

# **TRADE, EQUITY AND DEVELOPMENT**

Senator the Hon Peter Cook  
Deputy Leader of the Opposition in the Senate  
Shadow Minister for Trade

“Trade and Labour – Competing or Complementary Interests?”  
Conference organised by the Australian APEC Study Centre  
Melbourne  
18 June 2000

Checked against delivery

## Trade, Equity and Development

I thank the Australian APEC Study Centre for holding this forum. It is timely and necessary. I trust it can bring a more authoritative and informed dimension to what is emerging as an important debate for our nation.

It is important because 1.7 million Australians owe their occupations to the fact that we are a trading nation. In the main, workers who are employed in the export sector earn more than those in the same occupations, but who are employed in the domestic economy. Exports account for 19% of our GDP, and since 57% of what we export finds a market in Asia, it makes us a partner in the strong economic growth that is returning to the region, following the financial crisis.

Paul Keating in his book, *Engagement: Australia Faces the Asia-Pacific*, gives a succinct pen picture of where Australia sits in the structure of international trade.

“Australia faces a couple of important problems in the area of trade”, Keating wrote, “The first is our size. We are simply not that big. Our economy is the world’s 14th largest; we represent little more than one per cent of global trade. In other words, we don’t have the weight to achieve things ourselves or to force others to open up their markets. And experience shows that politely asking other countries to do nice things for you won’t get you very far in international trade. Our interests lie overwhelmingly in joining our voice to others in a multilateral approach that benefits everyone.

“The second problem we face is the structure of our trade. Although Australia is a significant industrialised country, the composition of our trade, with its heavy reliance on commodities, is more like that of a developing country. That is changing quite fast, but it won’t disappear.”

This is an appropriate reminder of our economic weight. But Keating could have added; in trade diplomacy we are commonly described as “punching above our weight”. This is a picture of Australia fast fading under John Howard. But it generously acknowledges the ideas and momentum the Hawke and Keating Governments generated. Establishing and chairing the Cairns Group and putting in place the architecture of APEC are acknowledged as Australian initiatives, and acclaimed as constructive efforts to open up global trade.

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But today is not a time to stand on our record. The debate has moved on. Since Seattle there are new issues. The “trade and ...” issues. Trade and labour standards is one of them.

Our history as a government in running an activist agenda and helping shape the direction of trade reform should not be put aside. Returned to office, it will stand Labor in good stead when we address the new issues in the contemporary landscape.

For Labor, a commitment to fundamental human rights is what defines us as a party. We see the seven core conventions of the International Labour Organisation that are

regarded as the “labour standards” as intrinsic to this commitment. Most of these standards are also recognised in the Universal Declaration of Human Rights.

I start with such a fundamental point because of what is being said now in public debate. Clearly there is an airing of differences on trade policy. But let me say this quite emphatically: those differences can be resolved, and resolved quickly, if the issue is how best to achieve a practical improvement in the observance of human rights and labour standards in the world.

However, if it is about manipulating human rights – or labour standards – to introduce a new form of protectionism, then the Labor Party will stand firm and resist it.

Protectionism in whatever form will only work to handicap the competitiveness of our manufacturing sector, and the broader economy, isolate Australia in a globalising world, impose higher costs on consumers and turn our industry into the barely working museum of world’s worst practice that we escaped from in the 1980s and 90s.

Protectionism will also set back the cause of labour rights.

Clare Short, the British Secretary of State for International Development, puts it in a more positive way. “Free trade is a necessary but not sufficient condition to stimulate economic growth in developing countries”. It is an obvious point. If poor countries cannot sell their goods and services into global open markets then they remain locked in poverty and dependent on foreign aid handouts to survive.

This is the economics of the absurd. First world economies channelling billions of dollars in food aid and development assistance to the third world, while obstructing them in their capacity to grow and become self-sustaining.

The first freedom is freedom from want – an economic right. Without it other freedoms are meaningless. What the critics overlook is that economic growth in East Asia in recent decades has lifted 150 million men, women and children out of absolute poverty. The proportion of people in the world who go to bed hungry has measurably fallen. The lowering of barriers to intra-regional trade and access to the markets of leading economies was a driver of this sea change.

Clare Short is right. Free trade is necessary. She is also correct to emphasise that it is not sufficient. The plight of the underprivileged can be alleviated even faster if the national wealth accumulated by open markets is distributed within economies more equitably. Greater democracy, democratic institution building and fundamental rights of citizens with sufficient economic freedom to exercise them are key issues too.

When we talk about labour rights we need to constantly bear in mind that they are most easily achieved when economies are growing and there is a bigger cake to distribute.

Amartya Sen, the 1998 Nobel Prize winner in economics makes this point in his latest book, *Development as Freedom*. In turning his attention to “rights” he discusses the best way to proceed. Do we mandate standards and demand that nations live up to

them? Or should we emphasise economic growth so that “rights” can be meaningful? He concludes that both approaches are necessary. One reinforces the other. But in reaching this conclusion he emphasises that of the two approaches stimulating economic growth is by far the more important.

