between the two countries, with the monies going into a fund to enhance the enforcement of labor laws in the country that failed to enforce. Disputes involving collective bargaining end at ministerial consultations (Block et al. 2001).

As the NAALC system for enforcement does not permit binding arbitration for allegations involving collective bargaining, freedom of association or discrimination, it is not surprising that the NAALC has had little effect in encouraging more compliance with labor laws than the countries would otherwise wish to provide (Mazuyer 2001; Knox 2004). There were 31 submissions under the NAALC as of September 2007. There were 14 allegations involving violations of employment standards or occupational safety and health, with some submissions involving allegations of both. Of these 14, two were withdrawn and one was closed because requested information was not provided. Of the rest, resolutions involved additional ministerial consultations, government-to-government meetings, public forums and additional resources devoted to inspections. There have been no cases that have progressed to arbitration.

Singh and Adams (2001) suggest that bringing these matters into the public view has led to heightened awareness of enforcement issues within the three countries. Compa (2001) argues that the law has provided impetus to build cross-border worker rights coalitions. Hirsch’s chapter in this volume lays out a related argument about how worker organizations have used NAFTA and other international labor standards to support cross-border collective action (Chapter 21). Thus, while the NAALC may have had little direct effect on legislation and enforcement, it has had other indirect effects on worker rights that may bear fruit in the future.

B MERCOSUR

MERCOSUR was established in 1991 by the Treaty of Asuncion signed by Argentina, Brazil, Paraguay and Uruguay (Treaty Establishing a
Common Market 1991). Its purpose was to eliminate trade barriers, establish a common external tariff, coordinate macroeconomic policies and harmonize laws among the four signatories. Venezuela was admitted to MERCOSUR in 2006 (Council on Foreign Relations 2007; Arieti 2006). Currently Chile, Bolivia, Colombia, Ecuador and Peru are associate members with less than full voting rights (Council on Foreign Relations 2007). Although the Treaty of Asuncion was designed to facilitate the ‘free movement of goods, services and factors of production’ among the signatories (Treaty Establishing a Common Market 1991), and although these ‘factors of production’ presumably included labor and workers, the treaty was silent on labor rights and standards, suggesting that these were not a concern of the treaty negotiators (Treaty Establishing a Common Market 1991; Schaeffer 2007).

Nevertheless, soon after the treaty was signed, political pressures from national federations of labor within the member states led to the creation of an advisory committee to do research and make recommendations about labor standards. Labor groups from the four member countries established a coordinating organization of the central labor bodies in each country to advocate for labor rights within the MERCOSUR framework (Schaeffer 2007). In response to this labor pressure, MERCOSUR established the tripartite Working Sub-group 10 on Labor Relations, Employment, and Social Security in 1992 to harmonize labor laws and benefits among the signatories (Schaeffer 2007). Working Group 10 operates under the auspices of the MERCOSUR Common Market Group that includes representatives from the four member states and generally acts as the operational arm of MERCOSUR (Poratta-Doria Jr 2004).

Although Working Group 10 has established institutions for information and research, for encouraging ratification of ILO conventions and for labor inspections, it has not been able to incorporate the principle of fundamental labor rights within MERCOSUR (Schaeffer 2007). An attempt by the Central Labor Bodies Coordinating group to incorporate a Social Charter addressing fundamental labor rights through Working Group 10 was not accepted by the signatories due to domestic resistance from business interests (Schaeffer 2007). The response was a tripartite body to make recommendations on labor matters (Schaeffer 2007).

Also in response to these pressures, the four signatories issued the MERCOSUR Sociolabor Declaration in 1998 (Schaeffer 2007). The Declaration affirmed the members’ support for a broad array of labor rights and acknowledged that trade and integration could have social effects (Schaeffer 2007). It also created a tripartite Sociolabor Commission for the purposes of promoting labor rights in the member states (Schaeffer 2007).
Schaeffer (2007) points out, however, that while supporting rights of workers, the Declaration has also stated that its functioning is unrelated to trade. Thus, any trade benefits associated with MERCOSUR membership are not linked to adoption of labor standards or failure to enforce labor standards. Moreover, there is nothing in the Sociolabor Declaration that provides a means of assuring that the MERCOSUR countries will adopt labor standards or enforce whatever labor standards they have adopted (Schaeffer 2007).

C ASEAN

ASEAN was established in 1967 with Indonesia, Malaysia, the Philippines, Singapore and Thailand as founding members. Brunei Darussalam joined in 1984, Vietnam in 1995, Lao PDR and Myanmar in 1997 and Cambodia in 1999 (ASEAN 2007). The objectives of ASEAN are the promotion of regional economic growth, social progress, and cultural development and the creation of peace and security in the region (ASEAN 2007). Thus, ASEAN was not established as a free trade agreement or common market.

