Center for American Progress

# Labor Rights Can Be Good Trade Policy

## An Analysis of U.S. Trade with Less Industrialized Economies with Weak or Strong Labor Rights

Christian E. Weller and Stephen Zucconi September 2008

Center for American Progress

# Labor Rights Can Be Good Trade Policy

## An Analysis of U.S. Trade with Less Industrialized Economies with Weak or Strong Labor Rights

Christian E. Weller and Stephen Zucconi September 2008

# Introduction and summary

The United States for decades now has racked up large and growing trade deficits with the rest of the world. These deficits—at or above 5 percent of gross domestic product since the middle of 2004—could contribute to much lower U.S. living standards in the future. They essentially mean that the United States consumes more than it produces. The United States must finance this additional consumption by selling off domestic assets, such as treasury bonds, but also banks, buildings, and other real assets. Running up ever more debt to pay for additional consumption, though, can only work so long. Eventually, a country has to start worrying about repaying its debt.

Repaying this accumulated debt—at the end of 2007, the United States owed $2.4 trillion more to foreigners than it held in foreign assets abroad—will become increasingly costly to our nation's standard of living because it will come at the expense of making needed investments in other parts of our economy. Defaulting on this debt, through higher inflation, which reduces the value of assets in the United States, or a rapidly falling currency, which debases the currency value of U.S. assets held by foreign investors, are equally unpalatable because both will have serious adverse consequences for future economic growth and for living standards. Because of these threats to future living standards, economists have long considered the large and growing U.S. trade deficits unsustainable.

But what should policymakers do about it? One important approach is to increase the competitiveness of U.S. producers by investing in innovation here at home. Another is to promote the creation of a global middle class that can buy more high-end U.S. goods and services (see box on page 10 for a discussion of this so called "virtuous circle" strategy of global economic development). An integral part of this virtuous circle strategy is the promotion of enforceable labor rights, including by negotiating them as part of trade agreements.[1]

Better labor standards in trading-partner countries, especially in less industrialized economies, can positively affect U.S. exports and U.S. imports.[2] Better labor rights could increase demand for U.S. exports by boosting the incomes of workers overseas. And better labor standards abroad reduce the cost advantage that some countries may enjoy by paying their workers poorly.[3] This effect should contribute to fewer U.S. imports from low-wage countries, assuming nothing else changes.

But is that assumption correct? In this paper we consider data on U.S. trade with a range of countries to see if there is a link between labor rights of other countries and the U.S. trade balance. Specifically, we analyze if the United States has smaller trade deficits or even trade surpluses with less industrialized countries that have some or even strong labor rights compared to countries that have limited or no labor protections. Our analysis shows that better labor rights can be a productive part of a trade agenda that aims to correct massive U.S. imbalances. In particular:

- The U.S. trade deficit grows much more slowly with countries that have stronger labor standards. Between 2000 and 2007, the gap between U.S. exports and U.S. imports widened faster for countries with limited or no labor rights than for countries with some or strong labor rights.

- The United States has also smaller trade deficits with countries that have better labor rights. Specifically, on average U.S. exports amounted to 74.5 percent of U.S. imports in countries with strong or some labor rights in 2000 (indicating a trade deficit) compared to an average ratio of 36.0 percent (and thus a larger trade deficit) for countries with limited or no labor protections.

- Trade with less industrialized countries with weak or no worker protections has substantially contributed to the increase in the U.S. trade deficit from 2000 to 2007.[4] If the United States had only traded with less industrialized economies that had some or strong worker rights during those years, its trade deficit in 2007 would have been $123 billion smaller than it actually was.

- U.S. exports tend to be larger when worker rights are stronger. In 2000, U.S. exports to countries with strong or some worker rights were 182.3 percent greater than U.S. exports to countries with limited or no worker rights. If we exclude China from the analysis, the difference was 253.5 percent. In 2007, the difference was still 93.5 percent for all less industrialized economies, and for the analysis without China we find a difference of 327.2 percent in U.S. exports.

- Stronger labor rights are associated with smaller U.S. imports. U.S. imports grew faster from 2000 to 2007 for countries with limited or no labor rights than for countries with some or even strong labor rights.

Labor rights clearly have a positive effect on U.S. trade deficits, and thus help to put U.S. economic growth on a more durable path. Consequently, the promotion of labor standards, alongside environmental protections, should be an integral part of the future U.S. trade agenda. In the pages that follow, we present the detailed analysis to support these conclusions and examine how the inclusion of labor rights in trade agreements with newly industrializing economies would result in higher U.S. exports and a growing global middle class.

# Labor rights could result in smaller trade deficits

Before we present our analysis of the link between U.S. trade deficits and labor standards abroad, we first need to explain some basic economic concepts and how these concepts inform our analysis. Some of these explanations may seem self evident, but others require us to walk through the basics in order to understand the more complex analysis that follows.

The trade balance is the difference between exports of goods and services from the United States and imports of goods and services into the United States from abroad.[5] A trade deficit means that a country exports less than it imports. Consequently, a country with a trade deficit must finance the difference between its earnings on exports and its payments for imports by selling off stocks, bonds, and other assets.

Because trade deficits must be paid for by borrowing abroad, they can become unsustainable. Eventually a country may not be able to borrow more since it cannot reasonably repay its debt without going into a severe recession. Several industrialized and industrializing economies experienced severe financial and economic crises as a result of unsustainably high trade deficits, among them Finland in 1992, Mexico in 1995, and South Korea, Thailand, and Malaysia in 1997.[6]

Economists put the level of unsustainable U.S. trade deficits at about 5 percent of GDP, which is somewhat higher than for other countries because of a number of factors, among them the size and importance of our economy in the world, the widespread use of our currency for the conduct of trade, the equally widespread use of our government bonds as reserve assets by central banks around the world, and the general belief that the U.S. government will repay its debt.[7] Over the past few years, the U.S. trade deficit hit this unsustainable territory. Since the middle of 2004, the United States racked up trade deficits that were at or above 5 percent of GDP. In the second quarter of 2008, the U.S. trade deficits averaged 5.2 percent of GDP.[8]

The challenge posed by an unsustainable trade deficit is how to reduce the trade deficit. Consequently, our data analysis will put a heavy emphasis on identifying how labor rights are associated with changes in the trade deficit. Analyzing changes over time, however, also means that we will have to severely limit the number of observations. To make sure that a limited number of observations do not skew our results, we also compare the levels of trade balances across countries with different labor standards.

Trade also is a function of income and prices.[9] In particular, U.S. exports are a function of income overseas and the difference between prices for a good in the United States relative to prices for the same or a similar good or service in other countries. If incomes abroad increase, then U.S. exports rise, too, because overseas consumers now have more money to spend on all goods and services, including those made in the United States. And if U.S. prices grow above prices overseas, then U.S. exports will decrease since U.S. products become less competitive and can be more easily substituted by less expensive goods made in other countries.[10]

Determinants of U.S. imports work similarly. Increasing incomes in the United States result in more U.S. imports because U.S. consumers have more money to spend on all goods and services, including those made abroad. In fact, U.S. consumers (and U.S. companies) tend to increase their imports faster in response to income increases in the United States than is the case for other countries. In essence, U.S. imports are more sensitive to income changes than U.S. exports.

This difference in the sensitivity to income changes with respect to U.S. imports and U.S. exports is a contributing factor to persistent U.S. trade deficits. If incomes grow at the same rate in the United States and abroad, then U.S. imports will grow faster than U.S. exports, all else being equal, and the United States will experience a trade deficit.[11] To shrink the U.S. trade deficit will require that the U.S. economy grows more slowly than its trading partner countries'. This either means faster economic growth abroad or slower growth in the United States.

Faster economic growth abroad obviously results in higher living standards for U.S. families than slower U.S. economic growth. Price differentials matter for U.S. imports, too. If products start to cost less overseas than they do in the United States, then U.S. imports will increase, but if global prices start to rise above those prevailing in the United States, then imports into the United States will decline.

Differences in global and U.S. prices for the same or at least similar goods and services are influenced by several factors. First, they are a function of production costs. For instance, producers can gain an advantage by exploiting workers more and by paying less for environmental protection. Consequently, better labor and environmental standards, mean that producers must account for more of the true costs of their production and thus have to compete more on the basis of the quality of their products and services rather than on how well they can unload costs onto society—in the form of higher environmental degradation or social turmoil due to low standards of living.

Second, prices are a function of how productive workers are. If workers in a country can produce more of the same product or of a similar product of higher quality in the same amount of time and with the same resource as workers in another country, then they are

more productive. That means companies with more productive workers can offer their products or services at a lower prices and thus can increase their exports.

This may be why the United States is losing its competitive advantage in high-tech industries. The U.S. trade deficit in advanced technology products is growing because a wide range of U.S. trading-partner countries are beginning to move up the productivity scale, producing better products with the same number of workers. The result is a loss of competitiveness in high-tech products for U.S. producers to a range of countries, including Mexico, Indonesia, China, and South Korea.[12]

Third, exchange rates affect price differences between countries. If a currency is highly valued, then that country's exports become relatively more expensive and imports into that country become less expensive, which typically means that imports will also increase. The opposite has been the case for the United States over the past few years. As the value of the U.S. dollar declined over the past six years, U.S. import growth slowed and U.S. exports increased. From 2004 through the middle of 2008 annual inflation-adjusted U.S. export growth rates averaged between 7 percent and 9 percent, compared to declining exports in 2001 and 2002 and a growth rate of only 1.3 percent in 2003, during this business cycle.[13]

How do worker rights fit into this story? Better worker rights in some countries translate into higher incomes in those countries.[14] This should create more demand for U.S. products and services and thus lead to more U.S. exports. At the same time, improved labor standards mean that overseas producers will no longer be able to unload a share of their production costs onto society.[15] Instead, producers will have to pay for the costs of their production and thus U.S. producers of similar products will face a level playing field when selling their goods and services.

The cost increase to producers from higher labor standards, though, can be partially offset. The economic evidence suggests that better labor standards not only go along with higher incomes and better benefits, but also with higher productivity levels.[16] The main economic reasoning here is that employers will find new and better ways to utilize the existing labor when they have to pay more for it. Consequently, better labor standards can make a contribution to faster productivity growth and thus faster economic growth abroad, which is one of the policy targets of sound international economic policy.

