

**AUSTRALIAN MANUFACTURING WORKERS'
UNION**

**AUSTRALIA'S RELATIONSHIP WITH THE WORLD
TRADE ORGANISATION**

Submission to the Joint Parliamentary Standing Committee
on Treaties

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Introduction

This submission addresses two of the terms of reference of the inquiry by the Joint Standing Committee on Treaties into the nature and scope of Australia's relationship with the World Trade Organisation (WTO). The terms of reference directly addressed by this submission are:

1. Opportunities for community involvement in developing Australia's negotiating positions on matters with the WTO; and
2. The relationship between WTO agreements and other multilateral agreements including those on trade and related matters, and on environmental, trade and labour standards.

The Australian Manufacturing Workers' Union (AMWU) believes that establishing a proper foundation for Australia's relationship with the WTO is of major importance to over one million Australians whose livelihoods depend directly on the continued viability of Australian manufacturing industries. The available evidence suggests that the workings of the WTO and the stated objectives of the Australian government through its relationship with the WTO is causing significant harm to Australian manufacturing industry and those employed in it. Further damage will be done unless there is a significant shift in the relationship between the Australian government and the WTO. There is widespread public distrust of government activity at the WTO and deep suspicion of continued pressure for further reductions in assistance given to Australian manufacturers.

It is the AMWU's submission that the government's position on the direction of the WTO, in so far as it appears determined to treat trade in total isolation from consideration of labour standards, environmental standards and human rights generally will not only continue the sacrifice of Australian worker's jobs, but weaken our ability to maintain a manufacturing sector of any more than marginal significance. Not only would this be an economic tragedy in itself, it would mean that Australia's take up of new production technologies will be seriously impeded, resulting in the creation of a downward spiral in our overall economic performance from which it will be almost impossible to escape. There is no time to lose.

We come to this view on the basis of evidence that suggests government is blind to the fact that in the absence of linkages between trade and labour standards, trade and environmental standards and trade and human rights standards, transnational corporations (TNCs) will relentlessly pursue low cost production centres paying little or no regard to the social and environmental costs of their actions as they go. They are often aided and abetted by corrupt and illiberal governments with

whom, in turn, governments such as ours are required to compete in order to provide a "favourable climate for investment" by reducing labour standards and environmental safeguards. The official euphemism for this phenomenon is "international competitiveness". It is elsewhere described as "social dumping".

It is the AMWU's submission that the Australian government must take a markedly different approach to its relationship with the WTO. This should be a relationship that is based not only on globalising narrowly focused trading opportunities, but one based on globalising the hallmarks of civil society; respect for human rights, respect for the rights of workers embodied in International Labour Organisation Conventions and a determination to ensure that the drive for further expansion of world trade and economic growth do no further harm to the environment.

This fresh approach would substantially improve the very poor perception that Australians have, not only of organisations like the WTO, but of the apparently highly partisan approach taken by the government to most economic matters; in the corporate interest to the exclusion of the public interest.

A fresh approach to Australia's relationship with the WTO will require the Australian government to:

- Provide greater opportunities for community involvement in developing Australia's negotiating positions on matters with the WTO;
- Insist that the WTO be far more transparent and accountable in its operations and decision making;
- Give comprehensive consideration to the extent to which labour relations considerations should influence WTO priorities and decision making, particularly where there is evidence that social dumping is occurring or may occur as a result of free trade agreements with countries that have a record of denying workers access to core labour standards and collude with business to turn a blind eye to environmental destruction; and
- Place much greater importance on the relationship between WTO agreements and other multilateral agreements including those on trade and related matters and labour standards.
- Give more emphasis to the critical importance of manufacturing to Australia's prosperity rather than the exclusive focus on Australian agriculture and mineral production that dominates official Australian activity at the WTO.

Opportunities for community involvement in developing Australia's negotiating positions on matters with the WTO.

Despite Australia having reduced its general levels of industry protection faster and further than all of our trading partners over the last twenty years, there has been little opportunity for public involvement in the development of policy in this regard. This has not been the case in many other countries, where trade liberalisation is open to much wider public debate and questioning. As a consequence, there is little public support for the approach of the government.

ASEAN business leaders have expressed concerns in meetings with CER leaders that the costs to them of an APEC-CER link will far outweigh any benefits because Australia's economy is already uncommonly open to them.

The Productivity Commission¹ suggests that further unilateral action to reduce Australia's rate of general tariff would enable Australia to receive "credit" in forthcoming multilateral trade negotiations and enhance its efforts to bring about future trade liberalisation of benefit to Australian industries. The Commission appears to have adopted the position of DFAT in this regard.

The AMWU rejects this notion. While multilateral and bilateral trade negotiations are formally conducted through consideration of bound tariff rates, it is applied tariff rates that have the most pervasive influence. It is fanciful to suggest that our trading partners would not take into account the difference between Australia's bound and applied rates of tariff. In Australia's case, the applied tariff rate for most tariff lines is considerably less than the bound rate.

Why any of our trading partners would give Australia "credit" for merely increasing the extent of redundancy built into many of our bound tariff rates is anyone's guess. Their more likely response would be to substantially downgrade their already low estimations of Australia's bargaining strength. For this reason alone, there is a need for government to seek much broader input on trade policy formulation than the idiosyncratic views of DFAT officials and the Productivity Commission.

