

Promoting Labour Standards through the EU's Trade Policy

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Overview of Key Findings

- ❑ Expansion of trade associated with a deterioration of labour standards in developing countries
- ❑ Negative influence mitigated by two EU-related governance mechanisms, with their distinct advantages and disadvantages
- ❑ Labour provisions in formal EU trade policies (trade agreements and accompanying measures) facilitated reforms in fundamental labour rights, albeit primarily at the formal level
- ❑ Expansion of trade to EU member states with higher standards facilitated improvements in working conditions for some groups of workers in export-oriented sectors

Trade Policy and Labour Standards

- ❑ Two alternative pathways towards harmonization with external standards
 - ❑ State-led governance: labour provisions in trade agreements and accompanying measures
 - ❑ Market-based governance: exports to end markets with high standards (California or Brussels effect), supply chain governance

- ❑ Key research focus
 - ❑ Effect of EU trade policy on labour standards
 - ❑ Key pathways and mechanisms of influence
 - ❑ Role of domestic factors in mediating influence

Methodology

- ❑ ENP as a “critical case”
 - ❑ Based on bilateral trade agreements
 - ❑ Strong emphasis on NTPOs: harmonization with international and/or EU labour standards
 - ❑ Accompanying measures: conditionality, dialogue and assistance

- ❑ Mixed method
 - ❑ Regression analysis (ordered probit model with FE, 1990-2014, developing countries with EU trade agreements) to assess association between
 - ❑ DV: labour standards (CIRI Workers’ Rights Indicator)
 - ❑ IV: type of EU trade policy (ENP/TA) (Bastiaens and Postnikov 2014), composition of trade and labour standards of key exports markets
 - ❑ Controls: state capacity, CSO freedom, veto points, GPD/capita, GDP growth

 - ❑ Comparative case analysis of Moldova and Morocco (2004-today, based on systematic analysis assessment reports and extensive interviews with relevant stakeholders): mechanisms and scope of influence, domestic constraining or enabling factors

ENP Governance (1)

- ❑ ENP-led improvements: reforms primarily at the formal level and in few areas
 - ❑ ENP exerted a positive influence on labour standards among neighbouring countries (NCs), even beyond the positive influence of EU trade agreements with labour provisions (Bastiaens and Postnikov 2014) (eg. probability of high labour standards increased from 8 to 13 percent)

Table 1. ENP and labour standards

VARIABLES	(1-OLS)	(2-OLS)	(3-Ordered Probit)	(4-Ordered Probit)
	WORKER	WORKER	WORKER	WORKER
EU TA (dummy)	0.137* (0.0732)		0.359** (0.174)	
ENP	0.155* (0.0869)		0.372* (0.206)	
EU TA and ENP (0 to 2)		0.119** (0.0500)		0.302** (0.119)
Veto	0.183 (0.142)	0.196 (0.142)	0.421 (0.340)	0.449 (0.340)
CSO Freedom	0.167*** (0.0262)	0.164*** (0.0260)	0.398*** (0.0650)	0.391*** (0.0645)
Log State Capacity	0.128 (0.0820)	0.134 (0.0820)	0.344* (0.200)	0.359* (0.200)
Lag Trade GDP Ratio	-0.00251** (0.00115)	-0.00253** (0.00114)	-0.00559* (0.00291)	-0.00568** (0.00290)
Lag GDP Growth	0.00182 (0.00336)	0.00188 (0.00337)	0.00399 (0.00976)	0.00382 (0.00976)
US PTA	-0.119 (0.0991)	-0.104 (0.0987)	-0.243 (0.229)	-0.206 (0.228)
Observations	886	886	886	886
Country FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

ENP Governance (1)

- ❑ ENP-led improvements: reforms primarily at the formal level and in few areas
 - ❑ ENP exerted a positive influence on labour standards among neighbouring countries (NCs), even beyond the positive influence of EU trade agreements with labour provisions (eg. probability of high labour standards increased from 8 to 13 percent)
 - ❑ ENP-led improvements in Moldova and Morocco consisted predominantly of formal regulatory reforms in non-discrimination, elimination of child labour, and occupational health and safety (OHS)

ENP Governance (2)

