How the United States Can Devise Trade Agreements to Benefit People Both at Home and Abroad

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Can international trade offer opportunities for workers in developing countries and at the same time protect American workers? My research suggests that well-crafted trade agreements could create incentives for businesses and governments in developing countries to improve wages and working conditions, benefitting their own citizens and at the same time helping U.S. workers attain a higher standard of living.

Protecting Workers at Home and Abroad

April 2018 marked the fifth anniversary of Bangladesh's Rana Plaza industrial disaster, in which 1,129 garment factory workers died. These workers produced for a range of global apparel brands in buildings whose structural weaknesses were known to the negligent factory owners. Rana Plaza has come to symbolize the costs of lowering of labor standards to compete in the global "fast fashion" market. The Bangladesh garment sector also illustrates the possibilities afforded by open international trade: young women in Bangladesh typically prefer jobs in urban apparel factories to toiling in their rural villages, and U.S. consumers pay relatively low prices for Bangladesh-produced products. More generally, production in Bangladesh and elsewhere, as part of global supply chains, offers U.S. businesses low-cost inputs. This reduces prices and promotes efficiency, and in some instances boosts U.S. employment opportunities.

Calls for "fair trade" in U.S. politics often focus on protecting American workers and industries. Policymakers worry that foreign governments will intervene to advantage their own firms, while labor advocates worry that developing countries will "race to the bottom" to keep labor costs low and attract investment and orders from large corporations. Protecting U.S. workers, therefore, often means raising barriers to imports, especially from countries that consistently violate internationally-recognized labor standards. Meanwhile, development experts point to trade and investment as important engines of growth in low- and middle-income countries.

Which arguments make the most sense? In my research, I find that open trade can create a pathway for U.S. consumers and businesses to reap the benefits of lower-priced final goods, imported components and services, while also making it more likely for workers in developing countries to make steady gains. A two-pronged approach focuses on incentives for private businesses as well as on the policy choices made by governments in developing countries.

Trade Agreements and Labor Rights

Since 1985, all U.S. trade agreements and preference programs have tied market access to labor rights. Officials in developing countries often see these linkages as veiled protectionism, but our research on the U.S. Generalized System of Preferences reveals a more complex picture. Countries with worse labor rights records are, in fact, more like to experience country-level threats of exclusion. But, when it comes to imposing limits on specific products from specific countries, worker rights violations do not make exclusion more likely.

The Trans-Pacific Partnership, from which the Trump administration withdrew its support in January 2017, offered promise for enhancing worker rights. This is especially true in Vietnam, where I have conducted research on the topic. Although Vietnam's government and industry initially resisted the trade-labor linkage, they ultimately concluded that access to export markets was important enough to warrant concessions including acceptance of independent labor unions. U.S. withdrawal from the Trans-Pacific Partnership is a setback for this linkage strategy, but going forward the U.S. government can and should insist that trade agreements commit partner governments to protect core labor rights and ensure enforcement. Trade agreements must acknowledge the central role governments in developing countries play in mediating gains from open trade – and in ensuring that their country's workers, not just factory owners, reap benefits.

Global Production and Incentives for Upgrading

Governments, however, are only part of the story – and they often lack the will or capacity to monitor the implementation of labor rights. It is important, therefore, for negotiators of international agreements and others to engage private firms and focus on changing policies at the headquarters of multinational corporations in the United States, Europe, and Australasia. Corporate executives need to be persuaded that good behavior in their facilities and supplier factories abroad will be rewarded by consumers and shareholders.

Of course, consumers and shareholders do not always reward good corporate behavior, and many advanced-country firms do not adequately implement or monitor their company-wide corporate social responsibility initiatives. Focusing on the practices of firms in low- and middle-income countries may be a more effective way to improve working conditions. Our survey research in Vietnam suggests that businesses may improve their labor standards if they believe that will help them gain access to new global supply chains and consumer markets.

The Vietnamese businesses we surveyed employ, on average, about 125 workers, and most are owned by investors elsewhere in Asia. My colleagues and I asked firm managers to imagine they could gain access to a multinational's supply chain if they complied with its labor code of conduct. In one scenario, the new market was described as "European"; in another it was described as "Indian." Overall, firms were willing to spend an average of 6.5 percent of their operating costs – and to pay significantly more for access to Europe rather than India. We attribute this difference to the perceived potential for greater earnings in developed markets.

In a similar 2016 survey, Vietnamese firms reported a greater willingness to pay for labor-related improvements in order to gain access to the U.S. (as opposed to Chinese) market. However, by 2017, when the United States withdrew from the Trans-Pacific Partnership, many Vietnamese firms had shifted their focus to China – suggesting an opportunity was missed to encourage upgrading worker rights in developing countries. When workers make such gains, they are better able to purchase goods and services, including those made by American workers. This should serve as a reminder that properly structured trade agreements can improving the fortunes of workers and businesses in developed and developing countries alike.

Read more in Emilie M. Hafner-Burton, Layna Mosley, and Robert Galantucci."Protecting Workers Abroad and Industries at Home: Rights-Based Conditionality in Trade Preference Program" *Journal of Conflict Resolution* (Forthcoming, 2018); and Edmund Malesky and Layna Mosley, "Chains of Love? Global Production and the Firm-Level Diffusion of Labor Standards." *American Journal of Political Science* 68, no. 3 (2018).