

**THE 'SOCIAL CLAUSE' AND
NORTH-SOUTH TRADE NEGOTIATIONS:
IMPLICATIONS FOR INDIA**

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CERTIFICATE

Certified that the dissertation entitled, **THE SOCIAL CLAUSE AND THE NORTH-SOUTH TRADE NEGOTIATIONS: IMPLICATIONS FOR INDIA**, submitted by Mr. G. Francis Raj in partial fulfilment of the requirements for the award of the degree of **Master of Philosophy**, has not been previously submitted for any other degree of this University or any other University and is his own work.

We recommend that this dissertation may be placed before the examiners for evaluation.

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PREFACE

Much has changed in international trade since the approval of GATT by member states in April 1994. This gave impetus for the removal of already existing trade barriers (tariff and non-tariff) and to make international trade 'free and fair', with the existence of World Trade Organisation (WTO).

Moreover by signing GATT agreement, all countries national markets are exposed to international competition. By keeping this in view the North raised certain non-trade issues, ('Social Clause', Environment, Human Rights etc.) and tried to link them with trade for the first time during the Marrakech round of GATT agreement in 1994. The North Consider that the developing countries, with their cheap labour, low or non-existent laws on health, safety and environment, with greater access to foreign investment and modern technology will be able to compete successfully with Western producers of similar goods. Hence, they are keen in bringing 'Social Clause' under the WTO. Further bringing in such clause' would effectively control the exports of developing countries and help taking action on Countries violating stipulated labour standards.

However the developing countries consider that, while, the imposition of IPR's and TRIM's have drastically affected their efforts to develop economically, industrially and technologically, the 'Social Clause' being raised by North is to control the exports from South and delay the pace of development. Further, it is an effort by North to link non-trade issues with trade, to gain trade objectives from developing countries.

On the other hand India's acquiescence into 'Social Clause' may have devastating effect on its trade, industry and economy. Moreover, it will lead to unimaginable rise in inflation rates, increase in unemployment and bring down the level of exports in many areas in which India enjoys an edge over other countries. This will lead to deficit foreign exchange and socio-economic problems of poverty which will place the Country at the IMF/World Bank and developed countries' mercy.

Keeping in view, the importance of this aspect of knowledge, I tried to focus in my research, to examine, Why? The Industrialised countries are keen to get the 'Social Clause' under WTO and the measures they propose to take in order to check the eventuality of such a situation. Moreover it deals with Intra-North Convergence and Divergence of opinion on 'Social Clause' and their efforts to regain complete control over technology.

Further it reflects the stand of Developing Countries on 'Social Clause' and its effects on developing countries exports. And also, to analyse how far 'Social Clause' is an instrument of perpetuation of protectionism by North. To examine how far 'Social Clause' would go against the broader principle of global liberalisation and also to find out how far the benefits accrued to South by GATT will get neutralised.

Moreover it explores the possibilities of improvement in labour standards among developing countries and the broad parameters of South's negotiating strategy. On the other hand it examines the implications of successful implementation of 'Social Clause' on Indian trade, Industry and Economy. Further I tried to present different arguments to North - South perspectives.

Even though this research paper is written with certain limitations in the availability of Sources, I tried to justify the work by presenting my own views and arguments. I am hopeful that this work will certainly throw light on the much debated issue ('Social Clause') between North-South in the Contemporary International Economic relations.

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ABBREVIATIONS

GATT	:	General Agreement on Trade and Tariffs.
WTO	:	World Trade Organisation.
ILO	:	International Labour Organisation.
TRIP's	:	Trade Related Intellectual Property Rights.
TRIM's	:	Trade Related Investment Measures's.
CAP	:	Common Agricultural Policy.
EC	:	European Commission.
NAFTA	:	North American Free Trade Agreement.
USA	:	United States of America.
NIC's	:	Newly Industrialised Countries.
HIC's	:	High Income Countries.
LMIC's	:	Low and Middle Income Countries.
FDI	:	Foreign Direct Investment.
MFA	:	Multi Fibre Agreement.
IPR's	:	Intellectual Property Rights.
OECD	:	Organisation for Economic Cooperation and Development.
IMF	:	International Monetary Fund.
ESCAP	:	Economic and Social Commission for Asia & Pacific.
GATS	:	General Agreement on Trade in Services.
NAM	:	Non-Aligned Movement.

UNO	:	United Nations Organisation.
G-15	:	Group of fifteen Countries.
Third World	:	Underdeveloped and Developing Countries.
First World	:	Developed Countries.
South	:	Underdeveloped and Developing Countries.
North	:	Industrialised Countries.
VER's	:	Voluntary Export Restraints.
OMA's	:	Orderly Marketing Arrangements.
VIE	:	Voluntary Import Expansion.
GSP	:	Generalised System of Preferences Act.
MNC's	:	Multinational Corporations.

CHAPTER : I

INTRODUCTION

As soon as the Uruguay Round trade negotiations were concluded on December 15th 1993, the developed countries raised certain non-trade issues such as the inclusion of 'Social Clause' in the trade agreement which would have a bearing on the trade of the developing countries. The North Seemed to alarmed at the pace of development and the benefit which were evenly distributed by the global trade liberalisation and through the multilateral trade mechanism to developing countries. The North was alarmed mostly at the pace of development and the benefits brought by global trade liberalisation through multilateral trade mechanism to developing countries. But this is long before even when the developing countries were sceptical about the imposition of Trade Related Intellectual Property Rights (TRIP's) and Trade Related Investment Measures (TRIM's).

Conceptually, the inclusion of 'Social Clause' in an international trade arrangement would mean that it would be possible to link imports from the developing countries with their conformity to labour standards. This arrangement could provide for restriction or prohibition of imports of products from countries, industries or enterprises where there is no compliance with stipulated labour standards. It could also provide for preferential imports of products from where there is compliance with stipulated standards.

The 'Social Clause' basically deals with a set of guide lines (acceptable labour standards prescribed by ILO) through which the developed states try to prevent developing countries from social dumping (by goods produced by

cheap labour, child labour, prison labour and low working conditions) by imposing trade sanctions on Countries' Violating labour standards by bringing these issues under the purview of Multilateral Trade Regime.

The developed North fears that the developing countries with their cheap labour, lax or nonexistent laws on health, safety and environment, with greater access to foreign investments, and modern technology will be able to compete successfully with western produces of similar goods. So they are keen in bringing 'Social Clause' under the Multilateral Trade Regime.

Similarly, the South is also Concerned about the protectionist measures being adopted by the North, to bring down the developing Countries exports and the gains made through Uruguay Round of General Agreement on Trade and Tariffs (GATT). The developing Countries feel that while the inclusion of TRIP's and TRIM 's in the GATT agreement have drastically affected the economic, industrial and technological progress of these countries by placing them at the mercy of developed countries. On the other the 'Social Clause' is being raised to affect and control the export oriented developing countries.

It is irony that long before GATT became effective and when the fruits of Global liberalisation have not yet reached the needy developing countries, the North considers as them equals in trade and competition, to achieve trade objectives by using non-trade measures, through Multilateral Trade Mechanism.