- ❑ ENP implementation: Limited emphasis on labour standards and weak transformative power
 - ❑ ENP labour governance efforts limited to inter-state dialogue on fundamental labour rights, social dialogue and OHS, with inadequate and insufficient capacity building → 2 important limitations:
 - (1) Primary focus on "reportable" formal reforms, without systematic focus on implementation
 - (2) Difficulty to impose reforms when NC government resistance is strong (eg. non-ratification of ILO Convention 87 by Morocco)
 - ❑ Material incentives and legal measures not strongly connected to labour reforms (eg. DCFTA and EN(P)I assistance used to promote reforms in areas of greater priority; DCFTA with Moldova was accompanied by a deterioration of state labour administrative capacity)

ENP Governance (3)

- ❑ Domestic constraints on ENP-led improvements
 - ❑ Persistence of weak state institutions: positive interaction between state capacity and ENP/TA
 - ❑ Disengaged and weak labour organizations: no interaction between labour organization freedom/strength and ENP/TA
 - ❑ Their constraining effect has been exacerbated by the intensification of economic competition (eg. deterioration of state capacity in Moldova; social dialogue in both case studies)

Market-Based Governance (1)

- ❑ Significance of sectoral composition of exports
 - ❑ Labour standards associated with share of textile and apparel (-) and automotive and machinery (+)

Table 6. Market-Based Factors and Labour Standards (2)

VARIABLES	Worker's Rights	Worker's Rights	Worker's Rights
Labor Standards in key export markets	0.591*** (0.218)	0.591*** (0.224)	0.616** (0.241)
Share Net Textile Exports	-2.117** (0.924)	-2.116** (0.950)	-1.989** (0.973)
Share Net Tech Export	0.243 (0.168)	0.233 (0.185)	0.518** (0.252)
			(0.119)
CSO freedom			0.299*** (0.115)
ENP and PTA Dummy		0.209* (0.122)	0.231* (0.138)
FDI Flows/GDP ratio			2.250* (1.344)
Political Constraints			-0.121 (0.408)
Log GDP			-0.540 (0.884)
Log GDP pc			0.173 (0.725)
GDP growth			0.0114 (0.0157)
Observations	823	823	738
Country FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes

Market-Based Governance (1)

- ❑ Significance of sectoral composition of exports
 - ❑ Labour standards associated with share of textile and apparel (-) and automotive and machinery (+)
 - ❑ Differences in working conditions in both Moldova and Morocco: payments, formalization of employment and intensity of work
 - ❑ Resistance among MNEs (in Moldova) and EPZs (in Morocco) towards unionization and union rights in export-oriented sectors
 - ❑ Sustainable supply chain governance present in both sectors, but very different cost and sourcing pressures

Market-Based Governance (2)

- ❑ Beyond the 'Brussels' effect
 - ❑ Relevance of labour standards in key EU member state export destinations (eg. probability of high labour standards increased from 3 to 5 percent)

Table 6. Market-Based Factors and Labour Standards (1)

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Market-Based Governance (2)

❑ Beyond the 'Brussels' effect

- ❑ Relevance of labour standards in key EU member state export destinations (eg. probability of high labour standards increased from 3 to 5 percent)
- ❑ Moldova: 29% of exports to Romania: greater cost pressures and less emphasis on labour standards
- ❑ Morocco: 46% of exports to Spain and France: greater salience attached to labour standards and support to achieve industrial upgrading

Market-Based Governance (3)

- ❑ State and industrial organizations as enabling or constraining factors
 - ❑ Morocco: industrial policy and sectoral organizations favourable towards industrial and labour upgrading
 - ❑ Moldova: economic (export and FDI) policies and industrial associations have favoured a low-labour-cost based competition strategy

Conclusions

- ❑ Intensification of economic pressures through trade integration have been mitigated by the EU's state-led and market-based governance mechanisms among developing countries, with distinct limitations
- ❑ ENP facilitated labour rights reforms at the national level, but has not prioritized sufficiently progress in implementation and in working conditions through a capacity-building approach
- ❑ Improvements in working conditions through market-based mechanisms contingent on several factors (sectoral upgrading, labour standards of key MS destinations and domestic initiatives of industrial upgrading) and benefitted primarily skilled workers in export-oriented sectors

Policy Recommendations

- ❑ Trade and Assistance Policies: Increase efforts to improve the capacity of state and non-state actors to 1) engage in EU governance approaches (eg. training of labour organizations in partnership with the ILO) and 2) to improve labour standards as part of industrial upgrading (eg. greater assistance for vocational training in export-oriented sectors)
- ❑ Broaden scope of external labour governance efforts to working conditions and informality
- ❑ Due Diligence: Encourage MNEs to share costs of social sustainability and/or reduce cost pressures on suppliers, especially in labour-intensive sectors (eg. integrate the social sustainability performance of suppliers in lead firms' sourcing and pricing decisions)
- ❑ EU-level policies: Promote upward convergence in labour standards within the EU