Importantly, from a U.S. perspective, the combination of all factors that result from better labor standards point toward lower U.S. trade deficits. Exports should increase because of higher standards of living abroad and imports should decline as overseas producers have to bear more of their production costs, even if part of the additional cost is offset by higher productivity levels. Economic theory and evidence thus suggest that labor standards can play a role in reducing the large U.S. economic imbalances and thus should be taken seriously as part of the overall international economic policy agenda.[17]

# Analyzing the link between labor rights and trade

In our analysis, we define worker rights by using data from Freedom House—a research organization focused on the promotion of free markets around the world—as an indicator for existing labor standards. The data series that is commonly used is their index of civil liberties. It is a composite index that includes several measures that are close, if not identical to the International Labor Organization's core labor standards, such as the absence of discrimination and the freedom of assembly. Freedom House's index of civil liberties ranks countries on a scale from 1 to 7 with 1 indicating the most civil liberties and 7 suggesting the least. To simplify our analysis, we consider rankings of 1, 2, and 3 to represent "some or even strong labor standards." Rankings of 5, 6, and 7 represent "limited or no labor standards."[18] We ignore countries with rankings of 4 because they are indeterminate.

In addition, a number of countries that are accused of suppressing some worker rights would be ranked according to Freedom House as having strong worker rights, which is why we employ a stricter classification standard. We classify only countries with civil liberties scores of "1" or "2" as having some or even strong labor rights. And we classify countries with civil liberties "6" and "7" as having limited or no labor rights. The results based on this alternative classification system are detailed in the appendix.

This ranking process allows us to classify 69 newly industrializing economies as having strong worker rights and 44 newly industrializing economies as having limited or no labor protections in 2007. We concentrate on newly industrializing economies because any new trade agreements will probably focus on promoting labor standards in those countries. Our data show that all industrialized countries had some or even strong labor standards in 2007, while only a little over 60 percent of newly industrializing countries did. Moreover, from 2000 to 2007, the U.S. trade deficit with all countries that were classified as having strong or limited or no labor rights increased by 1.3 percentage points relative to U.S. GDP, all of which was with newly industrializing economies.[19]

A list of the 30 countries responsible for the largest U.S. trade deficits or smallest surpluses, and with limited or no labor standards is shown in the table on page 7.[20] In this table we include China, though in some of our subsequent analysis we will consider the data without including China. The U.S. trade deficit with China has grown rapidly in recent years and the U.S. trade deficit with China was the largest with any less industrialized economy

in 2007. Equally, U.S. imports from China were the largest from any newly industrializing economy in 2007. By excluding China from our later analysis, we essentially control for outliers in our data by ensuring China is not skewing the results of our analysis.

### Poor Labor Standards, High Trade Inbalances

Trade balances, exports, and imports of top 30 newly industrializing economies with limited or no labor standards in 2007

| Country | Balance to U.S. GDP (in percent) | U.S. Balance | U.S. Exports | U.S. Imports |
|---|---|---|---|---|
| China | –1.85 | –256,207 | 65,236 | 321,443 |
| Saudi Arabia | –0.18 | –25,230 | 10,396 | 35,626 |
| Algeria | –0.12 | –16,164 | 1,652 | 17,816 |
| Russia | –0.09 | –11,949 | 7,365 | 19,314 |
| Angola | –0.08 | –11,227 | 1,280 | 12,508 |
| Vietnam | –0.06 | –8,730 | 1,903 | 10,633 |
| Rep. of Congo | –0.02 | –2,931 | 140 | 3,071 |
| Libya | –0.02 | –2,874 | 511 | 3,385 |
| Cambodia | –0.02 | –2,325 | 139 | 2,463 |
| Chad | –0.02 | –2,079 | 66 | 2,145 |
| Azerbaijan | –0.01 | –1,710 | 178 | 1,887 |
| Pakistan | –0.01 | –1,543 | 2,035 | 3,578 |
| Equatorial Guinea | –0.01 | –1,541 | 236 | 1,777 |
| Belarus | –0.01 | –932 | 102 | 1,033 |
| Kazakhstan | 0.00 | –499 | 753 | 1,252 |
| Cote d'Ivoire | 0.00 | –439 | 162 | 600 |
| Madagascar | 0.00 | –306 | 32 | 338 |
| Brunei | 0.00 | –265 | 140 | 405 |
| Cameroon | 0.00 | –164 | 133 | 297 |
| Dem. Rep. Congo | 0.00 | –94 | 113 | 207 |
| Uzbekistan | 0.00 | –76 | 89 | 165 |
| Turkmenistan | 0.00 | –34 | 185 | 219 |
| Bahrain | 0.00 | –33 | 591 | 625 |
| Iran | 0.00 | –28 | 145 | 173 |
| Guinea | 0.00 | –26 | 74 | 99 |
| Laos | 0.00 | –15 | 6 | 20 |
| Bhutan | 0.00 | 3 | 4 | 1 |
| Eritrea | 0.00 | 6 | 6 | 0 |
| Burundi | 0.00 | 6 | 7 | 1 |
| Burma | 0.00 | 9 | 9 | 0 |

Source: Authors' calculations. See appendix for description of data, sources, and definitions. Balances relative to U.S. GDP are in percent.All other figures are in U.S. millions of dollars.

Similarly, a list of the 30 countries with the largest U.S. deficits or smallest surpluses with some or even strong labor standards is shown in the table below.[21]

## Strong Labor Standards, Better Trade Inbalances

Trade balances, exports, and imports of top 30 newly industrializing economies with some or even strong labor standards, 2007

| Country | Balance to U.S. GDP (in percent) | U.S. Balance | U.S. Exports | U.S. Imports |
|---|---|---|---|---|
| Mexico | –0.54 | –74,622 | 136,092 | 210,714 |
| South Korea | –0.09 | –12,918 | 34,645 | 47,562 |
| Taiwan | –0.09 | –11,968 | 26,309 | 38,278 |
| Indonesia | –0.07 | –10,066 | 4,235 | 14,301 |
| Israel | –0.06 | –7,775 | 13,019 | 20,794 |
| Trinidad and Tobago | –0.05 | –7,010 | 1,780 | 8,790 |
| India | –0.05 | –6,485 | 17,589 | 24,073 |
| South Africa | –0.03 | –3,533 | 5,521 | 9,054 |
| Ecuador | –0.02 | –3,199 | 2,936 | 6,135 |
| Philippines | –0.01 | –1,696 | 7,712 | 9,408 |
| Hungary | –0.01 | –1,536 | 1,292 | 2,828 |
| Peru | –0.01 | –1,152 | 4,120 | 5,272 |
| Brazil | –0.01 | –1,019 | 24,626 | 25,644 |
| Colombia | –0.01 | –876 | 8,558 | 9,434 |
| Slovakia | –0.01 | –825 | 680 | 1,505 |
| Nicaragua | –0.01 | –714 | 890 | 1,604 |
| Chile | 0.00 | –684 | 8,315 | 8,999 |
| Lesotho | 0.00 | –436 | 8 | 443 |
| Romania | 0.00 | –378 | 677 | 1,054 |
| Slovenia | 0.00 | –192 | 297 | 488 |
| Mauritius | 0.00 | –138 | 50 | 187 |
| Botswana | 0.00 | –134 | 54 | 188 |
| Bulgaria | 0.00 | –120 | 306 | 426 |
| Bolivia | 0.00 | –85 | 278 | 363 |
| Croatia | 0.00 | –85 | 247 | 332 |
| Mongolia | 0.00 | –58 | 26 | 84 |
| Estonia | 0.00 | –54 | 242 | 296 |
| Papua New Guinea | 0.00 | –43 | 66 | 109 |
| Macedonia | 0.00 | –39 | 34 | 73 |
| Bosnia-Herzegovina | 0.00 | –5 | 20 | 25 |

Notes: Authors' calculations. See appendix for description of data, sources, and definitions. Balances relative to U.S. GDP are in percent. All other figures are in U.S. millions of dollars.

The data in these two tables on pages 7 and 8 highlight why it is important to understand the labor-law determinants of changes in the U.S. trade deficit. Yet many of the institutions and other hard-to-measure factors that can influence trade will differ between countries—even after we account for institutional differences with the civil liberties index—and even though they vary little within a country over a period of seven years. This can make cross-country comparisons slightly more difficult to interpret, although international economists rely on such comparisons.[22]

That's why our analysis of U.S. trade with countries that have varying degrees of worker protections proceeds in several steps. First, we compare the ratio of U.S. exports to U.S. imports with countries that have some or even strong labor standards with the same ratio for countries that have limited or no labor standards. The trade balance is the difference between exports and imports. A ratio of exports to imports that is greater than 100 percent indicates a trade surplus, while a ratio of less than 100 percent suggests a trade deficit.

Using this ratio is preferable to reporting the trade balance since the ratio of U.S. exports to U.S. imports for a particular country implicitly accounts for the size of the trading partner country. Both exports and imports are presumably to some degree influenced by the country size of the trading partner country. The trade balance, though, does not control for country size.[23]

Second, we want to understand if any differences in the trade deficit by labor standards are associated with differences in imports, exports, or both. Hence, we calculate U.S. exports to and U.S. imports from each country. We adjust these numbers for inflation and express them all in 2007 dollars to allow for comparisons over time. We then report the average U.S. exports and U.S. imports for each group of country in 2000 and 2007, and the average growth rate from 2000 to 2007.

Third, we account for the effects of other relevant determinants of trade in addition to the effects of labor rights.[24] For one, we consider differences in income levels. The United States should export more and possibly import less from countries that have higher incomes. We want to make sure that any differences in U.S. trade that we attribute to differing labor standards still hold when we consider low-income and high-income countries separately.

We also consider the potential effect of oil production on trade. Importantly, demand for oil will likely change much more slowly than demand for, say, toys, where the cost of labor is a key determinant. We want to make sure that the differences in the U.S. trade balance associated with labor rights continue to exist, when we separately look at oil producers and non-producers.

Furthermore, we account for changes in the real exchange rate from 2000 to 2007. The U.S. trade balance should have improved more with countries that have seen more of a currency appreciation relative to the U.S. dollar than countries that have experienced

less of a currency appreciation. Here, we separate countries into those that have experienced a fast appreciation of their currency and those that have seen a slow appreciation (or depreciation) of their currency. Within each group of countries, we then consider if there are differences in trade by a country's adherence to labor rights.

