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BOOK REVIEW

Trade and Employment: Challenges for Policy Research. A Joint Study of the International Labour Office and the Secretariat of the World Trade Organization, Geneva: World Trade Organization and International Labour Office, 2007. ISBN 978-92-870-3380-2, viii 104 pp.

At the Singapore Ministerial Conference (1996) of the World Trade Organization (WTO), the ministers approved a Declaration containing a statement on 'core labour standards'.[1] The key points expressed were that the ministers renewed their commitment to internationally recognized core labour standards, affirmed support for the work of the International Labour Organization (ILO)[2] in promoting such standards, rejected the use of labour standards for protectionist purposes, and noted that the 'WTO and ILO Secretariats will continue their existing collaboration'. No significant inter-secretariat cooperation existed at that time, and little ensued as a result of the Declaration.

The first fruit of collaboration between the WTO and ILO came in 2007 when the WTO Secretariat and the International Labour Office published a new joint study, *Trade and Employment*.[3] In their Foreword to the volume, WTO Director-General Pascal Lamy and ILO Director-General Juan Somavia state: 'In joining the expertise of the two Secretariats, this technical study aims to provide a broad and impartial view of what can be said – and with what degree of confidence – about the relationships between trade and employment, and the ways in which trade policies and labour market policies affect this relationship' (p *v*). They also characterize the study 'as an encouraging illustration of how useful collaboration can be developed between the two Secretariats on issues of common interest' (p *v*).

The new study was released with some publicity, and both organizations held panel sessions to discuss their work. The WTO's press release summarizes the study and then suggests that 'a number of points follow clearly from the joint study', one of which is that coherence among trade,

[1] WTO, Singapore Ministerial Declaration, WT/MIN(96)/DEC, 18 December 1996, para 4.

[2] Note that the English acronym 'ILO' is used for both the International Labour Organization and its Secretariat, the International Labour Office. The Office is similar to the WTO Secretariat in many ways, but operates with more independence than does the WTO Secretariat.

[3] Organizations, of course, do not write books, and the title page identifies the preparers to be Marion Jensen, counsellor in the WTO's Economic Research and Statistics Division, and Eddy Lee, a Fellow at the International Institute for Labour Studies. (Lee is an economist and longtime ILO staffer, now serving as an Economic Adviser at the International Institute.)

labour market, education and redistribution policies 'helps to optimize the outcomes of trade liberalization in terms of growth and employment and is likely to have positive effects on public support for trade reform'.[4] In March 2007, the ILO held a panel session on the study where Somavia noted that the project marked 'an important institutional breakthrough' in addressing the relationship between the ILO and the WTO.[5]

The significance of the collaboration was noted in several press releases commending the release of the report. The European Commission quoted Peter Mandelson, the Commissioner for External Trade, as saying: 'I welcome this joint study – the EU has been encouraging closer collaboration of the WTO and ILO for some time'.[6] The International Trade Union Confederation quoted Gus Ryder, its General Secretary, as saying: 'this paper heralds an important start in ILO-WTO cooperation . . .'.[7]

In this review, I will begin with a brief summary[8] of the book, and then present some concerns that I have about the project's orientation, methodology and scope.

The first major issue the book addresses is the impact of trade on employment. Beginning with a 'theoretical' perspective, the book observes that while trade liberalization is 'associated with both job destruction and job creation' (p 19), in the long run, 'the efficiency gains caused by trade liberalization are expected to lead to positive overall employment effects, in terms of quantity of jobs, wages earned or a combination of both' (p 2). In addition, the theory 'predicts that trade reform will trigger job creation and job destruction in all sectors . . .' (p 28). The discussion of the evidence provides details from numerous studies, but finds that 'the only general conclusion that may be justified is that employment effects depend on a large number of country-specific factors' (p 30). With regard to the effects of trade liberalization on income levels, the authors point out how researchers tend to look at 'overall or average income gains for the economy and do not

[4] WTO, ILO and WTO Secretariats issue joint study on trade and employment, 19 February 2007, available at http://www.wto.org/english/news_e/news07_e/ilo_feb07_e.htm (visited 15 August 2007).