The North is all set under United States to equal the labour standards, wages and living conditions through the ILO Forum. They try to link trade

with the non-trade issues to gain trade objectives, from developing countries at a time when they are on the threshold of development.

'SOCIAL CLAUSE' HISTORY

It is not the first time in history that labour standards have received attention. For over one hundred and fifty years, labour have received attention in perspectives, of both human dignity and economies. In the economic perspective they have come to be projected in the context of industrialisation and international trade. The dimension of labour standards brought under sharp focus in international trade has almost invariably been that of comparative advantages. Specific discussions on labour standards have been premised on different expediencies on different occasions in history.

In 1890 Kaiser Wilhelm II, intent on maintaining Germany's competitive position, while addressing domestic demands for working-time restrictions, proposed an international agreement on a maximum eight-hour workday.¹ However Britain had at that time rejected the idea of putting its industrial laws "at the discretion of a foreign power", but one hundred years later, it is forced to abide by working-time directives from Brussels.

The French tried the same ruse in the negotiations leading to the signing of the Treaty of Rome. In a Memorandum to its partners in May 1956, France cynically insisted that social legislation be harmonized "in conjunction with the reduction of tariff protection" in order to "make more apparent to the

1) Benn Steil, " 'Social Correctness' Is the New Protectionism", FOREIGN AFFAIRS, (London) January-February 1994, p. 15

workers that link must exist between the common market's establishment and higher standards of living". In the end, the only significant piece of social protectionism that the French were able to incorporate was the infamous Common Agricultural policy, which according to Article 396 must "ensure a fair standard of living for the agricultural community."²

Eversince the Second World War, Britain enjoyed the credit of using 'Social Clause' on Japan for the poor working conditions. The point has been highlighted by an expert on Japan writes that

"Since 1932 onwards Japanese exports began to rise noticeably with Japanese textiles and Sundries breaking into the Dutch East Indies, British Colonies and finally Into India. The speed with which Japan moved into these areas and also the growing popularity of many of its products (they were in expensive and comparable to goods coming from the west) terrified the west. Tariffs and quotas were imposed in a move to ward off the Japanese thrust; then the Japanese moved into Latin America where their products hurt the British (especially in cotton piece goods) much. Unable to keep Japan at bay, European Nations attacked the working conditions in Japan; books and leaflets came out in plenty portraying the working conditions in Japans so called "Sweat Shops" (which were not quite different from what the French and British were running in China). Even attempts were made to mobilise opinion in the International Labour organisation (ILO) against labour conditions in Japan. Nothing

2. *ibid*, p. 15.

came out of their efforts and Japan remained a formidable competitor as the world plunged into another World War.”³

On the other hand, the issue of linkage of labour standards with international trade has been discussed and debated in different contexts; It was discussed during the formulation of ILO constitution in 1919; In the abortive Havana charter 1947; In the early European integration days, in 1950's in the Brandt Commission, in 1980, and during the Commodity agreements of the 1980's in Europe.

But what has finally brought social policy center stage, was the launching of the single-market initiative in 1986. The President of European Commission has understood the need for unity and cooperation among the member states to effectively contain the rise and spread of communism in Europe. The red army paradeing all over Europe reached the door step of Western Europe. So in a European council meeting on December 9, 1987, in strasbourg, all European Community member states- (Except Britain) met and agreed to adopt 'the Community Charter of the Fundamental Rights of workers. Otherwise known as the "social charter", this document lays the ground work for the most sweeping international experiment in social engineering ever undertaken by democratically elected governments.⁴

Since then the 'Social Clause' issue was raised in the Uruguay Round of trade negotiations (1986-1993) and in NAFTA, 1994 where trade linkage has been provided 'for'.

3. Pan Murthy, "Japan before 1945: The Tokugawa Background 1603-1868", August 1994.

4. Benn Steil, " 'Social Correctness' Is the New Protectionism", FOREIGN AFFAIRS, January-February 1994, p. 15

The GATT ministerial meeting with which the Uruguay Round ended has left the issue of the 'Social Clause' open, of course, without any Secured Commitment for future action within the GATT/WTO framework. The matter has been partly debated in a working party of the ILO Constituted in June, 1994. The working party document discusses different aspects of the social-dimension in the international trade system. On the other it oversees the consent of such a social dimension, the trade liberalisation dimension in ILO's activity and possible modalities of linking the social dimension on the one hand and GATT' WTO and ILO procedures and standards on the other.

'SOCIAL CLAUSE' AND INTERNATIONAL TRADE

The advocates of the 'Social Clause' justify it on many grounds; the need for social progress keeping pace with economic progress; the 'Solidarity argument' (that the industrial countries should press for adoption of universal minimum labour standards, failing which they may be seen as collaborating in the exploitation of workers in developing countries); pre-emption of unilateral protectionism in trade; the concept of 'fair trade' involving 'harmonisation', 'level playing fields' and pre-emption of 'races to the bottom' - all of which mean equalisation of regulatory labour standards, wages, and the working conditions; for ILO's involvement in labour rights and trade linkage to carry in partial and symmetric procedures under its own umbrella to make it more effective and finally to impose tariffs and trade sanctions against countries, which may be accused of not meeting standards imposed by ILO, as they being parties of tripartite agreement once they agree.

On the other hand, the role of developing countries in international trade has undergone a sea change over the years. The output of many regions

in the developing world has been growing over the last two decades at significantly faster rate than that of developed countries. Already, the developing countries are close to reaching the output levels of the developed countries about 45% of world output). The share of manufactures in the total exports of developing countries has now increased to 60% from the level of 5% in 1955. Their share in world exports manufactures as of the year 1995 was 22% as against 5% in 1970.

The growth of overall output, manufactures and exports of developing countries and their increasing transition from production of primary to manufactured goods have been feasible largely owing to transfer of technology, capital flows and transnationalisation of production. The driving forces of international trade have tended to transnationalise and multinationalise manufactures in preferred locations in the developing world which offer comparative advantage. In the process, the employment profile of the working people in developing countries has also undergone transformation in terms of occupational shifts of the workers from low skilled to higher skilled jobs involving specialisation and use of technology. Access to higher skills and technology has implications for comparatively higher wages and better working conditions.

This is facilitated by the international flow of capital which is estimated in Asian developing countries as over 30% of their GDP. The search of capital-rich developed countries to maximize the returns on their capital is also reflected in this buoyancy of business investment. World trade, as of now, is largely concentrated amongst High Income Countries (HICs). Particularly USA, the European community and Japan (80% of merchandise exports done by HICs, 62% of Commodity exports done by HICs and 63% of all

merchandise exports and 50% of all commodity exports of HICs are amongst themselves.⁵

On the other hand, the developing countries share of world trade is only 30% (with 20% and 38% respectively of merchandise and commodity exports are the shares of developing countries (Low and Middle Income Countries - NICs) and major part of merchandise and commodity exports, 76% and 74% respectively from the developing countries (LMICs) is with the HICs), and trade between developing countries both in merchandise and commodities is significantly lower, being of the order of about 25% only.