Finally, we look at the total U.S. trade balance with countries with some or even strong labor rights and those with limited or no labor rights. While the average trade balances tell us if there is a link between labor rights and trade deficits, the real question is ultimately, if the comparison is substantial enough to make a difference for the total U.S. trade deficit.

## A Virtuous Circle of Global Trade

Globalization is a key contributor to rising wealth and living standards in the United States and abroad. It has helped lift an impressive 300 million people out of extreme poverty around the world over the past two decades. And here at home, a growing and prosperous middle class accompanied America's dominance of world trade in the decades following World War II.

But globalization also exacerbates income inequality between and within most countries, quite significantly in many cases. Today, American middle-class working families have a narrower margin of comfort than at any time since the Great Depression. This isn't surprising when many of our nation's manufactured goods are priced out of world markets by persistent exchange-rate misalignments, when our major trading partners deliberately run large, ongoing trade surpluses by manipulating their macroeconomic and regulatory policies, and when free trade agreements are so free that no care is put into rules or institutions to stop these distortions.

Over the past two generations, the United States succeeded in bringing large parts of the world into a liberal economic order, but the challenge today is to ensure that the rising tide propelled by economic integration lifts as many boats as possible at home and abroad. The next president and his administration must take steps abroad to ensure that expanded trade and investment with developing countries drive strong increases in their living standards and purchasing power.

This will generate additional demand for U.S. goods and services as a new global middle class enjoys the home comforts, prosperity, and new opportunities that Americans began to appreciate after the Great Depression. When our exports to middle-income countries are on the rise, our own living standards will rise, too..

Trade agreements are not a goal in themselves. They are a tool to help businesses reach new markets and for consumers to get better, cheaper goods. Recognising this, the next administration's foreign economic priority should breathe life into this virtuous circle of rising living standards at home and abroad by organizing our trade, aid, and monetary policies towards the crucial goal of an ever expanding and prosperous global middle class.

Before entering into free trade agreement negotiations, the United States should conduct an assessment of both whether the talks would be likely to produce a net expansion of trade, but also if properly enforceable laws and institutions are put in place so that our trade partners honor their international commitments and can protect their workers, consumers and the environment as well as the investors who enable their businesses to grow will benefit.

We also need to help our trading partners broaden their own middle classes. To this end, the United States should pursue global trade policies that strengthen newly industrialized economies and the world economy as a whole by diversifying them away from an excessive reliance on U.S. consumer demand and toward the steady enlargement of the consumption power of a global middle class. The international community and multilateral institutions, including the International Monetary Fund and World Bank, must now help emerging market economies look beyond

## A Virtuous Circle of Global Trade (continued)

macroeconomic stability and open trade policies to build stronger social safety nets. This will ensure that people in middle-income countries such as China and India can buy what they want today rather than saving every penny because they know that there is no statutory help if they become unemployed, incapacitated, or retire.

Economic institution-building must also become a major, new priority, particularly in middle-income countries, where the central poverty challenge is no longer providing basic human needs but confronting growth in inequality and marginalization despite significant advances in national income. Financial and technical assistance should also be offered to support countries' own efforts to spur job creation by strengthening their enabling environment for private-sector investment in small businesses, housing, and infrastructure, as well as to improve social protections such as basic social insurance programs and implementation of worker rights, consumer safety, and environmental rules.

The incentive for emerging-market countries to undervalue their currency exchange rates and accumulate large foreign exchange reserves through trade surpluses must also be reduced. This can be done by improving the IMF's currency surveillance and macroeconomic coordination functions, increasing the resources available for currency crisis prevention, and striking a better balance between growth in exports and domestic consumption in policy advice. And the operations of the multilateral development banks should be refocused in middle-income countries from direct lending to strengthening institutional capacity in the areas of investor, consumer, and environmental protections; social safety net expansion; and private investment risk mitigation, particularly regarding infrastructure and clean energy.

Other institutional reforms will also be necessary. The United State should catalyze global implementation of the International Labor Organization's decent work agenda of job creation, fundamental worker rights, societal protections, and social dialogue between workers, employers, and civil society. We can do this by promoting a tripling of funding for ILO capacity-building assistance and ensuring greater policy coherence between IMF, ILO, World Bank, and World Trade Organization on labor issues. The European Union and many other countries have already embraced this agenda and have begun to implement its recommendations. The United States should cooperate with the ILO, which is well-positioned to help national governments build institutions to manage the effects of globalization on their workers.

For low-income countries, the United States should fully fund the share of resources required to achieve the Millennium Summit and G-8 commitments with respect to infectious diseases, maternal and child health, basic education, water and sanitation, hunger, and extreme poverty reduction. And we should facilitate these poorer countries' more rapid advancement to middle-income status by increasing resources for basic human needs, eliminating trade barriers to their exports, and helping them to capitalize on export opportunities by providing major funding and incentives for investment in infrastructure and trade-related productive capacity. Development must also be placed on a par with defense and diplomacy by creating a cabinet-level position to develop a single strategy for U.S. humanitarian and development assistance programs.

By putting in place the social safety nets and proper protections necessary to ensure the rise of a new global middle class, we will see the full activation of the virtuous circle promised by liberal economic theory. This strategy provides the most serious response yet to U.S. public concerns regarding the inequality and insecurity accompanying globalization and accelerated technological change. In a world economy in which the supply of labor has effectively doubled, and capital and technology are much more mobile, it offers a concrete vision of how to prevent globalization from remaining a race to the bottom and transforming it into a race to the top.

# U.S. trade is more balanced with countries that have better worker rights

We first consider the ratio of U.S. exports to U.S. imports with newly industrializing countries in 2000 and 2007 in the table on page 13. We report the average and median ratios. The median is the ratio that splits the data exactly in half. We separately calculate the ratios for countries with some or even strong labor standards in the first column and for countries with limited or no labor standards in the second column. We then calculate the difference between these two averages in the third column. We present our calculations so that a positive sign indicates that stronger labor rights are associated with smaller trade deficits, larger trade surpluses, and bigger improvements in the trade balance.

The table on page 13 shows that larger trade deficits are correlated with weaker labor rights. Specifically, on average U.S. exports amounted to 74.5 percent of U.S. imports in countries with strong or some labor rights in 2000, compared to an average ratio of 36.0 percent for countries with limited or no labor protections. The difference for the median ratios is smaller: 83.2 percent to 74.1 percent, respectively. And by 2007 the gap in the average and median ratios of U.S. exports to U.S. imports had widened. This also indicates that stronger labor rights are associated with a larger change in the ratio of U.S. exports to U.S. imports, or a smaller growth rate of the U.S. trade deficit.

The data show that promotion of more worker rights globally could have slowed the growth of the U.S. trade deficit during the period from 2000 to 2007.[25] But because U.S. trade deficits with China have grown sharply, we calculate the data without including China. The table on page 13 also shows that our earlier results hold. Countries with strong or some labor rights had a higher ratio of U.S. exports to U.S. imports in 2000 and 2007 than countries with limited or no labor rights.

Thus, labor standards are associated with smaller trade deficits, even when we do not include China in the analysis. Our calculations on the changes in the ratios of U.S. exports to U.S. imports consistently show that this ratio grew faster or deteriorated less for countries with strong or some labor rights than countries with weaker labor rights.

What explains the differences in trade balances? Our figures in the table on page 13 show that the United States exports more to countries with stronger labor rights. In 2000, U.S. exports to countries with strong or some worker rights were 182.3 percent greater than U.S. exports to countries with limited or no worker rights. If we exclude China from the

## Labor Standards and Trade

U.S. exports to U.S. imports, by labor standards in 2000 and 2007

| | Some or even strong labor standards | Limited or no labor standards | Actual difference |
|---|---|---|---|
| **All newly industrializing economies** | | | |
| Average in 2000 | 74.5 | 36.0 | 38.5 |
| Median in 2000 | 83.2 | 74.1 | 9.1 |
| Average in 2007 | 73.1 | 26.2 | 46.9 |
| Median in 2007 | 114.1 | 56.9 | 57.2 |
| Change of average from 2000 to 2007 | –1.4 | –9.8 | 8.4 |
| Change of median from 2000 to 2007 | 18.2 | 0.8 | 17.5 |
| **All newly industrializing economies, without China** | | | |
| Average in 2000 | 74.5 | 54.3 | 20.2 |
| Median in 2000 | 83.2 | 75.5 | 7.7 |
| Average in 2007 | 73.1 | 41.1 | 31.9 |
| Median in 2007 | 114.1 | 58.5 | 55.6 |
| Change of average from 2000 to 2007 | –1.4 | –13.1 | 11.7 |
| Change of median from 2000 to 2007 | 18.2 | –0.3 | 18.5 |

Source: Authors' calculations. See appendix for data, data sources, and variable descriptions. All figures are in percentages. Changes of changes are percentage point differences.

analysis, the difference was 253.5 percent. In 2007, the difference was still 93.5 percent for all newly industrializing economies and for the analysis without China we find a difference of 327.2 percent in U.S. exports.

These data also cautiously suggest that better labor rights abroad may also be correlated with the growth of U.S. exports. When we consider data without China in the table on page 14, we find that the average export amount grew by 12.9 percent from 2000 to 2007 for countries with some or even strong labor rights, while it declined by 6.6 percent for countries with limited or no labor rights. Our figures thus support the theoretical argument that stronger labor rights may be good for U.S. exports and that this potential link has grown stronger.

The data in the table on page 14 also show that labor rights are positively correlated with fewer U.S. imports. For one, U.S. imports from countries with limited or no labor standards were larger than U.S. imports from countries with some or even strong labor standards in 2007. More importantly, U.S. imports grew faster from 2000 to 2007 for countries with limited or no labor rights than for countries with some or even strong labor rights.[26]

Over time the potentially positive link between stronger labor rights and fewer U.S. imports has grown—such that by 2007, the U.S. imported on average less from countries with strong or some labor rights than from countries with limited or no labor standards.