[5] ILO, ILO Governing Body Concludes 298th Session: Considers ILO budget, labour situation in Myanmar, Belarus and other countries as well as trade and employment policy, ILO/07/09, 30 March 2007, available at http://www.ilo.org/global/About_the_ILO/Media_and_public_information/Press_releases/lang–en/WCMS_082317/index.htm (visited 25 August 2007).

[6] EU welcomes first joint WTO–ILO study on trade and employment, 19 February 2007, available at http://ec.europa.eu/employment_social/emplweb/news/news_en.cfm?id=208 (visited 26 August 2007).

[7] International Trade Union Confederation, ILO–WTO Joint Report: A Step Towards Sensible Global Policy, 19 February 2007, available at http://www.ituc-csi.org/spip.php?article749 (visited 26 August 2007).

[8] For a more detailed summary, see the ILO document GB.298/WT/SDG/1 (March 2007).

look at the effects of trade on subgroups within the economy. In particular, the results of this literature do not automatically allow for conclusions as to the effect of trade on the average income of workers (as opposed to capital-owners, for instance), or the poor or of the median family in the economy' (p 22).

Another issue tackled is the impact of trade on income equality. The book begins with theory, which reaches the conclusion that 'trade among similar countries can raise wage inequality within countries and also within sectors' (p 4). Next, the book examines the evidence. For industrialized countries, there have been studies showing a range of impacts. The more recent research looking at the causes of wage inequality 'attributes only a minor role to trade' (p 46).[9] For developing countries, the evidence seems to differ by region. In East Asia, trade tends to decrease wage differentials; in Latin America, 'trade liberalization has coincided with an increase in both income and wage inequality…' (p 47). When trade liberalization is looked at in combination with other policies, such as financial system development and smaller government, the combined policies 'stimulate growth but increase inequality at the same time' (p 52).[10]

The issue of the importation of services is given only sparse attention. One key conclusion is that 'trade and outsourcing are connected phenomena that both stimulate the pace of technological change' (p 87). Another finding in the 'most recent trade and offshoring literature' is that 'it will be increasingly difficult for policy-makers to predict the direction and nature of employment changes…' (p 30).[11] More notably, 'the mere threat of sourcing inputs from another country or of delocalization may weaken workers' resistance to wage reductions' (p 4).

The book also examines the role of government policy, that is, 'how domestic institutions can affect the relationship between trade and employment' (p 55). The analytical framework used is to weigh the potential benefits against the costs. The putative benefits of government policies can be reducing inequality, providing insurance against adverse events and enhancing the functioning of markets. The potential costs of such policies are 'efficiency losses as policy interventions may change incentives in one way or another and therefore introduce distortions into the economy' (p 56).

The study begins by considering 'job security regulation' that the ILO and WTO define as tools that make 'it harder for employers to lay off workers

[9] In discussing the cause of the growing gap in wages between skilled and unskilled workers, the book says that 'the first suspect' is technological change (p 39).
[10] The book takes note of studies by J.H. Lopez (2004) and M. Lundberg and L. Squire (2003).
[11] The book cites a study by R.E. Baldwin (2006).

and unemployment benefits that provide workers with a certain level of income during periods of unemployment' (p 57). While noting that the literature 'is extensive and contentious', the authors report on one study showing that job security regulation 'hampers the creative-destructive process' of labour markets and another study showing that such regulation 'can reduce the growth effects of trade liberalization' (pp 58–59).[12] Yet, the book also states that while 'there are reasons to believe that a trade-off exists between efficiency and insurance,' this trade-off 'does not need to be very steep if insurance policies are designed appropriately' (p 8).[13]

'Active labour market policies' are used to facilitate re-employment (p 61). Coupled with measures to increase the incentive and obligation to seek work, 'such measures can help to raise the employment rate, especially in a context of positive overall employment growth' (p. 64). Retraining is one such active policy. But the 'evidence on the effect of retraining programmes on unemployment duration and wage levels in the context of trade liberalization is scarce and comes to mixed results . . .' (p 64).[14] The book takes note of a study (by C. Davidson and S. Matusz) concluding that the total cost of compensating the workers trapped in shrinking sectors 'never rises above 5 per cent of the net benefit from liberalization' (p 75).