The developed countries, which command over seventy percent of world trade, have virtually saturated their own markets. So, they are under a compelling need to have access to new markets in the developing countries to enhance their output and sustain economic growth and employment.

At higher levels of growth, on account of higher factor costs and diminishing marginal returns, the developed countries find it advantageous to selectively shift production to the developing countries so as to enhance output at lower marginal costs. This phenomenon has stimulated merchandise production and trade in many of the developing countries in recent years.

5. Agenda Item Six, Fifth Conference of Labour Ministers of Non-aligned and Developing Countries, 19-23 January 1995, unpublished paper. (New Delhi) p.5.

In this background, structural reforms and consequent flow of foreign direct investment have transformed the developing countries from recipients of aid and borrowers of loans into partners in investments. If these opportunities for partnership in investments and economic growth are to be fully exploited, investment friendly environment has to be universalised through appropriate policies and instruments. It is worthy of mention in the context that developing countries have had difficulties in absorbing and optimally utilising external aid through multilateral and bilateral sources on account of their inability to generate counterpart local resources.

According to an estimate of GATT; world trade in the year 2005 AD would be higher by US \$74 billion (by 12%) at 1992 prices, over what it would have been without the Uruguay Rounds. Significant increases are likely to be in the sectors of clothing (60%), textiles (34%) and agriculture, forestry and fishery products (20%). These are the sectors of benefit to developing countries in particular. Having been increasing the ratio of manufactured exports, these countries stand to benefit on account of liberalisation of trade in manufactures as well. Increased world income on account of liberalised trade, may be of the order of U.S. \$230 billion (again at 1992 prices). Income increase for the developing economies may be U.S. \$80 billion. While trade would expand and incomes would increase, impacts may be varied in different countries, regions and Industries / Producers. The impact would be dependent upon various factors - role of international trade relative to the national economy, structure of export production, export-import patterns and on the trade barriers.

On the other hand countries which are dependent upon primary commodity exports may not be in a position to gain advantages from the liberalisation of trade in manufactures. The price and income elasticities of demand for primary commodities are low. Trade barriers in respect of these commodities are also already low. In this sense, commodity-dependent countries, e.g.- African countries would not gain much.

However, Latin American and Asian economies are likely to be significant gainers because of their already diversified and fast diversifying manufacturing and export bases. But the developing countries are much to lose, if the developed countries succeed in bringing in 'Social Clause' under the GATT/WTO.

While the Uruguay Round has been yet another major mile-stone in the liberalisation of world trade, new concerns and apprehensions have come to be articulated; threat of low cost competition from developing countries and job losses in the developed; dampening of real wages and widening wage inequalities in developed countries on account of increased imports of labour intensive products allegedly produced under lower labour standards; likelihood of social issues like labour standards being wielded for protectionist purposes on alleged grounds of "social dumping"; potential of unilateral national actions to neutralise disadvantages arising out of trade liberalisation etc. It is these concerns and apprehensions that lead to the issue of the 'Social Clause'.

The controversy of 'Social Clause', in fact, arises out of the linkage between international trade, investment and jobs, and the rationale of

liberalisation of international trade is one of enhancing it in terms of exports as well as imports, but not in bringing in new regulations, which are hazardous for the smooth functioning of WTO and international trade.

CHAPTER : II

'SOCIAL CLAUSE' AND GLOBAL TRADE : NORTH'S PERSPECTIVE

INTRODUCTION :

Over the past two decades there is a disappointing performance by the advanced nations and success is increasing in a number of developing countries. The rapid economic growth, which first began in a few small Asian nations in the 1960's has now spread across a wide arc of East Asia - not only to relatively well-off South East Asian nations like Malaysia and Thailand. But also to two poor countries with huge population, China and Indonesia, with India joining the team recently, with the liberalization process. While this is a positive development for the millions of people all over the world, the North rather than taking satisfaction in global economic development is regarding economic growth in the developing countries as a threat.

Recently the relationship of labour standards and trade conditions has been brought into sharp focus. The North considers trade with countries with lower labour standards, a threat to their own working and living standards by providing a competitive edge to the exporting country. With the rising importance of international trade and globalisation of production, proposals to link labour policy to trade through the use of sanctions in the form of withdrawal of trade benefits have been raised with increasing intensity by the North. Similar is the case with the social issues such as child labour, wages to women work force, child - labour, working conditions and adherence to human rights.

These fears were exemplified in a letter circulated ⁶ this year by Klaus Schwab, traditionally, he wrote, “the world was divided into rich countries with high productivity and high wages, and poor countries with low productivity and low wages. But now, he noted, some countries combine high productivity with low wages. The growing presence of these countries in world markets is leading, Schwab argued, to a “massive redeployment of productive assets,” which is making it impossible for advanced nations to maintain their standards of living”. In other words, competition from the emerging economies of the Third World has become a threat, perhaps the threat, to the economies of the First World. Schwab’s views are not unique. Even Jacques Delor’s ⁷ president of European Commission, shares them. In a paper released in December 1993, he points four reasons for the long upward trend in European unemployment rates. He says the most important factor, is “the rise of nations that are competing with them—even in their own markets at cost levels that they simply cannot match”.

Moreover on the eve of the formal ratification of GATT agreement in Morocco, on April 15th 1994, United States and its allies have launched a Vigorous offensive to enlarge the scope of the world trade agreement to include contentious areas like labour standards, environment and human rights.

The United States and European Union, (particularly France) maintain that these new concern’s are trade related and need strict regulation, to prevent the South from exercising “unfair advantage”. Moreover both Washington

6. Paul Kruguran, “Does Third World growth hurt first world prosperity”, Harvard Business Review (Harvard), July-August 1994, PP-113.

7. *ibid*, p.113.

and Paris, in a rare display of agreement, maintain that the time has come to make protection of Worker's rights a priority item. Both want to hit developing countries and export - driven countries with trade sanctions, on grounds that these benefit from cheap labour. U.S wants the preparatory committee of World Trade Organization (WTO) to include a paragraph committing it to "acceptable labour standards".

Though the North failed to bring in 'social clause' under WTO in Marrakech round, efforts are on, to bring it for discussion in the Geneva round of WTO negotiations. Many of the issues related to human rights, worker's rights, labour standards, child labour, prison labour and human rights were already raised by the North during the UN's conference on trade and Development at Cartagena in early ⁸ 1992.

Though the "final Act" of the Uruguay Round did not deal with either 'Social Clause' or human rights issues, as they did not form part of Uruguay Round mandate set in 1986. However, it was mentioned that the future programme of the World Trade Organization (WTO) should address atleast some of these issues on labour standards, worker rights and environment. But the United States wanted a clearcut statement on worker rights and labour standards to be included in the Marrakech ministerial declaration. This should empower the World Trade Organization (WTO) to start examining the trade related aspects of worker's rights and internationally recognised labour standards. Today, a number of western countries are struck by an imaginary fear, that the Uruguay Round may lead to dumping of the developing countries cheap goods in the former's markets, which can result in huge loss of jobs,

8. Telegraph (Calcutta), 7th April-1994.

and closure of their manufacturing industries. But then on 7th April 1994 U.S. and the developing countries had reached a settlement in Geneva according to which USA agreed to forego its demand that the final act should commit the WTO to ⁹ discussing links between trade and worker rights. It is because of this understanding that U.S. did not stress much on the inclusion of worker's rights in the recently concluded Marrakech Summit in Morocco.