Methodology (2)

- ❑ Regression Analysis (1990-2014)
 - ❑ Dependent variable: CIRI Workers' Rights index (Cingranelli, Richards and Clay, 2014)
 - ❑ State-led variables : ENP, ENP*TA (Bastiens and Postnikov 2014), EN(P)I assistance (EC)
 - ❑ Market-based variables: Labour standards of export destinations (weighted average) and sectoral composition of exports (World Bank, UNCOMTRADE databases)
 - ❑ Domestic factors: State capacity, CSO freedom
 - ❑ Control variables: Veto, US PTA, GDP growth, GDP/capital

- ❑ Empirical model: Fixed-Effect regression and Ordered Probit Model

- ❑ Qualitative Analysis (2004-2019)
 - ❑ Reports on labor standards by the EC, ILO, US State Department and ITUC
 - ❑ Interviews conducted in Brussels, Moldova (Chisinau) and Morocco (Rabat and Casablanca)

Table 2. Scope of ENP-led improvements

Moldova	Morocco
Initial Concerns (2004)	
<ul style="list-style-type: none"> • Caveats in national regulatory framework • Weak implementation of national labour laws and regulations 	
Incremental Changes (2004 – 2015)	
<ul style="list-style-type: none"> • Regulatory reforms in the areas of abolition of child labour, non-discrimination and occupational health and safety (OHS) • Some improvement in implementation in the formal sector, albeit with important limitations 	
Since 2016	
<ul style="list-style-type: none"> • Major reforms in labour relations, non-discrimination, OHS • Decline in state regulatory capacity 	

Table 4. Assessments in ENP Progress Reports (in %)

	Social Dialogue	Freedom of Association	Child Labour	Non-Discrimination	OHS
All countries	70,4	65,9	53,6	89,4	38,0
Moldova	93,8	56,3	93,8	100,0	87,5
Morocco	90	90	80	100	30
Pre 2011	76	76	49	92	18
Post 2012	49	38	34	82	21

Table 3. Relevance of Financial Assistance

VARIABLES	(1)	(2)	(3)
	Positive Improvement in Workers' Rights (Dummy)		
Log Financial Assistance	0.118* (0.0690)	0.120 (0.0738)	0.108 (0.0796)
Lag Workers' Rights	-0.249** (0.0950)	-0.261** (0.109)	-0.262** (0.106)
ILOs Ratification		0.00577 (0.0321)	-0.0185 (0.0355)
Lag Trade GDP Ratio		0.00173 (0.00479)	0.00364 (0.00572)
Lag GDP Growth		0.00114 (0.00932)	0.00275 (0.00959)
Veto			0.128 (0.434)
Log State Capacity			-1.456 (1.359)
Constant	0.0444 (0.196)	-0.247 (0.899)	2.757 (2.658)
Observations	95	95	87
R-squared	0.290	0.293	0.310
Country FE	YES	YES	YES
Year FE	YES	YES	YES

Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Table 5. Relevance of State Capacity and CSO-freedom

VARIABLES	(1-OLS) WORKER	(2-OLS) WORKER	(3-Ordered Probit) WORKER	(4-Ordered Probit) WORKER
ENP	-2.713*** (0.640)	0.220** (0.0870)	-6.939*** (1.593)	0.541*** (0.208)
Veto	0.201 (0.139)	0.208 (0.141)	0.447 (0.340)	0.488 (0.336)
CSO Freedom	0.174*** (0.0260)	0.178*** (0.0271)	0.428*** (0.0657)	0.425*** (0.0674)
Log State Capacity	0.111 (0.0829)	0.139* (0.0836)	0.312 (0.200)	0.376* (0.200)
ENP x Log State Capacity	1.390*** (0.304)		3.518*** (0.750)	
ENP x CSO Freedom		-0.110 (0.0713)		-0.257 (0.169)
Lag Trade GDP Ratio	-0.00275** (0.00113)	-0.00270** (0.00114)	-0.00628** (0.00291)	-0.00611** (0.00290)
Lag GDP Growth	0.00214 (0.00333)	0.00175 (0.00337)	0.0100 (0.00982)	0.00820 (0.00977)
USA PTA	-0.149 (0.0964)	-0.0625 (0.0963)	-0.308 (0.227)	-0.111 (0.223)
Observations	886	886	886	886
Country FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Robust standard errors in parentheses. ***, **, and * denotes 1%, 5% and 10% significant levels

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