There are alternative views on the effects of trade liberalisation and tariff reductions on the Australian economy and society that are just as valid as any that come from what might be termed the "usual suspects". Public opinion polling commissioned by the AMWU and economic research commissioned separately by the AMWU and Ai Group cast serious doubt over the assumptions of policy makers about the national welfare gains of trade liberalisation and tariff reduction. The views

¹ Draft report of the Review of Australia's General Tariff Arrangements, Productivity Commission, May 2000.

of industry are similarly sceptical of current policy settings in relation to Australia's multilateral bargaining position. They reveal serious reservations over the claimed economic benefits of unilateral general tariff reductions.

Apart from the positive contribution consideration of alternative points of view makes to the development of sound policy, the issue is as much about the very fact that people have different views to those of the government and its advisers and the government consistently "blind-sides" them. It is of real concern that consistent with its pattern of behaviour towards many who disagree with it on a range of issues, genuinely interested dissenters are systematically prevented by the government from having any meaningful, formal input to the policy making process.

The government has consistently passed up opportunities to broaden community input on trade policy. A recent example was when Australia, alone among developed countries, excluded all but business representatives from the official Australian delegation to the Seattle Ministerial meeting of the WTO. Trade liberalisation and the operation of the WTO is not just a technical, big business oriented policy agenda, but an issue that has the potential to impact on many aspects of the lives of all Australians and is thus deserving of input from those interests who are likely to be affected.

The completely inadequate performance of the official Australian delegation to Seattle served to highlight the inadequacy of Australian efforts at the WTO.

- Formal consultation with NGOs in Seattle that were supposed to have been conducted by DFAT officials demonstrated how intolerant both the government and DFAT are of alternative points of view. Because of criticism levelled at the official position of the government at the Seattle meeting in the first NGO consultation meeting, DFAT officials engineered a situation where no further consultations took place.
- It is in the so-called "green room" process of negotiations outside the plenary sessions that the critical decisions on multilateral issues are thrashed out. The official Australian presence in Seattle confined itself to "green rooms" dealing with only agriculture and resources trade. Australia was not represented in the "green room" discussions on manufactured goods trade. As a result, decisions affecting Australia's manufacturing interests are being taken in Australia's absence. This should be a source of considerable embarrassment for the government. It demonstrates the shamefully low priority the government places on Australian manufacturing.

Because of the "pressure cooker" atmosphere they generate, it is the AMWU's submission that meetings such as WTO Ministerials are particularly poor venues for decisions affecting the national interest to be made. Because of the closed nature of the discussions, such meetings are more likely

to reflect short-term responses to the "politics of the day" than would be obtained from a process informed by wider consultation with a range of community and business interests.

Alternative expert opinion

Professor John Quiggin's critique of the Productivity Commission's draft report on its review of Australia's general tariff arrangements² suggests that there are very serious flaws in the process used by government to arrive at decisions on trade and industry policy settings.

The key points arising from Professor Quiggin's analysis of the Productivity Commission's recommendation to eliminate Australia's general tariff of 5 per cent by 1 July, 2001 include:

- The Productivity Commission's modelling assumptions and interpretations of model results display an inbuilt bias against import-competing manufacturing. This arises from two main sources. Firstly a bias in favour of capital intensive extractive industries by failing to net-out the costs of servicing the foreign owned capital used to finance Australian-based extractive industries. Secondly, it is biased against import-competing manufacturing because of assumptions that all reductions in assistance to manufacturing will generate cost free improvements in productivity.
- Quiggin finds that the Commission's modelling would benefit from a "reality check" by modelling the effect of a negative tariff, that is, an import subsidy, of around 20 per cent. The flaws in the Commission's economic model are such that it would show such a policy to be beneficial when it clearly wouldn't be.
- The Productivity Commission modelling confirms that the allocative efficiency benefits of eliminating the general tariff would be smaller than the adjustment costs associated with tariff cuts.
- The Commission relies on hypothetical and unproven claims that removing protection automatically raises productivity.
- The Commission fails to take into account the uncertainty created by currency fluctuations in floating exchange rate regimes.

² In Ai Group, *Supplementary submission to the Productivity Commission Review of Australia's General Tariff Arrangements - Appendix B.*

- The study on which the Productivity Commission assumptions rely concedes that its results have no firm theoretical basis and contradicts the results of previous studies.
- There is evidence that the Commission has prejudged the issues prior to the preparation of its report.