On the other hand Mr. Bill Clinton, the President of United States, in the 1994 Economic Report argued that "the Imports from the Third World have not been a major pressure on the U.S. labour market, atleast not so far, which is ¹⁰ different from Europe and the rest of the west." Still economic writers such as Business week's Robert Kuttner and think tanks like the Economic Policy Institute in U.S., send signs of warning about the threat that low-wages imports pose to U.S. living standards.

In an article "redefining the Global Economy", Paul ¹¹ Kruguran brings out saying some informal polling of non-economists, I know, suggests that majority of them, including many who consider themselves well informed about economic affairs, consider it an established fact that competition from the Third World is a major source of current U.S. economic problems.

On the other hand, the European Commission trade representative Me. Leon Brittan sought to explain "that the 'Social Clause' being raised by the

9. News Digest; (Keesings Record of World Events); April-1994.

10. Paul Kruguran, "Does Third World growth hurt first world prosperity", Harvard Business Review July-August 1994, PP-114.

11. *ibid*, pp.114.

European community was not related to low wages in the developing countries, nor was it an attempt to dilute the comparative advantage of these countries arising out of lower labour costs. European Community was infact concerned with child labour, forced ¹²labour and the worker's rights of free association". He said and suggested that these could be discussed at both the WTO and International Labour Organisation (ILO) fora.

FOREIGN INVESTMENT MOBILITY FACTOR

Today all of a sudden sections of the ruling circles in the North have become concerned with the plight of developing countries labour, human rights and the deterioration of environment. This was evident when the U.S. representative to Economic and Social Commission for Asia and Pacific (ESCAP) in its 50th annual meeting in New-Delhi on 1993 said that "we do have concerns about trade competition based on exploitation - wether of worker's or ¹³the environment.

The North fears that the developing countries with their cheap labour, low or non-existent laws on health, safety and environment, with greater access to foreign investments and modern technology will be able to compete successfully with western producers of similar goods. So they are keen in bringing 'Social Clause' under the Multi-lateral trade regime. Moreover developed countries believe that, inclusion of 'Social Clause' under the WTO would serve their dual purpose of taking action on countries

12. Times of India (New Delhi), 14th April 1994.

13. Times of India (New Delhi), 14th April 1994.

violating the labour standards, and also could be used as a pretext to cut developing countries exports, to regain their international trade competitiveness.

The North argues that the worker's rights should be brought under the WTO to make the states legally bound to protect the worker's rights and to make the ILO effective.

Moreover they argue that the ILO has failed to take sufficient action to protect the worker's rights. In a work published in March, 1994, Bill Bret, vice chairman of the ILO, writes that the labour organisations need to work jointly with the new world trade group to draw up an effective Mechanism. But Michael Hanseune, the ILO director general rejected criticism of the organisation, saying it did not have powers to introduce any sanction. "If there is any agreement at the international¹⁴ level" he said, "we will be happy to work with the WTO". Moreover the North expresses its concern over the plight of worker's living conditions and argues for an effective ILO, to have a healthy trade competition and to improve the labour standards in the developing countries.

Presently with the GATT agreement signed, and all the developing countries moving towards liberalisation, and export oriented economies, the U.S. fears that the Third World cost effective goods would destabilise their industry and jeopardise their economy by increasing unemployment, leading to closure of many manufacturing industries.

14. International Herald Tribune (Hong Kong), Mar 23 1994;

They are more concerned with the newly industrialised countries (NIC's) like South Korea, Taiwan, Thailand, Indonesia, China and threshold countries like India ,where the cheap labour would attract their investment and centre's of production, and compete with them effectively.

'SOCIAL CLAUSE' AND GLOBAL TRADE NORTH'S PERSPECTIVE PRODUCTIVITY THEORY

The idea that Third World competition threatens living standards in advanced countries seems straight forward. Suppose, that somebody has learned to do something that used to be my exclusive speciality. May be he or she is not quite as good at it, as I am, but is willing to work for a fraction of my wage. Isn't it obvious that I am either going to have to accept a lower standard of living or be out of a job? That, in essence, is the view of those who fear that western wage rates must fall as the Third World develops. But this is completely misleading. When world productivity rises (as it does when Third World countries converge on first world productivity), average world living standards must rise; after all the extra output must go somewhere. This, by itself presumes that, higher Third world productivity will be reflected in higher Third world wages, not lower first world incomes. For example as the productivity of South Korea increased, its wages also started mounting in upward direction. In recent years on the other hand in a national economy, producers and consumers are the same people; foreign competitors who cut prices may lower the wage one receives, but also raise the purchasing power of whatever one earn. There is no reason to expect the adverse effect to predominate.

Moreover, if everyone is producing the same and the productivity of worker's rights increases, then there is no room for international trade. Lester Thurow, in his 'Head to ¹⁵ Head' proposition, says that because the advanced nations produce the same things, the benign niche competition of the past has given way to win-lose head to head competition. But to cite an example, in 1990, advanced industrial nations spent only 1.2 percent of their combined GDP's on imports of manufactured goods from newly industrialised economies.

Moreover, in the U.S. economy, more than 70 percent of national income accrues to labour and less than 30 percent to capital; this proposition has been very stable for the past two decades. The wages automatically rise with productivity. In the 1950's when European productivity was typically less than half of U.S. productivity, so were European wages; but today as productivity of Europe increased, average compensation measured in dollars is about the same. As Japan climbed the productivity ladder over the past 30 years, its wages also rose from 10 percent to 110 percent of the U.S. level. South Korea's wages have also risen dramatically over time.

TECHNOLOGY FACTOR :

The idea that new entrants on the world economic stage, always pay low wages even as their productivity rises to advanced-country level, has no basis in actual experience. On the other hand, the trade in manufactured goods between the first and Third World's is

15. Paul Kruguran, "Does Third World growth hurt first world prosperity", Harvard Business Review July-August 1994, PP-117

largely an exchange of sophisticated high - technology products like aircrafts and microprocessors for labour intensive goods, like clothing. Sir W. Arthur Lewis, who won the 1979 Nobel Prize in economics, has illustrated, how the effect of productivity growth in developing countries, on the real wages in ¹⁶advanced nations can work either way. Competition will ensure that, the ratio of wage rate in the North to that in the South will equal the ratio of Northern to Southern productivity in the sectors in which workers in the two regions face each other head to head in medium tech. In this case, Northern workers will not be competitive in low-tech goods in spite of their higher productivity, because their wage rates are too high.