## Trade and Labor Standards

Exports and Imports in 2000 and 2007

| | Some or even strong labor standards | Limited or no labor standards | Actual difference |
|---|---|---|---|
| **All newly industrializing economies** | | | |
| **2000** | | | |
| Exports | $4,560 | $1,615 | 182.3% |
| Imports | –$6,284 | –$4,610 | –36.3% |
| **2007** | | | |
| Exports | $5,148 | $2,660 | 93.5% |
| Imports | –$7,047 | –$10,169 | 30.7% |
| **Change from 2000 to 2007** | | | |
| Exports | 12.9% | 64.7% | –51.8% |
| Imports | –12.1% | –120.6% | 108.4% |
| **All newly industrializing economies, without China** | | | |
| **2000** | | | |
| Exports | $4,560 | $1,290 | 253.5% |
| Imports | –$6,284 | –$2,440 | –157.5% |
| **2007** | | | |
| Exports | $5,148 | $1,205 | 327.2% |
| Imports | –$7,047 | –$2,930 | –140.5% |
| **Change from 2000 to 2007** | | | |
| Exports | 12.9% | –6.6% | 19.5% |
| Imports | –12.1% | –20.1% | 7.9% |

Notes: Authors' calculations. See appendix for data, data sources, and variable descriptions. Levels are in millions of chain weighted real U.S. dollars (in 2007 dollars) and changes are in percentages. Dollar values are averages weighted by each country's GDP on a purchasing power parity basis. Changes are changes of the weighted averages in 2000 and 2007. Changes of changes are percentage point differences.

# Stronger labor rights correlate with smaller trade deficits, even when other factors are considered

As a second step, we look at the differences in the U.S. trade balances by countries' labor standards in addition to one other factor, such as income, oil production, and shifts in currency exchange rates.

Our calculations in the table on page 16 show the ratios of U.S. exports to U.S. imports for six different groups of countries. In 2000, the ratios of U.S. exports to U.S imports with all groups of countries with some or even strong labor standards were smaller than the ratios with countries with limited or no labor standards in the same categories. This was still true for all countries in 2007—even for non-oil producing countries—where in 2000 stronger worker rights were associated with larger ratios of exports to imports.[27]

Again, we are particularly interested in the possible correlation between labor rights and changes in the trade deficit. We find again that the ratio of U.S. exports to U.S. imports improved more or deteriorated less from 2000 to 2007 among countries that had stronger worker rights than among countries that had weaker labor rights.[28] This was true for all countries and it was true for averages and medians, except oil-producing countries. While stronger worker rights were associated with larger ratios of U.S. exports to U.S. imports among oil-producing countries in 2000 and 2007, this advantage diminished over time.

Our analyses of the trade data that are broken down by worker rights implementation and other factors relevant to trade flows lead us to conclude that stronger labor rights are correlated with smaller trade deficits and improving trade balances.

## Linking Trade and Labor Rights

U.S. exports to U.S. imports, by country characteristics and labor standards in 2000 and 2007

| | Some or even strong labor standards | Limited or no labor standards | Actual difference |
|---|---|---|---|
| **Averages** | | | |
| **2000** | | | |
| Low-income countries | 57.1 | 17.8 | 39.3 |
| High-income countries | 76.2 | 56.3 | 19.9 |
| Oil-producing countries | 85.9 | 27.5 | 58.5 |
| Non-oil producing countries | 64.3 | 87.1 | –22.8 |
| **2007** | | | |
| Low-income countries | 69.4 | 22.4 | 46.9 |
| High-income countries | 73.5 | 39.3 | 34.2 |
| Oil-producing countries | 65.8 | 24.5 | 41.3 |
| Non-oil producing countries | 81.0 | 47.1 | 33.9 |
| **2000 to 2007** | | | |
| Low-income countries | 12.3 | 4.6 | 7.7 |
| High-income countries | –2.7 | –17.0 | 14.3 |
| Oil-producing countries | –20.1 | –2.9 | –17.2 |
| Non-oil producing countries | 16.7 | –40.0 | 56.7 |
| Fast-appreciating currencies | –5.3 | –24.9 | 19.6 |
| Slow-appreciating currencies | 2.8 | –17.9 | 20.7 |
| **Median** | | | |
| **2000** | | | |
| Low-income countries | 103.7 | 82.2 | 21.5 |
| High-income countries | 76.8 | 43.1 | 33.7 |
| Oil-producing countries | 110.7 | 30.7 | 80.0 |
| Non-oil producing countries | 76.8 | 110.6 | –33.8 |
| **2007** | | | |
| Low-income countries | 164.9 | 79.2 | 85.7 |
| High-income countries | 111.6 | 34.5 | 77.1 |
| Oil-producing countries | n.a. | 29.2 | n.a. |
| Non-oil producing countries | 115.2 | 79.2 | 36.0 |
| **2000 to 2007** | | | |
| Low-income countries | 17.4 | 0.8 | 16.6 |
| High-income countries | 18.2 | –1.2 | 19.4 |
| Oil-producing countries | –14.6 | 7.5 | –22.0 |
| Non-oil producing countries | 20.9 | –4.5 | 25.5 |
| Fast-appreciating currencies | 17.1 | 1.8 | 15.3 |
| Slow-appreciating currencies | 20.9 | 3.1 | 17.9 |

Source: Authors' calculations. See appendix for data, data sources, and variable descriptions. All figures are in percentages. Changes of changes are percentage point differences.

# Better labor rights could translate into lower total U.S. trade deficits

The country-by-country data already led us to suspect that the United States has smaller total trade deficits with less industrialized economies that have stronger worker rights than with less industrialized countries with limited or no labor rights. To see if this is the case, we add all trade balances for a given year for less industrialized countries with some or even strong labor rights and do the same for countries with limited or no labor rights. To make the data comparable over time, we divide each sum by the U.S. GDP. The data for 2000 and 2007 and the changes between those years are presented in the table below.

Our figures show that countries with limited or no labor standards had larger trade deficits in 2000 and 2007 than countries with some or even strong worker protections. The trade deficit with countries with limited or no labor standards amounted to 1.4 percent of U.S. GDP in 2000. At the same time, the U.S. trade deficit with countries that had strong labor protections totaled 0.8 percent of GDP. In addition, in 2007 the trade deficit with countries that had limited or no labor protections amounted to 2.4 percent of U.S. GDP, while the total U.S. trade deficit with countries that had strong labor protections came to a mere 0.9 percent of U.S. GDP.[29]

The data for the changes in the total U.S. deficits also indicate that the deficit with less industrialized economies with limited or no labor rights has expanded much faster than the total trade balance with countries with weak worker rights from 2000 to 2007. The U.S. trade deficit with countries with limited or no labor rights expanded by 1.0 percentage points relative to U.S. GDP from 2000 to 2007. In comparison, the total U.S. deficit with countries with some or even strong labor rights expanded by only 0.1 percentage points.

### Labor, Trade and GDP Growth

U.S. trade balances relative to GDP, by labor standards in 2000 and 2007

| | Some or even strong labor standards | Limited or no labor standards | Actual difference |
|---|---|---|---|
| 2000 | –0.8 | –1.4 | 0.5 |
| 2007 | –0.9 | –2.4 | 1.5 |
| 2000 to 2007 | –0.1 | –1.0 | 0.9 |

Notes: Authors' calculations. See appendix for data, data sources, and variable descriptions. Levels are in percentages. Changes are in percentage points. All figures represent the ratio of the sum of all trade balances among one particular group of countries in U.S. dollars relative to the U.S. GDP in that year.

The aggregate figures for U.S. exports and U.S. imports in the table below show a strong correlation between labor rights and total U.S. exports. In 2000 and 2007, we find larger U.S. exports to countries with some or strong labor rights than to countries with limited or no worker rights. In particular, the total U.S. exports to countries with limited or no labor standards were 0.8 percent of U.S. GDP in 2007, compared to 2.5 percent of U.S. GDP in exports to countries with strong or some worker rights (see table below). A similar difference does not exist for U.S. imports with countries with varying labor standards.

In comparison, we find that U.S. imports from countries with stronger worker rights increased much less than from countries with weaker labor rights, as shown in the table below. U.S. imports from countries with strong or some worker rights expanded by 0.1 percentage point points from 2000 to 2007. In comparison, U.S. imports from countries with limited or no labor rights expanded by 1.1 percentage points during this period.

### Stronger Labor Standards, Stronger U.S. exports

Exports and imports in 2000 and 2007

| | Some or even strong labor standards | Limited or no labor standards | Actual difference |
|---|---|---|---|
| **2000** | | | |
| Exports | 2.5 | 0.8 | 1.7 |
| Imports | –3.3 | –2.1 | –1.2 |
| **2007** | | | |
| Exports to U.S. GDP | 2.5 | 0.8 | 1.7 |
| Imports to U.S. GDP | –3.5 | –3.2 | –0.2 |
| **2000 to 2007** | | | |
| Exports to U.S. GDP | 0.06 | 0.08 | 0.0 |
| Imports to U.S. GDP | –0.1 | –1.1 | 1.0 |

Source: Authors' calculations. See appendix for data, data sources, and variable descriptions. Levels are in percentages. Changes of totals are percentage point differences relative to U.S. GDP.

To show what this means for U.S. trade consider the following example. Assume that the United States had only traded with countries that had strong or some labor rights between 2000 and 2007. Then assume that all deficits would have risen at the same proportional rate as they had for the sum of all countries with strong or some labor standards. This relative increase was 10.2 percent. The additional deficit, 1.4 percent of GDP, would have risen to 1.5 percent of GDP instead of the actual level of 2.4 percent of GDP.

This reduction of 0.9 percentage points in the U.S. GDP in 2007 would have meant that the deficit would have decreased by $123 billion in 2007. This simple hypothetical example shows that there could be a substantial beneficial impact on the U.S. trade deficit from the promotion of better labor protections around the world.

# Labor rights in U.S. trade agreements

It is not always that straightforward to translate economic theory into useful economic policy. Our analysis shows that the degree of labor rights among U.S. trading partners in the less developed world matters greatly to the size of the U.S. trade deficit. But how should this analysis play out in policy making?

That's why we need to review the state of labor rights in U.S. trade agreements and describe some of the issues that have arisen during the practical implementation of labor rights standards in international trade agreements. It is beyond the scope of this report to examine all U.S. trade agreements or to address all trade agreements and arrangements that have ever included language on worker rights. They include not only bilateral free trade agreements but also World Trade Organization trade negotiating authority, bilateral and multilateral trade preference arrangements, and investment guarantee arrangements.