In research Commissioned by the AMWU, the National Institute of Economic and Industry Research (NIEIR) came to similar conclusions about the validity of the advice being provided to government on trade and industry policy.³

The research concludes that the form of trade liberalisation pursued by successive Australian governments has actually harmed Australian interests in so far as:

- The costs to the economy of reductions in tariffs are actually greater than the benefits.
- Economic models used to assess policy changes are inadequate and have in-built biases against acknowledging the import substituting advantages of domestic manufacturing.
- Overall, tariff reductions have contributed to increased income inequality.
- Tariff reductions, the stated rationale for which was to stimulate productivity in manufacturing have contributed to the economy becoming more, not less dependent on extractive industries and agriculture despite substantial increases in the dollar value of manufactured exports.
- Tariff reductions since 1987 have caused the loss of approximately 67,500 manufacturing jobs and 23,000 in other parts of the economy including agriculture. Longer run outcomes to 2005 indicate that in all, at least 82,000 jobs will be lost from non-motor vehicle manufacturing, and at least 15,000 from motor vehicle employment. Following long run rules of employment linkages, 123,000 jobs will be lost from manufacturing with economy-wide job losses as high as 200,000.
- Australia runs a \$57 billion trade deficit in elaborately-transformed manufactures.
- If the general tariff of 5% and the higher tariffs applying to TCF and motor vehicles were eliminated from July 2001, government revenue from customs duties will fall by \$33.3 billion

³ *Industry Assistance Reductions and the Australian Economy: Contemporary Issues and Future Prospects*, National Institute of Economic and Industry Research, Clifton Hill, July 2000.

over the decade to 2009/10. If some of these funds were directed to effective assistance, a lot would be achieved. This is in fact what other countries do with their tariff revenues.

Views of Australian manufacturing businesses

Businesses operating in the highly trade-exposed sectors of manufacturing are beginning to express very serious concerns over the policy direction of government. In its primary submission to the Productivity Commission review of Australia's general tariff arrangements⁴, the Ai Group outlined the results of a survey of Ai Group members across eleven manufacturing sectors in relation to proposals to eliminate Australia's 5% general tariff rate. The key findings are illuminating.

- Just 54% of businesses surveyed supported the review and among those, about half wanted the general tariff to remain at 5% after 2000. The overwhelming majority, including those who did not favour a review, favoured retention of the 5% general tariff rate.
- The vast majority (81%) indicated that any further reduction in Australia's general tariff rate must be accompanied by reciprocal action by our trading partners.
- While 58% of respondents expected input costs to fall as a result of lower tariffs, 56% of respondents forecast a fall in production of an average of 14.3% and 55% of respondents forecast a fall in sales by an average of 14.2% as a result of lower tariffs.
- 56% of respondents forecast reductions in employment in their businesses averaging 15.2% and those same businesses forecast a reduction in investment in their businesses of up to 46%.
- Businesses identified non-tariff barriers in overseas countries as a major barrier to selling their products overseas. These include content requirements and labour costs. Inordinately low labour costs relative to labour productivity rates in Asian production centres were cited as a key difficulty in successfully competing with Asian companies in their own markets.

Public opinion in marginal seats

Very clear evidence of the failure, not only of trade policy *per se*, but of successive governments to adequately consult with the community on trade policy lies in the results of recent polling

⁴ Submission by the Australian Industry Group to the review of Australia's general tariff arrangements conducted by the Productivity Commission, January 2000.

conducted for the AMWU by Auspoll.⁵ The poll was taken among 1223 voters in 18 marginal federal electorates, namely:

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- Adelaide (Lib - SA)
- Ballarat (Lib - Vic)
- Bass (ALP - Tas)
- Canning (ALP - WA)
- Deakin (Lib - Vic)
- Dickson (ALP - Qld)
- Dunkley (Lib - Vic)
- Herbert (Nat - Qld)
- Hinkler (Nat - Qld)
- Hindmarsh (Lib - SA)
- LaTrobe (Lib - Vic)
- Longman (Lib - Qld)
- Makin (Lib - SA)
- McEwan (Lib - Vic)
- Moreton (Lib - Qld)
- Paterson (ALP - NSW)
- Petrie (Lib - Qld)
- Richmond (Nat - NSW)

The poll was conducted from 11 July, 2000 to 19 July 2000.

- The majority of respondents expect employment in Australia to become less secure in the next few years. (11.8% much less secure, 41.7% less secure). 33.9% expected job security to stay about the same. This represents a huge proportion (87.4%) who do not believe their job security will get any better in the future.
- An even higher percentage of respondents believe that job security has become less secure in recent years. (17.5% much less secure, 48.0% less secure, 24.5% stayed the same).
- Overall, the Federal government was most nominated as being responsible for a reduction in job security, (38.4%). It was followed by corporate management (31.4%), international competition (25.2%) and free trade policies (20.5%). When asked to pick only one possible source of reduced job security, 22.9% of respondents nominated the federal government, 11.1% corporate management and 17.2% international competition, free trade policies and tariff reductions combined. Only 4.4% blamed trade unions for job insecurity.
- Only 13.5% of respondents believed that, compared with other countries, Australia does *Less Than It's Fair Share* in relation to trade liberalisation, with 49.0% believing that Australia does *About Its Fair Share*. 27.5% of respondents said Australia does *More Than Its Fair Share*.
- While 43.3% believe tariffs should be *Left As They Are Now*, just 17.9% believe that Australia should *Decrease Import Tariffs*. The remaining 38.8% support an *Increase In Import Tariffs*.