But if there is an increase in Southern productivity in the low-tech output, a sector that does not compete with Northern labour, there is no reason to expect the ratio of Northern to Southern wages to change. Southern labour will produce low-tech goods more cheaply, and the fall in the price of those goods will raise the real wages in the North. But if Southern productivity rise in the competitive medium-tech sector, relative Southern wages will rise. Since productivity has not risen in low-tech production, low-tech-prices will rise and reduce real wages in the North.

It can also be argued strongly that the “Third World growth does not hurt the first world growth not because the wages in the Third World stay low, but because they rise and therefore push up the prices of exports to advanced ¹⁷countries”. To cite an example the U.S. may be threatened when South Korea gets better at producing automobiles, not because higher

16. *ibid*, p.118.

17. *ibid*, p.118.

South Korean wages mean that U.S. consumers pay more for the pyzamas and toys that they were already buying from South Korea. On the other hand this potential adverse effect should show up in a readily measured economic statistic; the terms of trade or the ratio of export to import prices. If the U.S. companies are forced to sell goods more cheaply on world markets because of foreign competition or are forced to pay more for imports because of competition for raw materials or a devalued dollar, real income in the U.S. will fall. Because exports and imports are about 10 percent of GNP, each 10 percent decline in the U.S. terms of trade reduces U.S. real income by about 1 percent. The potential damage to advanced economies from Third World growth rests on the Possibility of a decline in advanced country terms of trade. But that hasn't happend. Between 1982 and 1992, the terms of trade of the developed market economies actually improved by 12 percent largely as a result of falling oil prices. The U.S. labour secretary 'Robert Teich', at the March 1994 job summit in Detroit, attributed the employment problems of western economies to the mobility of capital. In effect, he seemed to be asserting that, first world capital now creates only Third World jobs. In a way this is true. Capital exported to the Third World is capital not invested at home, so such North-South investment means that Northern productivity and wages will fall. Northern investors presumably earn a higher return on these investments than they could have earned at home, but that will offer little comfort to workers.

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“The flow of capital to developing countries from North has been only \$100 billion in the peak year 1993. That is very low. In 1993 the combined GNP’s of North America, Western Europe and Japan totalled more than \$18 trillion. Their combined investment was more than \$3.5 trillion; their combined capital stocks were about \$60 trillion. The record capital flows of 1993 diverted only about 3 percent of first world investment away from domestic use and reduced the growth in the capital stock by less than 0.2 percent. The entire emerging market investment boom since 1990 has reduced the advanced World’s capital stock by only about 0.5 percent from what it would otherwise have been”.¹⁸

So the calculation suggests the capital flows to the Third World since 1990 (and there was essentially no capital flow during the 1980’s) have produced real wages in the advanced world by about 0.15 percent, hardly the devastation that Schwab, Delor’s or the U.S. economic policy institute presume.

THE WAGE FACTOR

The ratio of unskilled to skilled workers is much higher in the South than in the North. In such a situation, one would expect the ratio of skilled to unskilled wages to be lower in the North than in the South. So when two countries exchange skill-intensive goods for labour intensive goods, they indirectly trade skilled for unskilled labour; the goods that North ships to

18. *ibid*, p.119.

South “embody” more skilled labour than the goods North received in return. Trade with the south ineffect makes Northern skilled labour scarce, raising the wage it can command, while it makes unskilled labour effectively more abundant, reducing its wage.

Increased trade with the Third World, then, may have little effect on the overall level of first world wages, with a higher premium, for skill. The Third World exports have not hurt the average level of wages in the first world, but they may be responsible for the steep declines, since the 1970’s, in real wages of unskilled workers in the U.S., and the rising unemployment rates of European workers. But this decline is at the heart of the western economic malaise, and Third World exports have nothing to do with it.

While the American worker costs 16 to 17 dollars per hour, a Mexican labour costs mere 2.4 dollars. In labour intensive industries, therefore, firms have a big incentive to move to a cheaper country. Such concerns are at the heart of opposition in the U.S. and NAFTA. Ross Perot, one of the NAFTA’s liveliest opponents, predicted that if trade barriers between the two countries were scrapped, there would be a “gaint sucking sound” as American jobs crossed the border to Mexico.¹⁹ This ignores the fact that the productivity of the average American worker is higher than that of the average Mexican. The labour costs per unit suggest. So long as American workers possess better skills and use better technology, they can compete despite enjoying higher wages.

19. Worker’s of the world, Compete; Schools brief; The Economist (New York), April 2nd 1994, PP.74.

SHIFTING UNITS OF PRODUCTION FACTOR :

On the other hand the North especially seemsto be bringing in 'Social Clause' to prevent the U.S. based multinationals from shifting their units of production to the Third World countries, which would result in the increase of unemployment in United States. It is argued that, "the United States lacks a responsible or comprehensive global trade policy and has effectively delegated the policy making to multinational companies, which have fiercely resisted any efforts to regulate worker's rights globally."²⁰ The MNC's successfully blunted attempts to include meaningful labour standards in NAFTA and prevented the inclusion of any 'Social Clause' in the GATT and the European Community Charter.

The debate in the U.S. over free trade has ignored the need for trade to be fair to workers interests. 'Protectionist' epitaphs are hurled at any American Union that decries how its members are losing jobs, as U.S. companies search for cheap labour around the globe. For example 'NIKE' is making its famously expensive athletic shoes in Indonesia, where its women worker's labour long hours for a meagre \$38 a month. Walmart, K-Mart and Sears, the great American retail icons, are having their shirts made in Bangladesh by women, toiling 60 hours a week and making less than \$30 a month.²¹ The companies sell the shirts in the U.S. at United States prices. The labour cost per shirt is roughly four cents. At the same time trade unions in the U.S. and Europe protest massive job cuts and the lowering in living standards. Even the Japanes

20. Teiry Collingsworth, F.Williams Goold, Pharis F.Harvey, "Time for a Global New Deal" Foreign Affairs; (New York), Jan/Feb 1994, P.9.

21. *ibid*, p.10.

workers face the end of one certainty, the life time employment system. The Japanese MNC's like Sony and NEC are no longer interested to employ expensive Japanese workers when Thai and Malaysian workers will do the same job for much less. Even NAFTA exposed similar stories of U.S. companies shifting-units of production to Mexico, making use of highly productive but cheap labour.

Now the U.S. government wants to regulate and prevent the U.S. companies from shifting their production units to Third World countries, to remove the unemployment problem. Therefore, this could be one of the reasons which is making U.S. government insist to bring in 'Social Clause' under the Multilateral trade regime.

But the United States could do very little to protect the rights of the workers, while the NAFTA and GATT agreements were efforts to remove tariffs and to agree on a comprehensive set of regulations, governing global trade that are designed primarily to protect property rights, and there was not a word about fundamental rights of workers in the thousands of pages of rules. It is strongly assessed that the United States should link labour standards with trade policy by "setting aside the morality of multinational companies using impoverished workers who are unable within their political systems to fight for better conditions. However it also makes no economic sense to continue to treat labour standards as irrelevant to trade policy. When they reduce their expensive U.S., European or Japanese work forces, the multinationals displace workers who until recent years were dynamic consumers with steadily rising purchasing power. Their replacement workers in Bangladesh, Indonesia and Mexico are often earning subsistence wages,

while this new class of worker would also like to buy televisions and V.C.R.s in additions to their primary needs food and shelter”.²²

In the future, acheiving real econimic growth in the U.S. will require policies to attain coordinated growth in the global economy. For this to happen, however, new international trade and investment policies must make it possible for agricultural and industrial workers to receive a rising share of the benefits of increased productivity and economic expansion. It is thus in the interest of all countries to cooperate to reduce the obstacles to real growth in developing countries. Part of this strategy must be global agreement on binding trade and investment rules to protect fundamental worker rights and munimum international labour standards.