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In the Australian debate on labour standards there seems to be an underlying assumption that only third world countries flout them. This is not true. Many first world countries feature in the list published earlier this year by the ILO.

One of them is Australia. We are in breach of Convention 87 – Freedom of Association and Protection of the Right to Organise, and Convention 98 – Right to Organise and Collective Bargaining, thanks to Peter Reith’s introduction of balaclavas and guard dogs on the Australian waterfront.

The Court government’s Third Wave of industrial legislation puts Western Australia and hence Australia in breach again, possibly even transgressing the ILO Convention on Non-Discrimination in Employment.

12 of the 51 nations adjudged by the ILO’s Committee of Experts as failing to live up to their obligations on core labour standards are members of the OECD.

None of these nations should be excused. All should bring themselves into conformity. But the ILO list raises a couple of questions. A number of countries with clear records of abuse – including Iran, North Korea and China - do not make the list. Some countries who might be rated on a par with Australia when it comes to workers’ rights – such as the US and Israel (in the case of the Palestinians) – are not mentioned.

This raises a tricky question for those arguing for sanctions or tariffs to be imposed on recalcitrant countries. How comprehensive and embracing is the ILO’s survey? And how are the breaches ranked in terms of degrees of seriousness?

This is not a matter of differentiating between core standards. Protection or organising and negotiating rights is primary, and the shocking inhumanity of child labour, forced labour and slavery commands priority. It is a question of the nature of the offence, and the viability of other social and legal balances.

With these remarks in mind I now want to turn to Labor’s policy response to the issue of trade and labour standards.

In Australia’s case the average level of effective tariff protection is under 5%. Elsewhere in the world there are higher tariff barriers, quotas and non-tariff obstructions that conspire to make our goods and services less competitive in those markets. Our policy of free trade is aimed at not turning the clock back to the levels of protection that led to our uncompetitiveness in the 1970s.

Nor is it about embracing a new tariff rate of 10%.

It is aimed at working through the World Trade Organisation to eliminate those obstacles that afflict us elsewhere. Removing those barriers, quotas and obstructions will reward us by winning new markets and creating new jobs. That is what our commitment to free trade means.

It will also lead to growth in our partner economies by expanding the economic cake. We not only strengthen our economy but help lift many more people in developing countries out of poverty.

Respect for labour standards requires other strategies too. Labor will work to help cut a deal that would enable more concerted global action around this issue.

At the Seattle WTO meeting the developing countries were close to agreeing on a position that would have taken this matter further. It centred around the creation of a “working forum” involving the WTO, the ILO, the World Bank and the UN Conference on Trade and Development. This forum would have covered “trade, globalisation, development and labour issues”. It would have aimed at “promoting a better understanding of the issues involved through a substantive dialogue between governments”. Such dialogue was to include “an examination of the relationship between trade policy, trade liberalisation, development, including the fight against poverty, and labour issues.”

The draft agreement provided that the WTO Secretariat “in consideration with members and other participating organisations, should sponsor the preparation of appropriate analytical work”. The outcomes of the forum were to have been reported to the WTO Ministerial Conference, and to the other participating organisations.

Had the Seattle meeting not collapsed as it did, it is possible that a consensus might have been reached on a global dialogue that could lead to material improvement in the twin realms of development and labour standards.

The International Confederation of Free Trade Unions at its world conference in Durban in April unanimously adopted a resolution on “globalisation and labour standards”. Leaving aside the rhetoric it is not far distant from the sort of arrangement that WTO members in Seattle were groping towards. The ICFTU’s proposal calls for the WTO to follow up its Singapore Declaration commitment on labour standards and put in place formal mechanisms to address the issue.

At the Singapore Ministerial, under the heading “Core Labour Standards”, the WTO began, “We renew our commitment to the observance of internationally recognised core labour standards”. The declaration went on to identify the ILO as the competent body to set, promote and police the standards, and to note that economic growth contributes to their observance. It pledged that both organisations – the WTO and the ILO – would continue to collaborate.

Emphasis in the ICFTU’s position is on structural change within the WTO – the WTO, it argues, should bring in-house a comprehensive examination and analysis of the role of trade and labour issues. It places the WTO General Council at the apex of this consideration – thus requiring the member states to make the final decision.

In cutting a deal that will lift international attention to core labour standards it is desirable that both the developing countries and the international union movement agree on the course of action. Their positions are not impossibly apart. What is now needed is the sort of inspired diplomacy that Australia has displayed in the past to work through this minefield.

It is worth doing as an end in itself. It is also worth doing because it will remove one of the major obstacles bedevilling international trade negotiation and open the way for a new round.

A further virtue is that a global conference of the sort being mooted brings into the issue the international financial institutions such as the World Bank and the IMF.

Under the leadership of James Wolfensohn the World Bank itself is shifting its attention to the social consequences of its policies. Just recently the IMF has installed a new Managing Director, Horst Köhler, bringing a fresh approach to the Fund. As the agency that most often acts as the lender of last resort when national economies crash, the IMF has been the target of justified criticism that it has all too often in the past ignored the social implications of the economic medicine it has dispensed.