The book also contains a section on education, which reports that 'there is an increasing awareness among economists that education policies are key to enabling economies to adjust to economic change and to take advantage of its opportunities' (p 78). The study further notes that 'It has been argued in the literature that market forces are unlikely to generate the supply of skills that matches the demand from skills' (p 80).

The volume gives only very limited attention to how to pay for active government policies. The use of income or consumption taxes 'creates an additional distortion' (p 87), according to the study. Even in industrialized countries, the public financing of such policies 'represents a serious challenge' because 'some production factors are more mobile at the global level than others . . .' (p 87).

Another government policy considered is the guarantee of freedom of association and the right of collective bargaining. The book notes the view of some developing countries that such rights 'could have a negative impact on their economic competitiveness' (p 65). But the two secretariats declare that there is 'little empirical support for this view in the economic literature' (p 66).

[12] The studies cited were written by R.J. Caballero et al. (2004) and B. Bolaky and C. Freund (2004).

[13] The book characterizes existing policies as 'insurance', but does not explain that usage in light of the general absence of basic insurance principles, viz., risk rating and beneficiary premiums.

[14] On that point, there is a citation to a study published by the WTO in 2003.

Although most of the study discusses theory and evidence, the two secretariats do make some normative statements. One position they take is that 'where trade liberalization affects part of the labour force negatively, labour and social policies are required in order to redistribute some of the gains from trade from winners to losers' (p 2). Another finding is that 'it is also increasingly recognized that it is important for policymakers to ensure that the benefits of global economic integration are sufficiently widely shared in order to maintain or obtain public support for trade opening' (p 8). Indeed, the book goes so far as to argue that 'compensation mechanisms' . . . 'may be necessary in order to pre-empt resistance against trade reform' (p 38). In addition, the book calls for strengthening the capacity of developing countries to design and implement active labour market policies, 'especially ones that are targeted at workers adversely affected by trade and related liberalization . . .' (p 65).

The book ends by declaring that:

> The main conclusion that emerges from this study is that trade policies and labour and social policies do interact and that greater policy coherence in the two domains can have significantly positive impacts on the growth effects of trade reforms and thus ultimately on their potential to improve the quality of jobs around the world. From this perspective, research directed at supporting the formulation of more effective and coherent policies would clearly have a high pay-off to the international community (p 90).

That conclusion seems correct, yet hardly advances the international debate. Obviously, trade, labour and social policies interact. The international community memorialized a recognition of those realities in 1919, in the Treaty of Versailles, which states that the Members of the League of Nations 'will endeavour to secure and maintain fair and humane conditions of labour for men, women and children, both in their own countries and in all countries to which their commercial and industrial relations extend, and for that purpose will establish and maintain the necessary international organisations'.[15] One such necessary organization was the ILO, an organization established in 1919. After World War II, leading governments began planning to establish a world trading system, and in 1947–48, the United Nations held an international Conference on Trade and Employment. That Conference drafted the Charter of the International Trade Organization, and that Charter contained a detailed chapter on 'Employment and Economic Activity'.[16] Sadly, the Charter did not come

[15] Treaty of Versailles, 28 June 1919, Article 23(a), available at http://www.yale.edu/lawweb/avalon/leagcov.htm (visited 24 August 2007).

[16] See Havana Charter for an International Trade Organization, 24 March 1948, chapter II, available at http://www.wto.org/english/docs_e/legal_e/prewto_legal_e.htm (visited 15 August 2007).

into force, but the trading system survived in the form of the General Agreement on Tariffs and Trade (GATT), which was constitutionally reorganized in the WTO in 1994–95.[17] This relevant legal and institutional history is completely omitted from the book.

The book disappoints because of its narrow scope and ambition. An issue as broad as trade and employment demands a multidisciplinary approach. Economics is vital, but perspectives from law, history and political science are surely just as important to this project. Recall the book's conclusion (quoted above, p 90) that 'trade policies and labour and social *policies* do interact' and that 'greater *policy* coherence in the two domains can have significantly positive effects on the growth effects of trade reforms . . .' (italics added). These conclusions concern government policy, rather than market outcomes, and as such cannot be justified by the narrow set of analytical tools used in the study.