The progress toward globally applicable worker’s rights and labour standards should be the cornerstone of a forward-looking trade policy that does more than maximum short run profits. It should provide the basis for first creating and then sustaining a global cosumer class, encourage true efficiences in production of the labour conditions and wages of workers through out the world. “Relations among the countries in the field of trade and economic endeavor should be conducted with a view to raising standards of living and ensuring full employment in the words of Colingsworth and others”.²³ In recent years the collective political will to make the protection of basic worker rights an essential part of the regulatory system that encourages global economic growth is increasing. Today actively advancing worker living standards is critical to boosting their overall purchasing power and to acheiving sustainable real growth. This is true for developed and developing countries.

22. *ibid*, p.11.

23. *ibid*, p.12.

The world in the 1990's has become a complex entity quite apart from the changes which have occurred in the geopolitical map, major problems now need to be viewed in a different light. Aspects which could previously be regarded as a variation on the standard growth problems facing market or centrally planned economics, or the general policy problems facing rich or poor countries, now need to be viewed as part of a set of problems, which will call for different remedial measures depending on the particular national, geographic, economic and social circumstances of the area.

This diagnosis certainly also applies to those parts of the globe which have come to be known as the Third World. The centre of gravity in the world economy has shifted still further to these countries detriment during the 1980's, the "Third World" itself underwent pronounced differentiation.²⁴ Some of the countries concerned have by now virtually attained the status of industrial countries (newly industrialised countries), and are developing rapidly both economically and socially; others, which unfortunately make up the majority, have been left standing at various low levels of development, and can only turn their potential into actual development with great difficulty. Others still are suffering from rapid decline even in their development potential, which is likely to lead to political and economic disaster, in the longer term. Today the fastest growing export markets for high-tech-wage countries are the low-wage countries. They are large markets, over 40 percent of U.S. and EC exports now go to non-OECD countries. Rather than choking off their burgeoning export markets to protect the last of their sweat shops, for Europe and America it would be far wiser to focus on providing their citizens with the incentives and means to acquire the skills needed by developed economies.

24. Heiko Korner, "The Third World in the 1990's problems and Challenges", Inter Economics, March, April-1994, p.92.

As international trade and investment continue to grow, a fundamental dilemma that societies face in delineating the rights and obligations of individuals and institutions will remain unchanged. The requirements of efficiency and equity will invariably conflict, and nations must remain free to strike that balance in accordance with their own values and resources.

To insist that there exists a single socially correct answer to such questions is the height of arrogance, yet this is precisely the sort of position that the North adopts over 'social clause'. The new doctrine of 'social clause' attempts to stamp out competition that politicians and special interests find effective.

Today while in most countries there is a withdrawal of state from managing national markets (example, deregulations, privatisation) there is also increasing intervention in external trade. During the 1980's border barriers were not as protective as intended; the reason being that during the 1980's there was also an unprecedented increase in foreign direct investment. Yet another pair of conflicting policy shifts was that at the same time that protectionist attitudes were on the increase. GATT members also launched the Uruguay Round, with the explicit purpose of counteracting protectionist pressure drafting new multilateral disciplines for sectors such as agriculture and services also strengthening existing disciplines on trade instruments, such as anti-dumping. Today trade policy has expanded beyond its traditional boundaries.

TRADE INTERVENTIONS BY WEST

Since the conditions of trade affect domestic competition, and the conditions of competition affect trade, and since no instrument of either policy has a coverage that spans both of them, optimum intervention in the economy to correct market distortions-with an international dimension almost certainly would require mix of instruments from both policies. During the 1970's and 1980's new forms of intervention in trade emerged, such as 'voluntary exports restraints'(VERs), 'orderly marketing arrangement' (OMAA), and 'Voluntary import expansion' (VIE). They were intended to preserve the status quo (i.e. protect traditional markets), overcome foreign structural barriers and open up new markets. But, today the important step towards making trade policy more competitive and competition policy more pro-trade is to give more leeway to the market to determine the international allocation of resources. This can be done by removal of remaining barriers to trade and market access, and not by bringing in new trade barriers in the guise of protectionism. It can be clearly understood that "if several developing countries were to follow in the footsteps of the export oriented Asian Newly industrialized countries (NIC's), it would provoke a wide-spread protectionist response from the developed countries. This further limits the ability of developing countries to grow through trade".²⁵ Moreover the study of lower developed countries' exports for instance, showed that the gains from trade for the NIC's is associated with their abilities to maintain their export competitiveness globally.²⁶ Moreover, Asia relied much more on

25. Jusie Poon, "Effects of World demand and competitiveness on Exports and Economic growth", Growth and change, Winter 1994, P.7.

26. Terry Collingsworth, and others, "Time for a global new deal", Foreign Affairs, Jan/Feb 1994, p.9.

manufactured products in their trade practices, which accounted for nearly 75.2 percent of all developing countries exports in 1986. It is because of this reason the West is threatened by the developing countries and wants to bring in new laws such as 'social clause' as means of protectionism under the multilateral trade regime, to contain the developing countries exports to North.

NAFTA AND 'SOCIAL CLAUSE'

The United States of America, Canada and Mexico are members of North American free trade agreement (NAFTA). The U.S. and Canada equal, when it comes to economic, social and industrial development. But Mexico is a developing country with plenty of cheap, productive and skilled labour. There is plenty of scope even for investment in many neglected and raw areas of production. While the United States and Canada came into agreement with Mexico to form NAFTA, it was basically formed or pulled into the American and Canadian bilateral agreement (to expand later) with a motive to exploit this vast markets and invest in a threshold country. But presently American's are insisting on bringing in 'social clause' to prevent the U.S. based companies and multinationals from shifting their units of production to the Third World countries, which would result in the increase of unemployment in United States.

It is argued by Mr. Terry Collings Worth and others that the U.S. companies and U.S. based multinationals are shifting their centres of production to Mexico, making use of highly productive but cheap labour.²⁷

27. Jagadish Bhagwathi, "Which way? free trade or protection?" (interview), conducted by Richard D. Bartel, Challenge (Chicago), December, 1st 1993, p.22.

This amply explains the fact why U.S. is insisting on bringing 'social clause' under the multilateral trade regime. But at the same time U.S. which boasts and presents herself as a saviour of workers of the world could do very little to protect the rights of labour.