⁵ Auspoll, *Report to the Australian Manufacturing Workers Union*, July 2000

- Reductions in tariffs and free trade policies are regarded as having a positive effect on the profits of foreign investors and a negative effect on Australian agriculture and manufacturing.
- Performance ratings were in the poor to average range for most aspects of government performance tested. Job security recorded the lowest performance rating overall with a mean score of 2.54. Only 15.8% of respondents thought the government's performance has been either good or very good in relation to making things better for them with more job security.
- 80.1% of voters believe that Australian manufacturing industry is *very important* for Australia's future economic prosperity.
- Overall, a majority of voters indicate they would be either *much more* or *more likely* to vote for a party that made credible promises to improve education, health, and job security, reduce unemployment and support Australian industry by maintaining tariffs at current levels.
- The strongest levels of agreement were recorded for statements which promoted the Australian government becoming more involved in supporting and promoting growth in Australian manufacturing industry and implementing policies which would protect Australian jobs from unfair overseas competition.
- There is little residual support for a continuation of tariff reductions in the absence of any reciprocal action by our trading partners.

The relationship between the effects of trade liberalisation on the Australian labour market and job insecurity is undeniable. The linkage between free trade policies, job insecurity and a distinct unease at prospects for the future are quite apparent to voters. It is clear that few voters believe that trade liberalisation is making their lives any better. Indeed, most think it is making their lives worse.

In recent days, even members of the government have declared that current trade and industry policy settings are causing disquiet in the electorate. The Treasurer, Mr. Costello told the World Economic Forum meeting in Melbourne on 11 September, 2000, "If policymakers think they can ignore public opinion, I think we would making a rather large mistake."⁶

We are fearful however that these displays of concern will lead only to an admission that "the policy hasn't been sold properly" and a taxpayer funded advertising campaign may follow shortly

⁶ Sydney Morning Herald, September 12, 2000, p.1

thereafter. This concern is heightened by the remarks of the Prime Minister, Mr. Howard to the Melbourne meeting of the World Economic Forum. The Prime Minister is reported to have told the forum that the main problem with globalisation is that a "noisy minority" reminds us that some people don't understand the benefits of open markets. "Governments and business have to convince people that globalisation's benefits are attainable for the poor as well as the prosperous."⁷

A government marketing campaign is not what is required to remedy the alienation voters feel from Australian government trade policy. What voters need is different policies that reflect an understanding of their reality, not the demands of foreign investors for increasingly unachievable short term returns on their investments. Without broad domestic support for Australian government trade policy, particularly in its dealings with supra-national organisations like the WTO, the free trade experiment is doomed to fail.

⁷ op cit p.4

The relationship between WTO agreements and other multilateral agreements including those on labour standards.

"I do not know what the word "flexibility" is. Rarely in international discourse has a word gone so directly from obscurity to meaninglessness without any intervening period of coherence. Some people when they talk about labour market flexibility are talking about the freedom of employers to fire workers, the freedom of employers to reduce wages. I'll tell you something. That kind of flexibility is not going to lead to higher standards of living in any of our countries."

Robert Reich, US Secretary of Labor. Address to the Annual Plenary of the ILO, 1994

The Importance of Labour Standards in Trade

The AMWU, along with the ACTU, the international trade union movement, church and community organisations around the world, is calling for an effective formal linkage between trade and labour standards whereby all of the international institutions including the ILO, WTO, IMF and World Bank as well as regional institutions such as APEC and the OECD participate in a global program to secure respect for universally agreed labour standards in every country of the world.

What are labour standards?

The labour standards that trade unions, non-government organisations, churches and community groups around the world are calling to be incorporated into the agreements and procedures of the WTO and other global institutions are the result of a global consensus reached in the ILO between governments, business and labour over the last 50 years.

They are contained in these ILO Conventions:

- No. 87 (1948) Freedom of Association and Protection of the Right to Organise;
- No. 98 (1949) Right to Organise and collective Bargaining;
- No. 100 (1951) Equal Remuneration
- No. 111 (1958) Discrimination (Employment and Occupation)
- No. 138 (1973) Minimum Age
- No. 182 (1999) Worst Forms of child Labour
- No. 29 (1930) Forced Labour
- No. 105 (1957) Abolition of Forced Labour

In June 1998, the ILO adopted the *ILO Declaration of Fundamental Principles and Rights at Work and Follow-up* (the Declaration). The Declaration points to a growing awareness of the need for a social pillar in the economy.

In the Declaration, the ILO gives recognition to the urgent need for all the countries of the world to respect the labour standards contained in the Conventions. In the Declaration, the ILO declares member countries of the ILO, whether they have ratified the Conventions or not, are under an obligation to respect, to promote and to realise in good faith the fundamental principles and rights that are the subject of the Conventions.

As part of the *Follow-up* to the Declaration, the ILO Director General is required to issue regular global reports that are designed to assess the effectiveness of the work of the ILO and for determining priorities in the form of action plans for technical co-operation. The first of these global reports, in relation to Conventions 87 and 98, was released earlier this year.⁸ The report underscores the crucial role of effective freedom of association and the right to collective bargaining in achieving decent work for all, assisting in the development of enduring democratic structures and generally promoting the development of civil society.