What seems to have occurred is that the WTO and ILO leadership decided to do a study and then assigned it to an economist from each house.

A more sophisticated approach would have been for the ILO and WTO to have set up a multidisciplinary team from both organizations that would have included not only economists, but also lawyers and technical staff in all of the relevant areas. Both organizations have excellent legal staffs. In addition, the ILO has an International Training Centre in Turin (established in 1964) with a 'reservoir of expertise on employment, labour, human resources development and capacity-building'.[18] Yet, there is no evidence in the joint study that the Turin Centre was involved at all. Thus, given the depth of both the WTO and ILO secretariats, I think it is only partly true for Lamy and Somavia to assert that this volume evidences 'joining the expertise of the two Secretariats' (see quotation above).

Of course, a study limited to economics can be valuable if carried out well. But the two secretariats have not actually performed a study in the scientific sense. Instead, they have merely assembled a literature review of studies carried out elsewhere. As the book explains: 'This study is the result of a collaborative effort by the ILO and the Secretariat of the WTO and aims at providing an impartial view of what can be said, and with what degree of confidence, on the relationship between trade and employment. It attempts to do this through an objective review of the academic literature, both theoretical and empirical' (p 13).

An obvious question that would have been asked if the design of the study had been previewed in advance is whether international secretariats and international civil servants have a comparative advantage in performing

[17] See John H. Jackson, *Sovereignty, the WTO, and Changing Fundamentals of International Law* (Cambridge: Cambridge University Press, 2006) chap. 4.

[18] International Training Centre, available at http://www.itcilo.it/pub/page_main.php?ContentTypeID=6&VersionID=2 (visited 26 August 2007).

literature reviews. Personally, I doubt it. Here the Secretariats claim to be offering an objective review of the 'academic literature', when instead all they do is to examine the economics literature.

Nevertheless, a review of the economics literature can be valuable if carried out well. But the two Secretariats have overlooked so many important studies[19] that their book is, at best, incomplete. Moreover, the book underemphasizes the contributions from labour economists and macroeconomists on these topics. Another troubling omission was the failure even to mention some of the relevant studies sponsored by the ILO and the GATT/WTO.[20] Had the authors considered the findings of those studies, the new study could have been more informative and nuanced.

Perhaps the biggest problem in active labour market policies is how to assure adequate public financing for them. Although the WTO–ILO volume purports to discuss public finance, it says almost nothing about what taxes or user fees should be used to pay for such programmes. In that regard, one might recall that during the Uruguay Round, there was a failed attempt by the US government to negotiate a small uniform fee on imports to fund programmes that directly assist adjustment to import competition.[21]

[19] Some examples of important studies omitted from the book's references are: Martin Neil Bailey and Robert Z. Lawrence, 'Don't Blame Trade for U.S. Job Losses', *McKinsey Quarterly*, January 2005; Robert E. Baldwin, *The Decline of US Labor Unions and the Role of Trade* (Washington: Institute for International Economics, 2003); Jagdish Bhagwati, *Free Trade Today* (Princeton: Princeton University Press, 2002); Jagdish Bhagwati, *In Defense of Globalization* (New York: Oxford University Press, 2004); Kimberly Ann Elliott and Richard B. Freeman, *Can Labor Standards Improve Under Globalization?* (Washington: Institute for International Economics, 2003); Edward M. Graham, *Fighting the Wrong Enemy: Antiglobal Activists and Multinational Enterprises* (Washington: Institute for International Economics, 2000); Douglas A. Irwin, *Free Trade Under Fire* (Princeton: Princeton University Press, 2002); Lori G. Kletzer and Howard Rosen, 'Easing the Adjustment Burden on US Workers' in C. Fred Bergsten and the Institute for International Economics (eds), *The United States and the World Economy* (Washington: Institute for International Economics, 2005); Howard Lewis III and J. David Richardson, *Why Global Commitment Really Matters!* (Washington: Institute for International Economics, 2001); J. David Richardson, 'Uneven Gains and Unbalanced Burdens? Three Decades of American Globalization' in C. Fred Bergsten and the Institute for International Economics (eds), *The United States and the World Economy* (Washington: Institute for International Economics, 2005); David Sapsford and Supriya Garikipati, 'Trade Liberalisation, Economic Development and Poverty Alleviation', 29 (11) The World Economy 1571 (2006); Martin Wolf, *Why Globalization Works* (New Haven: Yale University Press, 2004).