Consequently, we focus on a selection of the most recent free trade agreements to gain a sense of where the current U.S. trade policy discussion stands and what future directions may look like, specifically examining three key issues integral, but not exclusive, to labor rights enforcement.[30]

- Codification of core labor standards: Should there be a universally applied labor standard or should trade agreements account for the specific institutional, economic, political, and social circumstances of each trading partner country?

- Time consistency: How can the trading partner countries ensure that agreed upon labor standards will not be watered down in the future?

- Enforcement: What enforcement mechanisms, if any, should be applied to the agreed upon labor standards in a trade agreement?

The integration of labor rights into trade agreements centers on the so-called core labor standards of the International Labor Organization as a possible benchmark for labor protections. In June 1998, the International Labor Organization's members adopted the Declaration on Fundamental Principles and Rights at Work. The generally recognized core labor standards that appear in trade agreements of varying forms are derived from this declaration. They include:

- Freedom of association
- The effective recognition of the right to collective bargaining
- The elimination of all forms of forced or compulsory labor
- The effective abolition of child labor
- The elimination of discrimination with respect to employment and occupation[31]
- Acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health[32]

Over the past several years, part or all of these core labor standards have been included in U.S. trade agreements in one form or another. An early, albeit limited example is the labor rights provision of the U.S.–Cambodia Bilateral Textile Agreement. The agreement became effective in January of 1999 and was extended for three years in January of 2001, expiring in 2005.

While the U.S.–Cambodia Bilateral Textile Agreement was in effect, however, it directed Cambodia towards transparency in the administration of labor laws, and effective enforcement of existing Cambodian labor laws.[33] Furthermore, the agreement required Cambodia to implement a program aimed at improving working conditions in its textile and apparel sector, with an eye towards core labor standards but through the application of Cambodian labor laws.[34] This agreement was particularly notable because Cambodia had to adhere to the labor provisions, and likewise, the United States can enforce the labor provisions.

Both governments were obligated to conduct no less than two consultations each year while the agreement was in effect to discuss Cambodia's progress in the implementation of its labor rights program in the textile and apparel sector.[35] Based on each year's consultations the U.S. government was to determine whether working conditions in Cambodia's textile and apparel sector were in compliance with Cambodia's labor laws.[36] If the determination was positive, the United States would increase Cambodia's quota of textiles under the existing international textile quota system at the time. If the determination was negative, the United States was not obligated to increase Cambodia's quota. Between 1999 and 2004, based on positive ILO reports, the United States increased the quota for Cambodian textiles five times.[37]

The U.S.–Jordan Free Trade Agreement approved by Congress in July 2001 is another good example of a bilateral FTA with solid labor rights provisions. Effective as of December 2001, the bilateral trade deal marks the first time labor standards appeared in the body of a U.S. free trade agreement.[38] In particular, the labor provisions of the U.S.–Jordan FTA require the two countries to uphold the principles embodied by the core labor standards as they appear in the ILO's Declaration on Fundamental Principles and Rights at Work,[39] and to "strive to ensure" that they do not relax existing labor laws in a manner affecting trade.[40]

The wording of the labor provisions in the U.S.–Jordan FTA was not significantly different from the labor standards included in the North American Free Trade Agreement, but their inclusion in the body of the U.S.–Jordan FTA left labor provisions subject to dispute

settlement procedures—an added enforcement layer to the labor standards in trade agreements.[41] As set forth in the FTA, dispute settlement procedures lead the parties involved to a Dispute Settlement Panel, which produces a non-binding report of its determinations.[42] If the dispute remains unresolved 30 days after this report is presented, the affected party can take "any appropriate and commensurate measure," ostensibly including sanctions.[43]

The labor provisions that appear in the U.S.–Chile FTA and the U.S.–Singapore FTA, both effective in 2004, are nearly identical to each other regarding the parties' commitment to labor standards, dispute settlement procedures, and enforcement mechanisms. Similar to the U.S.–Jordan FTA, the parties agree to "strive to ensure" that the principles underlying the ILO's internationally recognized core labor standards are upheld.[44] Under the agreements with Chile and Singapore, the parties also agree not to waive or derogate from their domestic labor laws to encourage trade or investment. The addition of investment constituted a slight addition to the language of the U.S.–Jordan FTA. Furthermore, the parties agree to effectively enforce their existing labor laws.[45]

The U.S. agreements with Chile and Singapore also contain similar labor-related dispute settlement and enforcement mechanisms. In both FTAs, wronged parties can initiate a consultation process. The enforcement mechanisms of the Chile and Singapore FTAs are the most significant deviation from the "Jordan standard." Unlike the U.S.–Jordan agreement, the Chile and Singapore agreements include "procedures for labor disputes [that] place limits on monetary penalties, whereas those for commercial disputes do not."[46] In both cases, the maximum penalty assessed following a labor dispute is $15 million, or suspension of trade benefits equivalent to $15 million.

A number of later trade agreements also included labor rights provisions. Specifically, the U.S.–Dominican Republic–Central American FTA encompassed the United States, Honduras, Guatemala, El Salvador, and Nicaragua and became effective in 2006. It became effective in the Dominican Republic in 2007 and is pending implementation in Costa Rica.[47]

Also in 2006, the U.S.–Bahrain FTA became effective, while the U.S.–Oman FTA is still pending implementation. The labor rights provisions included in these FTAs are similar and require the parties to effectively enforce their existing labor laws, not waive or derogate from domestic labor laws, and to "strive to ensure" that the ILO's core labor principles and internationally recognized worker rights are recognized in domestic labor laws.[48] Their dispute settlement procedures and enforcement mechanisms mirror those of agreements with Chile and Singapore. Notably, "only sustained failure to enforce one's own labor laws is subject to binding dispute settlement and ultimately to fines or sanctions."[49] The maximum penalty is $15 million per year for any particular dispute.[50]

Most recently, the U.S.–Peru Trade Promotion Agreement, pending implementation, reaffirms each party's commitment as a member of the ILO and to the fundamental labor rights contained within the ILO's Declaration on Fundamental Principles and Rights at Work.[51]

Additionally, the agreement states that neither party can waive or derogate from, nor fail to enforce labor laws in a manner that affects trade or investment between the parties.[52]

There are similarities in the language of the U.S.–Peru Trade Promotion Agreement and the U.S.–Jordan FTA, particularly in their mutual use of the ILO's Declaration for guidance as to the nature of labor rights. However, the agreements diverge in the cases of dispute settlement and enforcement of labor standards. If Peru fails to comply with labor principles or its own labor laws in a manner affecting trade, then the country can choose a monetary penalty equal to "half the monetary value of the trade benefits that accrue to Peru as a result of the violations."[53] This provision can limit the incentive for Peru to enforce the labor standards of the agreement.[54]

The massive and ultimately unsustainable U.S. trade deficits of the past few years have not received the attention that they deserve, mainly because policymakers, pundits, and the public alike cannot get a handle on how to deal with such a complex problem. Our analysis of the trade numbers and labor rights in the less developed world, however, demonstrates that the promotion of workers' rights can have a salutary effect on the U.S. trade deficit. If done right, the United States can use future trade agreements to promote better worker protections around the globe to boost the living standards of workers worldwide while also helping to reduce the U.S. trade deficit.

A few issues, though, need to be kept in mind. Rather than impose equivalence to U.S. law, which creates a number of practical problems, the United States "should support local, country-driven approaches" to developing institutions abroad that promote labor rights.[55] And for real progress to be made, trade agreements must contain concrete labor standards and a set of benchmarks to map the progression over time. Past and current signatories of trade agreements with the United States are subject to a "soft obligation"[56] to the "principles" underlying the internationally recognized core labor standards.[57] In this regard, trade agreements must provide signatories with the tools to provide positive incentives for moving toward better labor standards, and negative incentives, including sanctions, when benchmarks are not met.[58]

# Conclusion

The United States is experiencing a renewed discussion over the design of future trade agreements against the backdrop of persistently large U.S. trade deficits. The inclusion of labor and environmental standards are part of a proposed new progressive trade agenda. In this paper we examined the available data that allowed us to link worker rights and U.S. trade flows to gain some sense of the economic relevance of the proposed policies.

Our results are very encouraging. They suggest that the theoretical arguments in favor of better labor standards hold up empirically. Better labor rights ultimately help to create a level playing field for U.S. producers and they increase the size of potential export markets. The policy conclusions are clear. Future trade agreements between the United States and other countries should be used to promote better labor standards around the world in an effort to reduce global economic imbalances, especially the massive and unsustainable U.S. trade deficit.

The inclusion of labor standards in trade agreements, though, will have to be supported by other measures, such as additional foreign aid to build local capacity abroad. The "virtuous circle" strategy proposed by our colleagues at the Center for American Progress to grow the global middle class—and presented briefly on page 10 of this report—contains the broader progressive international economic policy agenda in which global labor standards are key.

# Appendix: Additional tables

### Table A-1: Real Average U.S. Trade Balances, by Labor Standards in 2000 and 2007

| | Some or even strong labor standards | Limited or no labor standards | Actual difference |
|---|---|---|---|
| **All less industrialized economies** | | | |
| Balance in 2000 | –$1,052 | –$1,936 | 45.7% |
| Balance in 2007 | –$1,898 | –$7,509 | 74.7% |
| Change from 2000 to 2007 | –80.5% | –287.7% | 207.2% |
| **All less industrialized economies without China** | | | |
| Balance in 2000 | –$1,052 | –$732 | –43.7% |
| Balance in 2007 | –$1,898 | –$1,725 | –10.1% |
| Change from 2000 to 2007 | –80.5% | –135.6% | 55.2% |

Notes: Authors' calculations. See appendix for data, data sources and variable descriptions. Levels are in millions of real U.S. dollars (in 2007 dollars) and changes are in percent. Changes are changes of the weighted averages in 2000 and 2007. Changes of changes are percentage point differences.