Your Voice at Work, couched as it is in the polite diplomatic language of the ILO, makes it abundantly clear that in the face of the growing consensus around the need to respect labour standards, there is still quite vigorous resistance in many countries around the world. In particular, the report notes:

- Multinational enterprises (MNEs) lead the process of globalisation. Lowering economic barriers between nations opens up enormous opportunities for MNEs. Parent firms and their foreign affiliates account for 25% of global economic output. MNEs dominate world trade, ownership and licensing of production and distribution technologies and can exercise a disproportionate level of influence over domestic labour market structures.⁹
- National systems of representation are under pressure. The forces of the global economy have overwhelmed the domestic economic forces that shaped the laws and institutions governing the conduct of the economy. Long established practices and deeply felt values are being tested against the criteria for survival in a fiercely competitive global market. There is downward pressure on labour standards all over the world.¹⁰

⁸ *Your Voice at Work - Global report under the Follow-up to the ILO Declaration on Fundamental Principles and Rights at Work*, International Labour Office, Geneva, 2000

⁹ *op cit* p.8

¹⁰ *op cit* p.9

- Competition between labour market systems erodes labour standards. Foreign investors often treat collective bargaining, freedom of association and other labour standards as a "cost" to be avoided, or as "impediments" to profitability. Governments around the world routinely provide the "investment climate" that fosters denial of access to labour standards in order to attract foreign investors to export processing zones.¹¹
- Mobile capital has acquired multiple exit strategies to facilitate rapid, strategic withdrawals from countries in which the "investment climate" isn't seen to be suitable. Not only can the actual transfer of an undertaking from one country to another close down avenues for collective bargaining, the mere threat of doing so substantially alters the power relations at the bargaining table. Similarly, inadequate access to information about the international operations, financial position and corporate plans of the employer with whom workers are negotiating can seriously reduce the real content of and meaning of collective bargaining.¹²
- Modifications in work organisation and technology, induced by the drive for more flexible and productive work methods, as well as "arm's length" employment arrangements including sub-contracting are causing the employment relationship to more resemble a commercial relationship. This is making it increasingly difficult for unions, governments and their agencies to uphold labour standards even where there is a will to do so.¹³
- The benefits of globalisation are concentrated. Many are denied its benefits and it is hardly surprising that there are many people in traditional occupations in industrialised and developing countries alike who believe that the process of globalisation is stacked against them. The social backlash seen in the streets of Geneva, Seattle and Davos (Washington and Melbourne since the report was completed) is evidence of a growing questioning of the legitimacy of the economic and social management of the global economy. The *ILO Declaration on Fundamental Principles and Rights at Work* is one of the instruments to promote social goals within the global economy.¹⁴

The report notes that the ILO Committee on Freedom of Association has been required to address allegations of violations of collective bargaining and freedom of association rights including:

- murders and disappearances;

11 *ibid*

12 *op cit* p.10

13 *ibid*

14 *op cit* p.22

- assaults;
- arrests and detentions;
- forced exile;
- restrictions on freedom of movement;
- restrictions on freedom of assembly and demonstration; and
- restrictions on freedom of expression and opinion.

The most common source of allegations in relation to these violations is China. Among the many other serial violators are Indonesia, Malaysia, Pakistan, India, Colombia and Burma.¹⁵

Violations of Labour Standards

The International Confederation of Free Trade Unions (ICFTU), not quite as constrained by diplomatic niceties as the ILO, publishes comprehensive reports on labour standards violations around the world.¹⁶

In its 1998 *Annual Survey of Violations of Trade Union Rights*, the ICFTU catalogues the violations of labour standards that have occurred and continue to occur in 27 countries throughout Asia.

In all, the report contains accounts of nearly 500 reported labour standards violations ranging from murders, beatings, intimidation, imprisonment, forced labour, child labour, rape and torture to "lesser" violations including suspension of freedom of association guarantees, firing of worker agitators and de-registration of trade unions.

The report describes the Chinese labour relations system thus:

Independent trade unions are illegal in China. They are suppressed and their leaders are imprisoned. The official union, the All China Federation of Trade Unions (ACFTU) is part of the ruling party's apparatus and exists to carry out its policy. The party appoints key union officials.

The Chinese national labour code, introduced in 1995, does not provide a right to strike. This right was removed from the Chinese constitution in 1982 on the grounds that the political system had "eradicated problems between the proletariat and enterprise owners". Ironically, this is becoming an increasingly familiar refrain in industrialised countries including Australia in the guise of the "end of ideology" argument.

¹⁵ *op cit* p.27

¹⁶ <http://www2.icftu.org>

The ICFTU report details dozens of reported violations of labour standards in China. Most of them occur in China's infamous export processing zones (EPZs) where labour standards are virtually non-existent and foreign investors are able to recruit local police and other state apparatus to enforce their own standards.

Similar conditions exist in EPZs throughout Asia, the Pacific, Latin America and the Middle East. Many of the worst conditions apart from those in China can be found in Bangladesh, Indonesia, Pakistan, the Philippines, Thailand, Turkey and Burma.

Labour standards are routinely violated in countries all over the world. Firms operating in these countries put intolerable import competition on businesses operating in Australia. To the extent that countries sanction these violations or fail to enforce standards that are mandated, they enjoy a comparative advantage over Australian businesses that is unfair by any standard.

Critique of developing country opposition to linking trade and labour standards

Many of the arguments Free Traders use against policies aimed at tackling exploited labour or social dumping revolve around claims that workers in developing countries are just so happy to have any sort of job at all, they really have no desire for improved rights. The argument goes on to conclude that labour standards will end up hurting the very people they are supposed to help. It's a familiar refrain that was used to oppose demands for sanctions against the South African apartheid regime. Only when it was clear the regime was about to fall and after a brief flirtation with Buthelezi's forces did the recalcitrants climb the trapeze and give their reluctant support to the democratic forces in South Africa.