Despite this, however, free trade developed as an important component of the ASEAN mission. Thus, the ASEAN Free Trade Area was launched in 1992. Its purpose is to eliminate tariff barriers among the member countries as a vehicle of maximizing economic growth (ASEAN 2007). By January 2005, tariffs on almost all products had been reduced to no more than 5 per cent and progress had been made on a transportation network, financial markets and currency cooperation (ASEAN 2007).

There has been no attempt to harmonize labor standards or to require member countries to adhere to a minimum level of standards in order to obtain the trade benefits of ASEAN membership. The labor policy of the ASEAN Socio-cultural Community has focused on workforce development. The role of the socio-cultural community is to encourage cooperation to raise the standard of living of disadvantaged groups, invest in resources of education, training, and scientific development, job creation and social protection (ASEAN 2008b).

The term ‘social protection’ has not been interpreted to mean labor standards. The ASEAN Labour Ministers Work Programme 2000–2005 did not explicitly reference labor standards. Rather, it focused on human resource development, employment generation, labor mobility, labor market monitoring and information dissemination, tripartite cooperation and strengthening social security and social protection (ASEAN 2008a). Although social security and social protection were defined to include such matters as sickness, maternity leave, injury and old age, no progress was cited nor was there any indication that the auspices of ASEAN would be
used to require such protection (ASEAN 2008a). The ILO, in a review of labor standards and ILO convention ratifications in the ASEAN countries, did not cite ASEAN as a pluralist trade agreement that incorporated labor standards (International Labor Organization 2004).

The only possible exception to the absence of labor standards may grow out of the ASEAN labor ministers occupational safety and health plan of action. That plan, among other things, incorporated an adoption of ILO standards on occupational safety and health for consideration by member countries (ASEAN 2008a).

It is interesting that in 2007 the newly agreed-upon ASEAN Charter established an ASEAN Human Rights Body. This body was established to relate ‘to the promotion of human rights and fundamental freedoms’ referenced in the purposes and principles of the charter. Whether the ASEAN Human Rights Body will move toward ASEAN-developed labor standards remains to be seen.

6 Summary and conclusions

In general, the neoclassical economic model is unsympathetic to the establishment of international labor standards. Labor standards are seen as impairing economic efficiency, defined as maximizing consumer welfare by minimizing prices for goods and services. This impairment results from the view that international labor standards act as an impediment to countries that are well endowed with low-wage, low-skilled labor from reaping the economic efficiencies associated with that labor.

Although arguments supporting labor standards focus on the morality inherent in providing decent wages and conditions of work, it is interesting that arguments against the imposition of labor standards also rely on morality to support their views. Arguments against international labor standards point to the fact that their absence encourages economic development in low-wage, low-cost countries, thus moving the citizens of those countries out of subsistence agriculture. The neoclassical model has little to say about income distribution. Rather, its basic principles focus on production efficiencies and minimizing prices.

The neoclassical model has dominated international policy-making on labor standards. Developing countries have generally been unwilling to compromise their comparative or absolute advantage in low-wage, low-skilled labor by permitting the imposition of requirements that are seen as raising the costs of that labor and reducing their advantage. It is also argued that such standards protect inefficient firms and workers in high-cost developed countries, enriching their firms and workers at the expense of firms and workers in low-cost countries and consumers.

As indicated by the examination of the NAALC, MERCOSUR and
ASEAN, multilateral free-trade agreements have also not imposed labor standards requirements on the signatories. This would be expected, as such free trade agreements are grounded in neoclassical market-based models of trade theory. Labor standards are seen as impairing the functioning of labor markets. Thus, it is not surprising that these agreements have not been vehicles for establishing international labor standards.

Yet, the establishment of two models of international labor standards demonstrates that non-neoclassical views of labor standards have prevailed from time to time. The ILO conventions are close to international labor standards, but countries may choose to adopt or not adopt them as they see fit and enforcement mechanisms are weak. Fundamentally, however, countries must voluntarily adopt them and forego some sovereignty. It is not surprising that the EU has created the only system of true international labor standards, as they have been defined above. The EU’s standards are promulgated by an international body to which the member states have voluntarily ceded sovereignty. As a result, EU directives constitute labor standards because they are issued by an international body and are fully binding on the member countries, with sanctions brought upon those countries that fail to comply with the labor standards. The EU has implicitly rejected the neoclassical model for a model of the labor market based on principles of imperfect competition and pluralism (Block et al. 2004a). Once the neoclassical assumptions are relaxed, the theoretical justification for labor standards becomes increasingly salient.

It is also important to note that the EU is the only multilateral international body to which the member states have ceded sovereignty. As the EU has moved toward greater political integration over the past 50 years, it may be argued that the EU is not dissimilar to the United States, the political jurisdiction to which the individual states ceded sovereignty (Marleau 2003; Block et al. 2004b).

Overall, it is fair to say that the neoclassical economic model, augmented by principles of national sovereignty, has framed the debate on international labor standards. So long as this continues to be the framework in which international labor standards are discussed, the adoption of broad-based international labor standards is unlikely to occur.

**Bibliography**


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