[20] Amazingly, there is no mention of the foundational work on trade and employment, the Olhin Commission Report, *Social Aspects of European Economic Co-operation, Report by the Group of Experts* (Geneva: ILO, 1956). Other key omitted studies are: ILO, *Employment, Growth and Basic Needs. A One-World Problem* (Geneva: ILO, 1976); Geoffrey Renshaw (ed), *Employment, Trade, and North-South Co-operation* (Geneva: ILO, 1981); Consultative Board to the Director-General Supachai Panitchpakdi, *The Future of the WTO* (Geneva: WTO, 2004) 12–14, 23, 80.

[21] See 19 United States Code (USC) §2397 note.

Although the book claims to report 'what can be said, and with what degree of confidence, on the relationship between trade and employment', nothing is said about numerous issues of importance. The biggest omission is temporary immigration, known in the WTO as the movement of natural persons across borders to deliver services. Such worker movements are an important way in which trade contributes to welfare and economic growth.[22] Another issue totally left out is export processing zones (EPZs) that may distort trade and employment outcomes if core labour rights are not respected.[23] Much of the dark side of trade, such as sex tourism, is also excluded. Finally, the book gives insufficient consideration to important issues such as outsourcing and job instability.

How could this important research be done by the ILO and the WTO in such an inadequate way? In my view, the key mistake was to conduct the study in an opaque manner and to fail to solicit input from the epistemic communities working on these issues. Contemporary good practices for carrying out an international study are exemplified by the Report produced by the ILO's World Commission on the Social Dimension of Globalization.[24] To solicit information for the Report, the Commission undertook over 30 dialogues around the world and held 13 meetings with knowledge networks. In contrast, the ILO and WTO project team did not hold any consultations with academics, civil society or the private sector. Furthermore, international worker and employer organizations, which have full participation rights in the ILO, were not given a chance to comment in advance. Indeed, the fact that the study was underway was not publicized by either secretariat, and no advance drafts of the book were posted on either organization's website for public comment or peer review. Although the ILO–WTO book makes what appear to be policy recommendations, one wonders whether these were circulated in advance to member governments.

The inadequate reporting and analysis produced by the WTO and ILO is unfortunate, and could be remedied by undertaking a more comprehensive and detailed study that would seek real synergies from the collaboration of experts at the WTO and ILO. I will leave the economic issues to the economists, and instead point to how legal and policy analysis could be improved in a future study. First, it would be valuable to provide a matrix

[22] For example, see Gordon H. Hanson, *The Economic Logic of Illegal Immigration* (New York: Council on Foreign Relations, 2007); Jagdish Bhagwati, 'El Norte', *Wall Street Journal*, 28 June 2006, at A20.

[23] See International Trade Union Confederation, Summary and Initial Commentary on 'Trade and Employment: Challenges for Policy Research' – Joint ILO-WTO study, February 2007, at 3, 9, available at http://www.ituc-csi.org/spip.php?article749&var_recherche=wto (visited 26 August 2007).

[24] See Report of the World Commission on the Social Dimension of Globalization, *A Fair Globalization: Creating Opportunities for All* (Geneva: ILO, 2004), available at http://www.ilo.org/public/english/wcsdg/docs/report.pdf (visited 26 August 2007). The ILO–WTO study lists this Report in its references (p 93), but does not otherwise make use of the Report.

showing all of the relevant work on trade, jobs and equality that is being carried out by international organizations, most notably the Organization for Economic Co-operation and Development (OECD), the World Bank and the International Monetary Fund. Oddly, for a study that purports to discuss the 'challenges for policy research', the WTO–ILO study omits reference to most of this ongoing work. Second, it would be interesting to analyse the WTO rules that relate to employment to see how they are working. For example, how much liberalization has occurred in mode 4 services trade (movement of natural persons to provide services)? What is being said about employment issues in Trade Policy Reviews? How are accession agreements dealing with structural adjustment and its impact on the labour market? How are preferential trade agreements dealing with mode 4 services and is that consistent with Article V of the General Agreement on Trade in Services (GATS)? To what extent does the availability of a trade safeguard 'facilitate adjustment' in accordance with Article 5 of the Agreement on Safeguards? What has been the impact of the expiration of the non-actionable status of subsidies to disadvantaged regions with high unemployment?[25]