It is as well to address the Free Traders' argument in some detail. We do so in relation to a statement issued by a group of developing country academics and NGOs who released the "TWIN-SAL"¹⁷ statement entitled "Enough is Enough" on 15 September, 1999. The statement argues for a position against any type of linkage between WTO operations and labour or environmental standards.

Although the authors and signatories of the statement express their strong concern about respect for core labour standards, the strengthening of the International Labour Organisation (ILO) and the need to ensure that poor people in developing countries receive some benefits from trade, the conclusions they arrive at are flawed and seriously inadequate. Their conclusions, if accepted,

¹⁷ Third World Intellectuals and Non-government organisations - Statement Against Linkage
<http://www.cuts-india.org/Twin-sal.htm>

would perpetuate the present freedom for repressive governments and companies to use repression of workers' rights as a tool for export maximisation, while continuing to leave the multilateral system powerless to take any effective measures to redress that exploitation.

In the face of the TWIN-SAL arguments, it is as well to seek out the views of the organisations that represent workers in developing countries. Two-thirds of the affiliates of the ICFTU are from developing countries and the ICFTU's policy proposals on trade liberalisation have been prepared on the basis of the problems identified daily by developing country trade union centres. While the ICFTU's developing country affiliates are as concerned as the TWIN-SAL signatories by the issues of basic workers' rights, the solution they see to the problems caused by the globalisation of the world economy does not reside in a cocktail of good intentions combined with even freer trade, as proposed by the opponents of a linkage between trade and labour standards.

The answer lies in strengthening of the capacity of the multilateral trading system to deal with the problems that free trade creates - a strengthening through the incorporation of social and environmental issues, including respect for core labour standards, into the functioning of the WTO in collaboration with the ILO and other relevant UN agencies.

The premise behind the TWIN-SAL statement seems to be that free trade is the best way of achieving economic development and so, ultimately, higher living standards. But history over the last few decades has shown that more free trade has not brought prosperity for all. Whereas it has brought prosperity for some, it has also brought misery for many, notably the weakest members of our societies.

Unscrupulous companies or governments are able to gain short-term competitive advantage by abusing fundamental workers' freedoms. This has been seen most clearly in countries like Malaysia, where workers in the electronics export sector are denied the opportunity of joining trade unions; Mexico, where the systematic failure of the State to apply the law in the "maquiladora" free trade zones deprives over a million, mainly young women workers of freedom of association; Turkey, where free trade zone workers are denied the right to strike; Lesotho, where the mainly women workers in export estates producing goods like textiles and garments face violation of basic working conditions, police violence and even shooting; and Egypt, where child labour is extensively employed in export sectors like commercial agriculture, textiles, leather and carpet-making. There are a myriad other examples from export sectors around the world, which have been extensively documented in the 50 reports the ICFTU has produced over the last two years on the extent of respect for core labour standards in many countries of the world.

The conclusion that needs to be drawn from the increase in exploitation of workers in traded sectors has been that these grave problems must be addressed by the multilateral trading system through the WTO. Such action would provide the surest way of achieving a transfer of the benefits of trade liberalisation to ordinary people in developing countries (which is the stated goal of the TWIN-SAL statement). That is why the proposal to tackle core labour standards at the WTO is supported by trade unions from throughout the developing world. Their members see the daily and worsening effects of international competition on core labour standards. And the countries losing out from increasingly bitter competition for a share of the global market-place are the developing countries which are striving to improve living and working conditions.

Thus, the workers who are most hit by India's failure to address child labour in its carpet sector are the exporters in Nepal who are striving to make carpets under good working conditions. Those who are most affected by the suppression of trade union rights in Indonesia's coal mines are the coal miners in India, whose trade unions obtain decent wages for them which are undercut by imports from Indonesia. The whole developing world suffers from China's violation of all the core labour standards, enabling it to act as a magnet to persuade multinational companies to uproot their production from other developing countries in order to produce at low labour cost in China's special economic zones instead.

In each of these cases, it is competition to produce exports and to attract direct foreign investment that is at the root of the problem. Tackling these problems, which result so demonstrably from globalisation, requires action at the global level by the WTO working together with the ILO.

The TWIN-SAL statement expresses concern about the allegedly selective nature of the core labour standards (freedom of association, the right to collective bargaining, a minimum age for employment, non-discrimination and prohibition of forced labour) contained in the proposals to be raised at the WTO. The reason why these particular standards are the ones always mentioned is not some arbitrary choice of any organisation, but because these workers' rights are the ones which have been endorsed explicitly time and again by all UN member-states in global conferences held over the past fifty years. These particular standards have been endorsed universally precisely because they do constitute what is globally agreed to be a minimum set of basic workers' rights that can and must be protected. Therefore the view of the TWIN-SAL signatories that violations of core labour standards in industrialised countries would not be addressed by any workers' rights discussion at the WTO is based on a misinterpretation of the nature of those standards.