The Dunkel draft of GATT was encyclopedic, and the final version of NAFTA exceeded 2,000 pages. There was never any pretense that these agreements were intended to remove regulations. They were efforts to remove tariffs and to agree on a comprehensive set of regulations governing global trade, that are designed primarily to protect property rights. There was not a word about the fundamental rights of workers in the thousands of pages of rules. For example even the Harkin - Brown Bill, which would ban from U.S. markets any product made with child labour, has brought forth, assurances from the free-traders that, while they naturally abhor the use of child labour, it violates the purity of trade law to link it with social legislation.

Since 1980 the U.S. congress passed a series of laws that directly linked unilateral trade benefits with respect for worker's rights. Five laws were - ultimately enacted requiring compliance with "internationally recognised worker's rights. The generalised system of preferences Act, (GSP) which grants developing countries duty-free status on many exports to the U.S., conditioned on compliance with a five factor worker rights standard. Using standards developed by the ILO based on Conventions agreed by most of the world's countries, the GSP standard was designed to have universal application. Most of the rights are absolute, (meaning that they are not dependent upon a country's relative economic conditions). Thus to be eligible, all countries must respect the rights to associate and bargain collectively, the two utmost important worker's rights that allow independent trade unions to form, and to

negotiate for whatever share of the economic pie is available. In addition countries cannot use forced or compulsory labour or child labour and must provide reasonable conditions for worker's health and safety. A final requirement is that there must be a national mechanism for establishing a generally applicable minimum wage law, which necessarily should take into account a country's level of economic development.

In an article, 'Jagdish Bhagwati', says that, "there is nothin inevitable about freer trade with the poor countries harmonising our skilled."²⁸ The evidence is not at all persuasive that such trade actually was a significant factor in the 1980's phenomenon of declining real wages of the unskilled in U.S.. Overwhelmingly the culprit seems to be technical change that is favouring the skilled and turning away the unskilled". He also says that, "I was deeply disappointed with Clinton administration when, in the NAFTA debete, its spokes people from the President down, did not say at all about this. While they condemned, the unions and Ross-perot as green men from Mars', because they worried about adverse effects on out worker's well-being it seemed to me that they themselves shared these fears; for they proceed to get Salinas to raise his minimum wages, and to sell the supplemental agreements on environmental and labour standards as ways in which Maxican costs would be directly and indirectly raised so as to "reduce unfair competition" from Maxico. They were thereby admitting, rather than rejecting on the basis of excellent economic argumentation, the fear that trade with the poor countries would immersize our unskilled for sure, and they also encouraged the harmful notion that free trade with poor nations was unfair

28. *ibid*, p.24.

unless you managed to face them to harmonise their costs and standards upwards".²⁹

In the North, America faced with the prospect of a NAFTA, congress persons and special interests suddenly became desparately concerned with the 'social right' of Mexican Worker. AFL-CIO Chief Lane Kiekland offered to champion their cause by burying the accord in favour of a transatlantic link that would extend the EC social charter's protectionist unbrella to America's shores. If and when Mexico were allowed to join the club, Mexicans would then enjoy the full benefits of being priced out of employment. Even Mexican president Mr. Carlos Salinas De Gortari, who has rightly insisted that he would not accept any protectionist side deals tied to NAFTA, found himself helpless in the face of America's compassion for Mexican worker.³⁰ Ultimately Mexico succumbed to the American pressure.

AMERICA'S CONCERN FOR CREEPING PROSPERITY:

Americans must be wary of creeping social correctness in the critical debates over their nations economic future. As political correctness attempts to quash free discourse that an aggrieved group finds unpleasant, so the new doctrine of social correctness attempts to stamp out competition that politicians and special interests find effective.

In America rising imports from the newly industrialising countries are often blamed for causing unemployment in America and Europe. Some

29. *ibid*, p.24

30. Benn Steil, " 'Social Correctness' is the new protectionism", Foreign Affairs (New York), January February 1994, P.19.

consider competition from low-wage countries “unfair” because workers there are “exploited”, with low pay and poor working conditions (example no holidays and low safety standards). Pesimists go on to say that unless first-world industries are protected against “social dumping”, workers in rich countries will also have to settle for Third World working conditions on high unemployment.

As Mexico opens its borders and acquires the latest technology, its labour productivity will of course rise. But both theory and experience suggest that this will be broadly matched either by a rise in wages or by a rise in its exchange rate. Fears that cheap foreign labour will push workers out of their jobs also rests upon the fallacious idea that the world’s output is fixed, so that any increase in Mexico’s output, say, must come at the expense of American output and jobs. In fact, trade opens up new opportunities.

It is a principle of economics that any country will be better off - i.e. create more output and jobs - if it specialises in those industries where it possesses a “comparative advantage”. In other words, America should build aircraft and write computer software, but it should import toys and shoes, which other countries make relatively more cheaply. This in turn will boost the export earnings of developing countries and allow them to buy skill-intensive goods from America.

THE SKILL FACTOR

Protectionists blame the slow rate at which American living standards have risen over the past decade on rising imports. The more likely cause was

America's low investment and hence slow productivity growth. Rich countries will gain as a whole from increased trade with emerging economies. Average living standards will rise faster. What is also true, however, is that some groups of workers, unskilled ones in particular, will lose out.

The "factor-price equalisation theorem", predicts that trade will reduce the relative income of the type of labour (i.e. skilled or unskilled) that is relatively scarce in a country. For example, if America where unskilled labour is relatively scarce and skilled labour relatively abundant, trades with Mexico where unskilled labour is relatively abundant, then America will specialise in skill intensive industries and import humbler goods from Mexico. America's output of skill-intensive goods will increase, but its production of low-skill goods will decline. The demand for unskilled workers will therefore fall in America, and so will their wages relative to those of skilled workers. In Mexico, in contrast, the wages of unskilled workers will rise.

Wage differentials widened in the 1980's in 12 of 17 industrial countries studied by the OECD. In Britain, the wages of the top 10 percent. In contrast, wage differentials remained flat or fell in several countries in continental Europe including France, Germany and Sweden. Minimum wages, strong trade unions and generous social-security benefits set a floor beneath wages. As a result, the fall in the demand for unskilled workers has instead led to higher unemployment.³¹

The expansion of international trade over the past decade or so has

31. "Worker's of the world, Compete" Schools brief, The Economist, 2nd April 1994, P.74.

certainly linked labour markets in rich countries more closely than ever before with those of poor ones. Trade barriers have been lowered, transport and telecommunications have become cheaper and more efficient. At the same time, educational standards in poor countries have improved, increasing the number of workers capable of operating manufacturing machinery. The share of developing countries in world imports of manufactures has jumped from 10 percent in 1980 to an estimated 22 percent in 1993.

Adrian Wood, a British economist, argues in a recent book that rising imports from the Third World are the main culprit for the increased inequalities and higher unemployment among unskilled workers in the rich world. He claims, in the three decades to 1990, trade with developing countries reduced the demand for unskilled labour in the developed world by no less than 20 percent; the bulk of that decline, he estimates, was in the 1980's.³²

THE TECHNOLOGY FACTOR:

But other economists are more sceptical. They argue that competition from low-wage producers cannot possibly be the prime cause of the fall in the real wages of low-skilled workers in America. After all, imports from developing countries are still relatively small. America's trade with "low-wage" countries (i.e., where wages are less than half those in America) equals only 3 percent of its GDP. That is not much higher than the equivalent figure of 2 percent in 1960, when Japan and some European countries were counted as low-wage economies.³³ Many economists prefer to blame the dwindling

32. *ibid*, p.74.