The topic of preferential trade agreements is particularly fertile because many of the most recent ones have a chapter on Labour that includes provisions for labour cooperation between the parties. For example, has the North American Commission on Labour Cooperation—created in a side agreement to the North America Free Trade Agreement (NAFTA)—succeeded in making trade and employment mutually supportive? If such an evaluation would be too political for the WTO and ILO secretariats to undertake, then at least some analysis could be done of the employment dimension of NAFTA in comparison with other preferential trade agreements and to the European Union experience. An analytical synthesis of the activities of G7/G8 on employment[26] and the work of the APEC Human Resources Development Working Group would also be interesting, and yet those bodies of work were not mentioned in the ILO–WTO book.

As noted above, the WTO and ILO declare in their study that 'where trade liberalization affects part of the labour force negatively, labour and social policies are required in order to redistribute some of the gains from trade from winners to losers' (p 2). If that is true, one wonders whether such governmental policies should be internationally required in either ILO conventions or WTO rules (or both). The Charter of the International Trade Organization (1948) directed members to 'take action designed to achieve

[25] See Article 8.2(b) of the Agreement on Subsidies and Countervailing Measures.

[26] For example, see G8 Labour and Employment Ministers Conference, Shaping the Social Dimension of Globalisation, 6–8 May 2007, Chair's Conclusions, available at http://www.g7.utoronto.ca/employment (visited 26 August 2007).

and maintain full and productive employment . . .'.[27] Perhaps that provision should be re-examined for its relevance six decades later. The need for better worker adjustment assistance is perennially noted.[28]

In summary, this new study has proven to be a useful experiment in international administration. Only a small benefit is derived directly from the shallow analysis in the book, which rarely rises above conventional wisdom. The much larger benefit is that this book serves as a demonstration of how hard it is to obtain truly integrative collaboration between the ILO and WTO secretariats.

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Human Rights and International Trade. Edited by THOMAS COTTIER, JOOST PAUWELYN AND ELISABETH BÜRGI, Oxford: Oxford University Press, 2005. ISBN 0-19-928583-7, 522 pp.

To paraphrase David Kennedy in his article on *The international human rights movement: part of the problem*, it often seems tempting for human rights lawyers to set aside pragmatic concerns and to treat human rights as an object of devotion. However, he simultaneously recognizes that the best human rights practitioners are already intensely strategic and practical in thinking about their work. This book, edited by Thomas Cottier, Joost Pauwelyn and Elisabeth Bürgi, most definitely falls within the latter category, as its contributions consist of strongly built arguments lacking the sentimental undertone often heard in human rights debates. Although at face value some ideas seem unfeasible in contemporary international economic practice, it does not necessarily follow that it is a futile exercise to discuss them. Any open conversation of this sort should benefit our understanding of the interaction between human rights and trade.

The volume consists of two main parts: first, a conceptual framework is set out, which is tested in the second by a variety of case studies in different contexts. As this volume includes twenty-five contributions, it is impossible to discuss every single one of them within this limited space. Accordingly,

[27] Havana Charter for an International Trade Organization, above n 16, Article 3.1; GATT Article XXIX:1. Existing provisions in GATT Articles XXXVI:1(e) and XXXVI:3 may provide authority for further work on trade and employment.

[28] For example, see Kenneth F. Scheve and Matthew J. Slaughter, 'A New Deal for Globalization', Foreign Affairs, July/August 2007, at 34; International Trade Union Confederation, above n 23, at 6; Steve Charnovitz, 'Worker Adjustment: The Missing Ingredient in Trade Policy', 28 California Management Review (1986) at 156 (examining the failures in the U.S. trade adjustment assistance program and explaining why needed reforms are unlikely to occur).