The comment in the TWIN-SAL statement that proponents of labour standards at the WTO do not encourage better commitments to labour rights in industrialised countries is seriously inaccurate. In fact, trade unions have been striving to improve labour standards to their best possible level

whenever and wherever they can. That includes work at national level to improve workers' rights, as well as through the use of fora such as the OECD and in regional integration arrangements like the European Union (efforts which bore fruit with the adoption of the European Community Charter of the Fundamental Social Rights of Workers). But there is a need to separate what can be achieved in regional fora, with their more limited membership, and what needs to be done at a global level through the WTO where it is necessary to refer to global standards applicable to all workers worldwide. It should further be noted that the ILO has been used by trade unions in recent years to bring complaints against industrialised country governments such as Canada, the UK, the USA, Australia, New Zealand and Japan. In almost all of these cases, the ILO has sided with trade unions in agreeing that the countries have to change their legislation and/or their practices. However, as the TWIN-SAL statement emphasises, the ILO needs stronger "teeth" in order to get its findings implemented - teeth which are currently lacking and could be provided through new international machinery.

The TWIN-SAL statement argues that "The WTO's design must reflect the principle of mutual-gain". The principle of mutual gain is one which forms part of the founding principles of trade unionism, for it is implicit in trade unions' function of collective representation of the workforce in negotiation with the employer to seek a win-win situation which provides workers with higher wages and employers with better production and a more highly-motivated workforce. We strongly agree with the principle of mutual-gain and we consider it high time that the WTO incorporated the principle into its functioning. But it is this principle which has been absent from the WTO's design to date. While the WTO's strengthened trade dispute system was planned to make it easy for governments to interpret the WTO's articles of agreement to further the interests of their companies in areas such as anti-dumping, subsidies, technical barriers to trade and so on, there is so far nothing in the WTO's design which allows trade unions to raise issues of the most basic protection of workers' rights in the face of the many problems deriving from globalisation. How can it be considered protectionist to say that people deserve the same protection as companies? That is all that the proponents of labour rights at the WTO are asking for and why we want to see respect for core labour standards included within the WTO. The claim for linkage between trade and labour standards is not a claim for equal pay, but a claim for equal rights.

The TWIN-SAL statement speaks of giving the ILO a "new set of teeth" to address abuses of core labour standards effectively. Yet in practice, what the statement proposes is a process of annual review reports on respect for core labour standards which is already envisaged in the *ILO Declaration of Fundamental Principles and Rights at Work*. The first such report is referred to above. While trade unions fully support the ILO's effective follow-up to the Declaration, the experience of the trade union movement over many years has made it clear that some countries will persistently and blatantly disregard recommendations from the ILO concerning their respect for

core labour standards. As noted above, the 50 country reports on core labour standards produced by the ICFTU in the last two years have provided a large body of evidence that many governments have been deliberately keeping labour standards low with a view to reducing export costs and winning a head start over their competitors on international markets. The international trading community needs to face the question of devising strong and effective procedures which would provide some real "teeth" to tackle the countries which are, in effect, free riders on a world trading system where the majority of countries do respect core labour standards.

It may be true that, as the TWIN-SAL statement says, not all those who oppose linkage are corporate interests and malign governments. But there are far too many such interests and governments opposing core labour standards at the WTO for it to be a coincidence. It is those parties which have most to gain from the perpetuation of a status quo which enables them to continue their exploitation of workers without any constraints. Furthermore, these same governments that refused to countenance any discussion of core labour standards at the WTO are those which were the obstacles all the way through the debates on the 1998 ILO Declaration on Fundamental Principles and Rights at Work. There is little sign of good faith from governments which claim at the WTO that core labour standards are best dealt with by the ILO, but then at the ILO do their utmost to block any strengthening of the ILO's capacity to deal with the issue effectively. And from the opposite side of the debate, it is significant that the proposal to discuss core labour standards at the WTO is supported by the government of South Africa, whose credentials to uphold the principles of socially just, equitable and non-discriminatory patterns of trade and development are unquestionable.

Like the TWIN-SAL statement itself, this submission has concentrated on the issue of core labour standards, rather than the environment. However the AMWU would submit that, for many of the same arguments as those advanced above concerning core labour standards, environmental concerns also need to be incorporated effectively into the WTO's work. Again, this is an issue of concern for all people of the world from both developing and industrialised countries; an area where there are obvious negative repercussions arising from free trade.

Conclusions

The move to a fresh approach in Australia's relationship with the WTO will require a recognition that Free Traders are correct to say that persistent, high levels of protection discourage industrial efficiency and dynamism and retard economic growth and employment. Equally, it requires an acknowledgement that Free Traders are wrong to argue that complete free trade and deregulation are best for structural adjustment purposes, developing cumulative advantage or avoiding the grim fate of an endless race to become, and remain, globally competitive, let alone achieving any social goals.

Government should set itself the task of managing trade so as to avoid exploited labour or social dumping. Social dumping is the concept that some countries may export goods at prices far below a price that would adequately reflect the social costs or externalities such as labour rights violations, human rights abuses or environmental damage embodied in the production of the goods concerned.

Generally speaking, the Free Traders' answer to social dumping arguments is that low wages will normally reflect genuine comparative advantage based on low levels of labour productivity. In many cases they are correct on this point. However, in as many cases again, they are wrong.