## Table A-2: Median U.S. Exports to U.S. Imports, by Alternative Labor Standards Measures in 2000 and 2007

| | Some or even strong labor standards | Limited or no labor standards | Actual difference |
|---|---|---|---|
| **First alternative measure** | | | |
| **All less industrialized economies** | | | |
| Median in 2000 | 105.9 | 43.4 | 62.5 |
| Median in 2007 | 130.3 | 36.9 | 93.3 |
| Change of median from 2000 to 2007 | 20.8 | –13.7 | 34.6 |
| **All less industrialized economies without China** | | | |
| Median in 2000 | 105.9 | 44.1 | 61.8 |
| Median in 2007 | 130.3 | 44.7 | 85.6 |
| Change of median from 2000 to 2007 | 20.8 | –14.0 | 34.8 |
| **Second alternative measure** | | | |
| **All less industrialized economies** | | | |
| Median in 2000 | 65.6 | 16.0 | 49.6 |
| Median in 2007 | 114.2 | 58.5 | 55.7 |
| Change of median from 2000 to 2007 | 21.0 | 3.9 | 17.1 |
| **All less industrialized economies without China** | | | |
| Median in 2000 | 72.8 | 74.1 | –1.3 |
| Median in 2007 | 114.2 | 60.2 | 54.0 |
| Change of median from 2000 to 2007 | 21.0 | 3.9 | 17.1 |

Notes: Authors' calculations. See appendix for data, data sources and variable descriptions. All figures are percent. Changes of changes are percentage point differences. First alternative indicator identifies countries as having strong worker rights if their civil liberties score is equal to "1" or "2" and it identifies countries as having limited or no labor rights if their civil liberties score is "6" or "7". The second alternative indicator identifies countries as having strong worker rights if their political rights score is "1", "2", or "3" and it identifies countries as having limited or no labor rights if their civil liberties score is "5", "6", or "7".

## Table A-3: Real Average U.S. Trade Balances, by Labor Standards in 2000 and 2007

| | Some or even strong labor standards | Limited or no labor standards | Actual difference |
|---|---|---|---|
| **2000** | | | |
| Low income countries | –$475 | –$1,958 | 75.7% |
| High-income countries | –$1,348 | –$2,007 | 32.8% |
| Oil-producing countries | –$5,627 | –$6,773 | 16.9% |
| Non-oil producing countries | –$849 | –$77 | –1002.6% |
| **2007** | | | |
| Low income countries | –$642 | –$9,610 | 93.3% |
| High income countries | –$2,727 | –$2,500 | –9.1% |
| Oil-producing countries | –$28,569 | –$28,486 | –0.3% |
| Non-oil producing countries | –$679 | –$517 | –31.3% |
| **2000 to 2007** | | | |
| Low income countries | –35.2% | –390.9% | 355.7% |
| High income countries | –102.3% | –24.5% | –77.8% |
| Oil-producing countries | –407.7% | –320.6% | –87.1% |
| Non-oil producing countries | 20.1% | –571.0% | 591.1% |
| Fast appreciating currencies | –126.4% | –98.5% | –27.9% |
| Slow appreciating currencies | –67.8% | –462.0% | 394.2% |

Notes: Authors' calculations. See appendix for data, data sources and variable descriptions. Levels are in millions of chain weighted real U.S. dollars (in 2007 dollars) and changes are in percent. Dollar values are averages weighted by each country's GDP on a purchasing power parity basis. Changes are changes of the weighted averages in 2000 and 2007. Changes of changes are percentage point differences.

## Table A-4: Median U.S. Exports to U.S. Imports, by Country Characteristics and First Alternative Labor Standards Measure in 2000 and 2007

| | Some or even strong labor standards | Limited or no labor standards | Actual difference |
|---|---|---|---|
| **2000** | | | |
| Low income countries | 321.4 | 43.0 | 278.4 |
| High-income countries | 88.0 | 41.4 | 46.6 |
| Oil-producing countries | 151.5 | 16.2 | 135.3 |
| Non-oil producing countries | 102.0 | 68.0 | 34.1 |
| **2007** | | | |
| Low income countries | 254.6 | 54.0 | 200.6 |
| High income countries | 115.2 | 15.1 | 100.1 |
| Oil-producing countries | 96.0 | 24.7 | 71.3 |
| Non-oil producing countries | 130.3 | 49.3 | 80.9 |
| **2000 to 2007** | | | |
| Low income countries | 83.1 | 4.1 | 79.0 |
| High income countries | 18.2 | –17.1 | 35.4 |
| Oil-producing countries | –14.6 | 4.1 | –18.7 |
| Non-oil producing countries | 24.1 | –16.9 | 41.0 |
| Fast appreciating currencies | 24.1 | –112.6 | 136.7 |
| Slow appreciating currencies | 9.4 | 30.0 | –20.5 |

Notes: Authors' calculations. See appendix for data, data sources and variable descriptions. All figures are in percent. Changes of changes are percentage point differences. The first alternative labor rights measures combines civil liberties scores of "1" and "2" as strong or some labor rights and it combines scores of "6" and "7" as indicator for limited or no worker rights. 6+7)

## Table A-5: Median U.S. Exports to U.S. Imports, by Country Characteristics and Second Alternative Labor Standards Measure in 2000 and 2007

| | Some or even strong labor standards | Limited or no labor standards | Actual difference |
|---|---|---|---|
| **2000** | | | |
| Low income countries | 65.6 | 75.5 | –9.9 |
| High-income countries | 73.1 | 43.4 | 29.7 |
| Oil-producing countries | 81.9 | 35.5 | 46.4 |
| Non-oil producing countries | 71.1 | 90.2 | –19.1 |
| **2007** | | | |
| Low income countries | 143.3 | 74.1 | 69.2 |
| High income countries | 113.2 | 37.2 | 76.0 |
| Oil-producing countries | 64.6 | 29.2 | 35.4 |
| Non-oil producing countries | 116.2 | 74.1 | 42.1 |
| **2000 to 2007** | | | |
| Low income countries | 34.4 | 3.6 | 30.8 |
| High income countries | 19.6 | 7.4 | 12.2 |
| Oil-producing countries | –14.6 | 10.8 | –25.4 |
| Non-oil producing countries | 24.1 | 3.4 | 20.7 |
| Fast appreciating currencies | 17.1 | 3.4 | 13.7 |
| Slow appreciating currencies | 24.7 | 6.5 | 18.3 |

Notes: Authors' calculations. See appendix for data, data sources and variable descriptions. All figures are in percent. Changes of changes are percentage point differences. The second alternative labor rights measures combines political rights scores of "1", "2" and "3" as indicator of strong or some labor rights and it combines political rights scores of "5", "6" and "7" as indicator of limited or no labor rights.

## Table A-6: U.S. Trade Balances to U.S. GDP, Alternative Labor Standards Measures, in 2000 and 2007

| | Some or even strong labor standards | Limited or no labor standards | Actual difference |
|---|---|---|---|
| **First alternative measure** | | | |
| Balance, 2000 | –0.3 | –1.0 | 0.7 |
| Balance, 2007 | –0.3 | –2.1 | 1.8 |
| Change in balances, 2000 to 2007 | 0.1 | –1.1 | 1.1 |
| **Second alternative measure** | | | |
| Balance, 2000 | –1.1 | –1.2 | 0.1 |
| Balance, 2007 | –0.9 | –2.5 | 1.5 |
| Change in balances, 2000 to 2007 | 0.2 | –1.2 | 1.4 |

Notes: Authors' calculations. See appendix for data, data sources and variable descriptions. First alternative indicator identifies countries as having strong worker rights if their civil liberties score is equal to "1" or "2" and it identifies countries as having limited or no labor rights if their civil liberties score is "6" or "7". The second alternative indicator identifies countries as having strong worker rights if their political rights score is "1", "2", or "3" and it identifies countries as having limited or no labor rights if their civil liberties score is "5", "6", or "7".

## Data and data sources

U.S. trade balance data for each country are taken from U.S. Census Bureau, 2008, FT-900 Foreign Trade Statistics, Exhibit 13, Washington, DC: Census. The data are revised to include the flow of goods and services not originally included in past monthly FT-900 reports, and are not seasonally adjusted. The data are reported in current dollars.

Period average nominal exchange rate data are taken from the International Monetary Fund, International Financial Statistics, Washington, DC: IMF. The exchange rate is reported as National Currency/U.S. Dollar. An increase in the exchange rate is thus a depreciation of the U.S. dollar, whereas a decline in the exchange rate is an appreciation of the U.S. dollar. Exchange rates are the market rate, the official rate, or the principle rate, depending on the availability of each exchange rate.

Consumer price indexes are taken from the International Monetary Fund, 2008, International Financial Statistics, Washington, DC: IMF.

The real exchange rates are calculated as the period average nominal exchange rates adjusted by the consumer price indices of the respective country and the U.S.: (e*CPI(US)/CPI(Foreign)), where *e* is the nominal exchange rate.

Data on each country's civil liberties was obtained from Freedom House, 2008, Freedom in the World Report, Methodology Section, Washington, DC: Freedom House. Countries with a civil liberties rating of "1" ensure the freedoms of expression, association, assembly, education, and religion. These countries are characterized by the rule of law, free economic activity, and generally strive for equality of opportunity. Countries with a rating of "2" are deficient in some areas, but are still considered free. Countries that receive civil liberties scores of "3," "4," and "5" fall into one of two groups.

The first group includes countries that receive medium scores for all civil liberties aspects. The second group receives a combination of high and low scores in civil liberties aspects. In these two groups, countries with higher ratings will experience limits on association, censorship, and possibly political terror. Countries that receive a civil liberties rating of 6 experience severely restricted rights of expression and association, and can be characterized by the incidence of political terror and holding of political prisoners. Countries that receive a civil liberties rating of "7" extend no freedoms to their people.

Data on each country's political rights was obtained from Freedom House, 2008, Freedom in the World Report, Methodology Section, Washington, DC: Freedom House. Countries with a political rights rating of "1" have free and fair elections and competitive political parties, while minority groups can participate in government. Countries with a rating of "2" are somewhat less free due to the prevalence of one or many of a variety of factors, including political corruption, violence, political discrimination against minority groups,

and foreign or military influence on the political process. Countries that receive ratings of "3," "4," or "5" may experience civil war, significant military involvement in politics, unfair elections, and one-party dominance, though people of these countries have some political rights. Countries with a rating of "6" are ruled by dictators, military juntas, religious hierarchies, or autocrats, and extend very few political freedoms to their populations. In countries with a rating of "7" political rights are virtually nonexistent.