Engaging these two agencies in proposals on labour standards is important. Rather than impose trade sanctions through the WTO, negotiating conditionality clauses to economic rescue packages is more likely to result in material improvement. Perhaps it would move the ILO closer to imposing such conditionality on its own aid and technical assistance program as well.

The other advantage of having the international financial institutions involved is that they are now part of the global movement towards debt relief. This is aimed at easing the debt burden on developing countries, thus enabling them to direct scarce economic resources to national development, education and health. Conditional debt relief programs warrant strong support. Attuned more with the activities of the UN development agencies, the financial institutions can be an important tool in adding value to the development and labour standards debate.

Labor believes that there is no “silver bullet” that will remedy international abuse of labour standards. It is simplistic to think that a unilateral ban here, or an Australian sanction there, will answer to the needs of what is a complex and nagging problem. The direction that global debate is taking is promising. It should be encouraged and strengthened so that renewed, focussed and, above all, coordinated international attention can be brought to bear.

What worries me about this issue are some of the populist solutions that are being publicly canvassed. They undermine the unity that is needed. And there is a distinct globophobic tinge to the rhetoric. Hailing the collapse of talks in Seattle as a “victory” seems counter-productive to me. Many of the fears expressed about the economic, technological, cultural and political changes that get lumped together as “globalisation” will be alleviated if a new WTO round gets under way. The collapse of Seattle is only a victory if you support the status quo.

The slogan, “No, no, to the WTO” also seems odd. The GATT and its successor the WTO were established after the Second World War to create an international rules-based trading system. Prior to the creation of this system, bad trade disputes were sometimes settled by force of arms. This is a terrifying option in a nuclear world.

An important element of the new WTO structure is that economic dominance is not what determines the outcome of a trade dispute. The rules place an emphasis on merit, not on might, to settle disagreements.

This surely must benefit Australia – a middle-league international economy that needs a multilateral system to survive. Criticisms of the WTO would be better focussed if they proposed how this system could be improved to ensure that all of the 136 member countries had access to sufficient resources to exercise their rights and obligations.

In Australia, essentially three ideas have been put forward on labour standards which are in equal parts simplistic and unfeasible. The first is that the dispute settling mechanism of the WTO should be used to impose sanctions on countries that don't observe core labour standards.

When President Clinton appeared to endorse something close to this idea in Seattle, the developing countries interpreted it as an attempt by the economic superpowers to manipulate labour standards for protectionist purposes. They reacted by aborting the conference.

As a body that makes decisions by consensus, and with two-thirds of its membership developing countries, it is obvious that even if this approach were thought desirable it would never get adopted. The analogy that is sometimes drawn is that this proposal is akin to saying – “We are going to try you for a capital crime, in the event we convict you, will you agree, now, up front, to accept the death penalty?”

The second proposal is that Australia should apply trade sanctions to nations that breach core labour standards. If we were to impose sanctions on all countries that the ILO's Committee of Experts has found to transgress core labour standards, we would undertake an export strike that affected 43% of our merchandise exports, valued at \$37.3 billion. Agriculture and mining would lose their markets immediately. Even without accounting for the retaliation that would ensue this is clearly untenable. Additionally, as observed above, this approach would involve inviting trade sanctions on Australia because of Peter Reith's legislation.

The third suggestion is to impose a “social tariff” on imports from transgressing countries. The money collected from this tariff, it is proposed, is to be remitted to “civil society” in order to help them restore respect for labour standards.

The value of our merchandise imports from those countries that the ILO's Committee of Experts has found to breach the core labour standards is \$69 billion or 37% of all goods imported to Australia. The domestic damage a social tariff would do is hard to calculate. It would depend on the level of the tariff, and whether the increased price to consumers caused them to buy less competitive goods from a non-offending country if any were available. One suggestion is that the tariff would be 20%. If that

were the case, and assuming 100% effectiveness, we would be imposing a flat tax, much like the GST, that would exact \$13.8 billion from Australian consumers. Low-income earners would be hit hardest. Further, one presumes that we would also be inviting other countries to place a social tariff on our exports, given that Australia is in breach of two ILO core labour standards.

In calculating these figures I have used the list of nations in breach of core labour standards that the ILO's Committee of Experts has produced and calculated the outcomes according to Australia's merchandise trade with them for 1998/99.

I could be criticised for this. It may be argued that some countries are more guilty than others. I have made this point myself. The problem is, who makes this decision, and on what grounds. Most importantly, how can you be sure it is not made arbitrarily and according to a self-justifying agenda?

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Let me restate, labour standards and human rights are fundamental issues for the Labor Party. This is not in question. The issue is how best to achieve an effective outcome. Free trade, open markets, liberalised trade – however it is to be described is an essential precondition to creating an economic climate in which these rights can be made manifest. Waiting in the wings of world trade debate is a mechanism that needs refining and improving, but which could be a vehicle that would bring developing countries and the world union movement, together with the international institutions, to a common conference table with a constructive agenda for change.

Such a development is a challenge, but it is a challenge worth working hard to meet.