Theoretically, a labour intensive production process employing many low-wage, low-skill workers could produce goods at unit costs the same or higher than an equivalent capital intensive process employing only a few highly paid workers - depending on comparative advantage. However, highly mobile capital allows companies in many developing countries to employ capital-intensive, high-productivity production processes but pay low-productivity, labour-intensive wages. In this way, workers are paid far less than is justified even after accounting for lower costs of living and other factors.

The practice confers on exporting nations and companies an ability to unfairly undersell their competition in a wide variety of products. Estimates of comparative labour productivity in a number of manufacturing sectors suggest that workers on production lines in a number of ASEAN production centres achieve up to 80% of the productivity of their Australian counterparts using the same production technologies while being paid less than a twentieth of the wages.

Such wide disparities between wages and labour productivity even taking into account cost-of-living and developmental factors clearly warrant intervention. Intervention should occur in cases where below-productivity wages associated with labour rights violations are prevalent, not where wage levels, all things considered, are commensurate with labour productivity.

The Australian government's approach to trade policy is significantly weakened by its preoccupation with agriculture and resources at the expense of manufacturing interests. The reality is that no country can survive globalisation in the absence of a viable manufacturing sector. Although it accounts for only 13% of GDP (6% below the OECD average), Australian manufacturing has contributed exactly half of the total aggregate annual productivity growth in the Australian economy.¹⁸ This compares to the contributions of agriculture (7%), mining (-1%) and retail trade (5%).

A fresh approach to Australia's relationship with the WTO has to focus on manufactured goods trade as much as it presently does on agriculture and resources trade. The conventional wisdom that Australia must move beyond its historical role as the world's quarry and farm has been around for the best part of twenty years. However, the apparent reluctance of successive Australian government's to embrace this wisdom is deeply troubling. Only when it does, will Australia benefit from balanced trade policy outcomes. The Treasurer, Peter Costello, notes that Australia's failure to produce a global telecommunications manufacturer is significant in the Australian dollar's fall against the US dollar, with the contrast being that Japan, Taiwan and South Korea's major IT manufacturers have helped sustain their currencies against the US dollar.¹⁹

Whether Free Traders, authoritarian governments and the ruthlessly competitive TNCs like it or not, demands for a linkage between trade and labour standards and eventual global labour standards harmonisation will not go away. They are as valid a demand on the global labour market as were the demands for fair domestic labour standards in developed countries over a century ago.

¹⁸ Toner, P. *Manufacturing Industry in the Australian Economy*, Journal of Australian Political Economy, June 2000, pp18-45.

¹⁹ The Australian Financial Review; 13 September 2000, page 5

Recommendations

These arguments demonstrate that, far from being a "non-trade" issue as suggested by those who presently wield power at the WTO and in the Australian government, core labour standards are actually intimately affected by and related to the present system of international trade and investment. The challenge today for the Australian government and the international community is to come up with an effective and enforceable way of getting the ILO's core labour standards respected by all the world's trading partners; including trading corporations. In the light of all the above arguments, the AMWU strongly recommends that the Australian government should adopt the following recommendations:

1. Information and community consultation on trade policy should be held in accessible forms. They should be well publicised in advance, free of any costs, held at convenient times and locations and have time for genuine input from the community. Government must accept and consider a wider range of advice and opinion on trade and related policy. Consultation and public debate on policy positions should take place before negotiations commence. Government should accept and consider a broader range of advice and opinion on trade and related policy than it has up to this point.
2. There should be greater parliamentary and public scrutiny before agreements are signed
3. There should be representation of non-government organisations on the Trade Advisory Policy Council and on WTO delegations.
4. Support a position whereby all WTO members are required to ratify ILO Conventions 87, 98, 100, 111, 138, 182, 29, 105 and give the necessary support to the ILO in the Follow-up to the ILO Declaration of Fundamental Principles and Rights at Work.
5. WTO agreements and processes should be changed and interpreted to give much clearer recognition to UN international agreements on human rights, labour standards and the environment. In pursuing these changes, the government should seek such widening of exemptions under WTO rules and procedures as would allow intervention for a wider range of purposes than are currently permissible, namely, sanctions for persistent labour rights violations and disincentives to production that entails breaches of environmental standards. Exemptions should be enforceable through an independent WTO panel with advice, technical assistance and monitoring being provided by the ILO. The system should include technical and enforcement assistance to developing countries that require it and a primary goal of the system should be to

assist countries develop supportive domestic public institutions. WTO agreements should clearly recognise the right to have national regulation in these areas.

6. Commence an examination of how to incorporate the issue of labour standards and trade into WTO mechanisms and processes. This examination should envisage enhanced ILO-WTO collaboration, on an equal basis, in areas such as WTO trade policy reviews and disputes settlement procedures and oversee the incorporation into the WTO's existing mechanisms of core labour standards. It should examine the role which could be played by ILO technical assistance in helping countries to achieve implementation of all the core labour standards.
7. Establish a Trade and Labour Standards Monitoring Group within the Department of Foreign Affairs and Trade which should monitor violations of labour standards among Australia's trading partners. The monitoring Group should investigate complaints from Australian businesses and other interested parties in relation to claims of social dumping. The Monitoring Group should report cases of social dumping to the government. It should provide advice to the government in relation to settlement of social dumping cases with the countries concerned.
8. Upgrade Australia's representation to the ILO to at least the level of representation that existed prior to 1996.