Oil production data are from the U.S. Energy Information Administration, Production of Crude Oil Including Lease Condensate, Washington, DC: DOE. Data for the years from 2005 through 2007 are projections. Each country's average daily production was divided by the total daily production of the corresponding year. Only countries that meet or exceed 1 percent of total daily production are considered oil producers, and were coded as such for inclusion in the time series.

Per-capita GDP is defined as GDP on a purchasing power parity basis for each country divided by its population. The data are taken from the International Monetary Fund, World Economic Outlook, Washington, DC: IMF.

# References


Barenberg, Mark. 2007. "Labor Rights in the U.S.–Peru Agreement: One Step Forward, Two Steps Back?" New York: Columbia Law School.

Bolle, Mary Jane., 2005. "DR-CAFTA Labor Rights Issues." *Congressional Research Service Report RS22159*. Washington, DC: Library of Congress.

Bolle, Mary Jane . 2003. "Free Trade Agreements with Singapore and Chile: Labor Issues." *Congressional Research Service Report RS21560*. Washington, DC: Library of Congress

Bolle, Mary Jane . 2003. "Jordan–U.S. Free Trade Agreement: Labor Issues." *Congressional Research Service Report RL30652*. Washington, DC: Library of Congress.

Bonnal, Michael. 2008. *Trade Performance and Labor Standards: A Dynamic Panel Data Approach*, unpublished manuscript, University of Alabama, Tuscaloosa, AL.

Bureau of Economic Analysis. 2008. *National Income and Product Accounts*. Washington, DC: BEA.

Dehejia, Vivek H. and Yiagadeesen Samy. 2004. "Trade and Labor Standards: Theory and New Empirical Evidence.," *Journal of International Trade and Economic Development,* 13 (2): 179–198.

Dehejia, Vivek H. . 2006. "Labor Standards and Economic Integration in the European Union: An Empirical Analysis," CESifo working paper series No. 1746. Munich, Germany: Center for Economic Studies.

Elliot, Kimberly Ann. 2003. "Labor Standards and the Free Trade Area of the Americas." IIE Working Paper No. WP 03-7, Washington, DC: Peterson Institute for International Economics.

Elliot, Kimberly Ann and Richard B. Freeman. 2003. "Can Labor Standards Improve Under Globalization." Washington, DC: Peterson Institute of International Economics.

Flanagan, R.J. 2003. "Labor Standards and International Competitive Advantage." In Flanagan, R. J., & Gould IV, W.B., eds., *International labor standards: globalization, trade, and public policy*. Stanford, CA: Stanford Law and Politics.

Freedom House. 2008. "Methodology Section" in *Freedom in the World Report*. Washington, DC: Freedom House.

International Labor Organization. "ILO Declaration on Fundamental Principles and Rights at Work." Geneva, Switzerland: ILO.

International Monetary Fund. 2008. *International Financial Statistics*. Washington, DC: IMF.

International Monetary Fund. 2008. *World Economic Outlook*. Washington, DC: IMF

Mann, Catherine, and Katharina Plück. 2005. "The U.S. Trade Deficit: A Disaggregated Perspective." IIE Working Paper No. WP 05-11, Washington, DC: Peterson Institute for International Economics.

Mann, Catherine. 2004. "Perspectives on the U.S. Current Account Deficit and Sustainability," *Journal of Economic Perspectives* 16 (3): 131–152.

Palley, Thomas. 2000. "The Case for International Labor Standards. *Cambridge Journal of Economics*. 28 (1): 21–36.

Samans, Richard and Jonathan Jacoby. 2007. "Virtuous Circle: Strengthening Broad-Based Global Progress in Living Standards." Washington, DC: Center For American Progress.

Tarullo, Daniel K. 2007. "A Sensible Approach to Labor Standards to Ensure Free Trade." Washington: Center for American Progress.

Tramontano, Karen, 2004. "Stitching Up Global Labor Rights," *The Washington Post*, December 11, p. A23.

U.S. Census Bureau. 2008. "Exhibit 13," in *FT-900 Foreign Trade Statistics*. Washington, DC: Census.

U.S. Energy Information Administration. 2008. "Production of Crude Oil Including Lease Condensate." Washington, DC: DOE.

U.S. Trade Representative. 2000. "Agreement Between the United States of America and the Hashemite Kingdom of Jordan on the Establishment of a Free Trade Area." Washington, DC: USTR.

U.S. Trade Representative. 2006. "U.S.–Peru Trade Promotion Agreement." Washington, DC: USTR.

United States International Trade Administration. 2008. "U.S.–CAFTA-D.R. Free Trade Agreement: How U.S. Companies Can Benefit." Washington, DC: USITA, accessible at http://www.export.gov/fta/cafta/

United States Trade Representative. 1999. "Cambodia Bilateral Textile Agreement." Washington, DC: USTR.

United States Trade Representative. 2003. "United States–Chile Free Trade Agreement." Washington, DC: USTR.

United States Trade Representative. 2003. "United States–Singapore Free Trade Agreement." Washington, DC: USTR.

Weller, Christian E. 2008. "Stimulus Begins to Work, but More May be Needed." Washington, DC: Center for American Progress.

Weller, Christian E. and Holly Wheeler. 2008. "Our Nation's Surprising Technology Trade Deficit: A Wide Array of High-Tech Imports Overtake U.S. Exports." Washington, DC: Center for American Progress.

Weller, Christian E. and Laura Singleton. 2004. "Political Freedom, External Liberalization, and Financial Stability," *International Review of Applied Economics* 18 (1): 43–61.

Weller, Christian E. 2004. "Is the Trade Deficit a Train Wreck Waiting to Happen?" Washington, DC: Center for American Progress.

# Endnotes

1 We use labor rights, labor standards, labor protections, worker rights, and worker protections interchangeably. The text below discusses the existing data to measure labor rights, the definitions of enforceable labor standards in trade agreements, and the varying approaches that have been taken in U.S. trade policy.

2 There are moral and national security arguments for the promotion of labor and environmental standards. Our concern here is to evaluate the economic validity of the new progressive trade agenda.

3 As we discuss further below, there may be an offsetting effect due to faster productivity growth.

4 Comparisons for the years prior to 2000 are problematic due to [the lack of?] consistent cross-country comparisons since the break-up of many Central and Eastern European countries in the early 1990s. The first year, for which we have complete, comparable data is 1992, which does not provide us with a full U.S. business cycle. Our results, however, generally are robust when we consider years prior to 2000 in the analysis.

5 Trade in services comprises education, intellectual property rights and tourism. Dividends and interest payments on debt owned by foreigners and by U.S. residents are not included in trade, but are part of the broader current account deficit. We only focus on the trade balance in this report due to data limitations.

6 Christian Weller, "Is the Trade Deficit a Train Wreck Waiting to Happen?" (Washington, DC: Center for American Progress, 2007).

7 Catherine Mann, "Perspectives on the U.S. Current Account Deficit and Sustainability," *Journal of Economic Perspectives* 16 (3) (2004): 131–152; and Weller, "Trade Deficit Train Wreck."

8 Authors' calculations based on Bureau of Economic Analysis, "National Income and Product Accounts" (Washington, DC: BEA, 2008).

9 This ignores people's preferences, but it is a pretty good approximation of the international economic relationships that impact exports and imports. See Catherine Mann and Katharina Plück, "The U.S. Trade Deficit: A Disaggregated Perspective." IIE Working Paper No. WP 05-11 (Washington, DC: Peterson Institute for International Economics, 2005) for details.

10 The effects of prices on exports are smaller, when goods are not perfect substitutes.

11 See Mann and Plück, "The U.S. Trade Deficit," for a detailed review of the literature.

12 See Christian E. Weller and Holly Wheeler, "Our Nation's Surprising Technology Trade Deficit: A Wide Array of High-Tech Imports Overtake U.S. Exports," (Washington, DC: Center for American Progress, 2008).

13 Bureau of Economic Analysis, 2008, "National Income and Product Accounts", (Washington, DC: BEA, 2008); The U.S. can be adversely affected by a decline of the value of its currency, the dollar due to a particular wrinkle in global markets. Because the U.S. dollar is the currency of choice for most major markets, almost all commodities, such as oil, corn, gold, and others, are denominated and traded in U.S. dollars. When the dollar loses its value, overseas sellers of commodities will receive less for their products in their own currency. To compensate for this loss of value, overseas producers will increase the price of their products. This is easier to do with products staple goods such as oil, where demand is not very sensitive to price changes because people have to buy the product, as is the case for oil. In this instance, a lower U.S. dollar value can translate into higher U.S. prices and ultimately into more expensive imports into the U.S., unless demand for these imports changes. So far, high oil prices have contributed to a sustained high U.S. trade deficits, although petroleum and related imports started to fall in the second quarter of 2008 in the wake of a weakening economy and after months of ever on month of new record high oil prices. See Christian E. Weller,, 2008 ", Stimulus Begins to Work, but More May be Needed," (Washington, DC: Center for American Progress, 2008) for details.

14 See Thomas I. Palley, 2000, "The Case for International Labor Standards," in *Cambridge Journal of Economics* 28 (1): 21–36 for a discussion of the theoretical economic arguments in favor of labor standards.

15 Right now, low labor standards abroad mean U.S. workers have to compete with foreign workers who produce under exploitative conditions. This contributes to job losses and rising inequality in the U.S. and thus increasing demands on American social safety nets. As a result, U.S. taxpayers partially subsidize overseas production under exploitative conditions.

16 See Christian E. Weller and Laura Singleton, "Political Freedom, External Liberalization, and Financial Stability," *International Review of Applied Economics* 18 (1) (2004): 43–61, for a detailed literature review on the economic effects of labor rights.

17 The causality between trade and labor rights may also run the other way, i.e. increased global integration may result in better labor rights. See, for instance, R.J. Flanagan, "Labor Standards and International Competitive Advantage." In R.J. Flanagan & W.B. Gould IV, eds., *International labor standards: globalization, trade, and public policy* (Stanford, CA: Stanford Law and Politics, 2003). If this is the case, it would reinforce the theoretical arguments laid out in this section.

18 This division allows us to maximize the number of available observations. We want to make sure, though, that our results are not artificially determined by this classification. Consequently, we alternatively defined countries as having some or even strong labor rights if they have a civil liberties score of "1" and "2" and as having limited or no labor standards with a civil liberties score of "6" and "7". Moreover, we also use an alternative indicator from Freedom House – the political rights indicator – and perform the same analysis as discussed in the body of this report. This way we can make sure that our results hold up, even if we define labor rights more along the lines of political engagement. The results for the same analyses as for our primary labor standards measure that we conduct again for these two alternative definitions of labor standards are summarized in the appendix.

19 Authors' calculations. See appendix for additional information on data, data sources, and definitions.

20 We only show a selection of countries, sorted by largest trade deficits. There are several more countries that had small trade surpluses with the United States.

21 We only show a selection of countries, sorted by largest trade deficits. There are several more countries that had small trade surpluses with the United States.

22 One of the primary reasons is that changes will naturally limit the number of observations. Case in point: growth rates between two years is one observation instead of two, when levels of a variable are considered. Another more economically relevant point is that economists typically interpret systematic differences in the levels of a variable as long-term effects and systematic differences that are associated with changes as short-term effects. In our data analysis, we hence consider differences in changes and in levels.

23 We report the inflation adjusted average trade balances for each group of countries in the appendix. The data are reported to show that our general conclusions hold regardless of how we measure trade. See table A-1 for details.

24 See the appendix for data, sources, and definitions of income, oil production, and exchange rate changes.

25 We find similar results, if we define the labor rights indicator variable in two alternative ways. See appendix Table A-2 for details.

26 Our results thus support the conventional wisdom that weaker worker rights allow countries to exploit workers and gain an export advantage. This is similar to findings by Vivek H. Dehejia and Yiagadeesen Samy, "Labor Standards and Economic Integration in the European Union: An Empirical Analysis," CESifo working paper series No. 1746 (Munich, Germany: Center for Economic Studies,

2006), and Vivek H. Dehejia and Yiagadeesen Samy, "Trade and Labor Standards: Theory and New Empirical Evidence," *Journal of International Trade and Economic Development,* 13, (2) (2004): 179–198. Others have found no robust link between labor standards and exports, e.g. Michael Bonnal, "Trade Performance and Labor Standards: A Dynamic Panel Data Approach," unpublished manuscript, University of Alabama, (Tusacloosa, AL, 2008), and Kimberly Ann Elliot and Richard B. Freeman, "Can Labor Standards Improve Under Globalization" (Washington, DC: Peterson Institute of International Economics, 2003).

27 These general results stay by and large the same if we look at real average trade balances and base our calculations on two alternative labor rights indicators. See appendix Tables A-3, A-4 and A-5 for details.

28 These general results stay by and large the same if we look at real average trade balances and base our calculations on two alternative labor rights indicators. See appendix Tables A-3, A-4 and A-5 for details.

29 We find similar differences, when we base on our calculations on two alternative specifications of the labor standards indicator. See appendix Table A-6 for details.

30 Capacity building in trading partner countries is an issue that is increasingly realized in policy circles. The point here is that, while trade agreements may be important to codify countries' commitment to labor standards. However, even if countries want to implement better labor standards they may not have the judiciary and other institutional capacity to adequately implement their commitment. The U.S.–Peru Trade Promotion Agreement includes some funding for some capacity building in Peru. See USTR, U.S.–Peru Trade Promotion Agreement, for details.

31 Daniel K. Tarullo, "A Sensible Approach to Labor Standards to Ensure Free Trade" (Washington, DC: Center for American Progress, 2007) and International Labor Organization, "ILO Declaration on Fundamental Principles and Rights at Work" (Geneva, Switzerland: ILO).

32 This labor standard appears in some free trade agreements, such as the agreement with Jordan or the Central American Free Trade Agreement—as it is the last of five of the United States' Internationally Recognized Worker Rights. See Tarullo, "A Sensible Approach to Labor Standards", and U.S. Trade Representative, Agreement Between the United States of America and the Hashemite Kingdom of Jordan on the Establishment of a Free Trade Area, Washington, DC: USTR

33 United States Trade Representative, "Cambodia Bilateral Textile Agreement," Washington, DC: USTR.

34 U.S. Trade Representative, "Cambodia Agreement."

35 U.S. Trade Representative, "Cambodia Agreement."

36 U.S. Trade Representative, "Cambodia Agreement."

37 Karen Tramontano, "Stitching Up Global Labor Rights." *The Washington Post*, December 11, 2004 p. A23.

38 It should be noted that labor standards accompanied the North American Free Trade Agreement (NAFTA) as a side agreement but were not included in the trade agreement itself. See Mary Jane Bolle, "Jordan–U.S. Free Trade Agreement: Labor Issues," in *Congressional Research Service Report RL30652*, (Washington, DC: Library of Congress, 2003).

39 Bolle, "Jordan–U.S. Free Trade Agreement," and USTR, "Agreement Between the United States of America and the Hashemite Kingdom of Jordan on the Establishment of a Free Trade Area."

40 USTR, "Agreement Between the United States of America and the Hashemite Kingdom of Jordan on the Establishment of a Free Trade Area."

41 Bolle, "Jordan–U.S. FTA."

42 Bolle, "Jordan–U.S. FTA."

43 Bolle, "Jordan–U.S. FTA." This is informally known as the 'Jordan standard.' Under the Bush Administration, though, a side letter in was signed by the U.S. and Jordan in 2001 that essentially ruled out sanctions as recourse for dispute settlements. See also Elliot, Kimberley Ann, "Labor Standards and the Free Trade Area of the Americas," IIE Working Paper No. WP 03-7 (Washington, DC: Peterson Institute for International Economics, 2003).

44 Mary Jane Bolle, "Free Trade Agreements with Singapore and Chile: Labor Issues," *Congressional Research Service Report RS21560* (Washington, DC: Library of Congress, 2003); United States Trade Representative, "United States–Chile Free Trade Agreement" (Washington, DC: USTR, 2003); and United States Trade Representative, "United States–Singapore Free Trade Agreement" (Washington, DC: USTR, 2003).

45 Bolle, "Free Trade Agreements with Singapore and Chile;" USTR, "United States–Chile FTA;" and USTR, "United States–Singapore FTA."

46 Mary Jane Bolle, "Overview of Labor Enforcement Issues in Free Trade Agreements," *Congressional Research Service Report RS22823* (Washington, DC: Library of Congress, 2005).

47 United States International Trade Administration, "U.S.–CAFTA–D.R. Free Trade Agreement: How U.S. Companies Can Benefit" (Washington, DC: USITA, 2008).

48 Mary Jane Bolle, "DR–CAFTA Labor Rights Issues," *Congressional Research Service Report RS22159*, Washington, DC: Library of Congress, 2005.

49 Bolle, "DR–CAFTA Labor Rights Issues."

50 Bolle, "DR–CAFTA Labor Rights Issues."

51 U.S. Trade Representative, "U.S.–Peru Trade Promotion Agreement" (Washington, DC: USTR).

52 USTR, "U.S.–Peru TPA."

53 Mark Barenberg, 2007, "Labor Rights in the U.S.–Peru Agreement: One Step Forward, Two Steps Back?" unpublished manuscript (New York, NY: Columbia Law School, 2007); and USTR, "U.S.–Peru TPA," Chapter 21, p. 21–10.

54 Barenberg, "Labor Rights in the U.S.–Peru Agreement," and USTR, "United States–Peru TPA."

55 Richard Samans and Jonathan Jacoby, "Virtuous Circle: Strengthening Broad-Based Global Progress in Living Standards" (Washington, DC: Center For American Progress, 2007); and Tarullo, "A Sensible Approach to Labor Standards."

56 Tarullo, "Sensible Approach," and Barenberg, "Labor Rights in the U.S.–Peru Agreement."

57 Tarullo, "Sensible Approach."

58 Barenberg, "Labor Rights in the U.S.–Peru Agreement."

## About the Authors

### CHRISTIAN E. WELLER

Dr. Christian E. Weller is a Senior Fellow at American Progress and an Associate Professor of Public Policy at the University of Massachusetts Boston. His expertise is in the area of retirement income security, macroeconomics, money and banking, and international finance. He is also a research scholar at the Political Economy Research Institute at the University of Massachusetts Amherst. Prior to joining the Center, he was on the research staff at the Economic Policy Institute, where he remains a research associate. Dr. Weller has also worked at the Center for European Integration Studies at the University of Bonn in Germany, under the Department of Public Policy of the AFL-CIO in Washington, D.C., and in banking in Germany, Belgium, and Poland. Dr. Weller is a respected academic with more than 100 academic and popular publications. His academic publications have appeared in the *Journal of Policy Analysis and Management*, the *Journal of Development Studies*, the *Cambridge Journal of Economics*, the *Journal of International Business Studies*, the *Journal of Aging and Social Policy*, and the *Journal of Economic Issues*, among others. His popular writings have been published in the *New York Times*, *USA Today*, and the *Atlanta Journal Constitution*. He is the co-author (with E. Wolff) of *Retirement Income: The Crucial Role of Social Security* (Washington: Economic Policy Institute, 2005) and co-editor (with T. Ghilarducci) of *Employee Pensions: Policies, Problems and Possibilities* (Ithaca, NY: Cornell University Press, 2007). In 2006, he was awarded the Outstanding Scholar-Practitioner Award from the Labor and Employment Relations Association. In 2007, he was elected to the board of the Labor and Employment Relations Association, one of the country's largest associations for professionals in the fields of labor and employment relations. His work is frequently cited in the press and he is often a guest on national TV and radio programs. Dr. Weller holds a Ph.D. in economics from the >University of Massachusetts at Amherst.

### STEPHEN ZUCCONI

Stephen Zucconi is an Economic Policy Intern at the Center for American Progress.

The Center for American Progress is a nonpartisan research and educational institute dedicated to promoting a strong, just and free America that ensures opportunity for all. We believe that Americans are bound together by a common commitment to these values and we aspire to ensure that our national policies reflect these values. We work to find progressive and pragmatic solutions to significant domestic and international problems and develop policy proposals that foster a government that is "of the people, by the people, and for the people."

Center for American Progress

1333 H STREET, NW, 10TH FLOOR, WASHINGTON, DC 20005 • TEL: 202-682-1611 • FAX: 202-682-1867 • WWW.AMERICANPROGRESS.ORG