33. *ibid*, p.75.

demand for unskilled workers on the technological revolutions of the past decade. Computers and robots can now do the repetitive tasks previously performed by unskilled workers. Indeed, it does seem likely that technology has so far played a bigger role in increasing wage inequality. What, though, of the future, as trade barriers fall further is the question usually posed before united states.

As technological development cannot be brought down, it looks as if both the American economists and government in Washington favor the idea of bringing in 'social clause' to cut the developing countries manufacturing exports to America specially those of Mexico the immediate threat next door. On the other hand the 'social clause' will serve the dual purpose of protectionism by putting an end to the rising overseas investment and shifting of units of productions from America and further slow down the process of development in developing countries, which will once again bring stability in employment rates.

But even here, protectionism would not be the correct remedy. It might help low-skilled workers, only at the expense of others. By delaying restructuring, it would result in the creation of fewer jobs in more efficient industries. The U.S. government should, increase the demand for skilled labour. Public works and job subsidies may be useful short-term measures, but they are unlikely to be a good use of tax payer's money in the longer run. One interesting idea, proposed by Mr. Wood, is to reform employers social security taxes, so that the rate of tax rises with the level of wages. This would widen the gap between the cost of living of skilled and unskilled worker's, and make low-skill-intensive industries more profitable. The snag, however, is that if taxes on skill-intensive jobs were raised to offset the lower

taxes on low-paid ones, then it would make skill-intensive industries (and hence tomorrow's jobs) less profitable.³⁴ Even education and training is not a better idea as it would become very costly and at the same time there are no returns of educating and providing teaching to a middle aged person. The other method can be to redistribute income, as governments in Europe have used minimum wages to prevent pay from falling at the bottom end of the jobs scale. But even this has cost some workers their jobs. A better way for governments to reduce inequalities could be through income supplements for the low paid. The tricky part is to avoid eroding the incentive to work, which would create an unemployment trap. This demands that the rate of withdrawal of benefits as incomes rise must be gradual. But that would make the scheme an expensive one.

It is clear that free trade with low wage countries will make some workers in rich countries worse off. Others, however, will enjoy even bigger gains. The challenge for governments is to decide how to tax some of those gains to compensate the losses, through some combination of training and state hand outs. And that it is only by addressing domestic income and job inequalities head on that, rich world governments will be able to, resist mounting calls, for higher trade barriers against the poor.

'SOCIAL CLAUSE' AND EUROPEAN UNION:-

It is not only the united states which fear the trade with developing countries, even European Union raised its fears of trading with developing countries. The European Commission trade representative Mr. Leon Brittan

34. Times of India, 14th April 1994.

sought to explain "that the 'social clause' being raised by the European Community was not related to low wages in the developing countries, nor was it an attempt to dilute the comparative advantage of these countries arising out of lower labour costs. European community was infact concerned with child labour, forced labour and the worker's right of free association",³⁵ he said and suggested that these could be discussed at both the WTO and ILO fora.

Among the European Community member's France in particular made it clear that these new concerns are trade related and need strict regulation to prevent the South from exercising "unfair advantage". France had maintained that the time has come to make protection of workers rights a parity item. They want to hit the developing countries and export driven-countries with trade sanctions, on grounds that these benefit from cheap labour. U.S. wants the preparatory committee of WTO which will replace GATT after Morocco, to include a paragraph committing it to "acceptable labour standards".

In April 1994, Sir Leon Brittan, European Union trade representative presented a report in Brussesls, for discussion urging WTO to address the question of human rights child and prison labour and related social matters. This subject topped the U.S. and French agenda in the April 1994 Marrakech Meeting. European Union is concerned about the rising developing countries exports specially of South-Korea, Taiwan, Thailand, Hongkong, Indonesia, China and the threshold countries like India, where the cheap labour could attract their investment and production centre's and compte with them effectively.

35. Benn Steil, "'Social Correctness' is the new protectionism", Foreign Affairs, January February 1994, P.17.

The North's principal trait is that, it is no longer acceptable to carry on liberal trade relations with any country failing to provide its workers with "adequate social protection". Such countries are said to be engaged in the practice of "social dumping", as their low labour costs enable them to undercut countries in economic competition that do provide proper social protection.³⁶ But, while stated as a matter of high principle this doctrine actually respects little more than an attempt to justify protectionism under the guise of concern for worker rights. Social dumping exists in the eye of the higher-cost beholder too : the change is levelled exclusively at countries that succeed in attracting jobs and investment on the basis of having an advantage in unit labour costs. In order to raise their competitors production costs, the socially correct seek to impose their system of labour relations, workplace regulations, employment and remuneration laws, and social security provisions, all the while maintaining that they do so in the interest of universal worker's rights.

Jacques Delor's former president of European Commission in a paper, "on European Economic difficulties", Growth, Competitiveness and Employment", released in Dec. 1993, lists that, the most important factor in the rise of nations that are "competing with them - in their own markets - at cost levels that they simply cannot match". European Commission speak about low-wage competition from the Third World.

But during the 1950's when European productivity was typically less than half of U.S. productivity, so were European wages; today average compensation measured in dollars is about the same. And the idea that new entrants on the world economic stage will always pay low wages even as

36. *ibid*, p.17.

their productivity rises to advanced country levels, has no basis in actual experience.

On the other hand even the European community seem to bring in social clause to prevent the European based multinationals from shifting their units of production to the Third World countries. This would result in the increase of unemployment and closure of their manufacturing industry. But the MNC's have successfully blunted the attempts of European Union by preventing them from including 'social clause' under the European community charter or the recently concluded GATT agreement.

Even the 1986 single European Act allows the council of ministers to approve social - policy directives by a qualified majority, rather than unanimity, only where "the health and safety of worker's is explicitly concerned. This means that the social charter by itself was impotent, since the directives required to implement it would almost always need unanimous consent. Implementation, therefore, first required securing victory in the "Battle of Britain".³⁷ Even the social action program could never have gotten off the ground has it not been consistent with the purely protectionist impulses of the Northern continent.

Europe fears losing jobs and investment to the poorer club medium-states unless Northern labour and social costs could be imposed on them. But Britain raised its voice for 'social clause', mainly because of European Unions fund transfers doled out by Bruesels to the European Community's poorest member states - Ireland, Spain, Portugal and Greece - ostensibly to

37. *ibid*, p.17.

ease their integration with a single market. Ireland, for example, has over 18 percent unemployment but receives transfers amounting to seven percent of GDP. The main aim of aid recipients is simply to keep the tracks clear off for European unity and open up their markets for European industry. So that the poor four will do nothing to alienate the federalist vanguard so long as social protection directives are matched by an ever - rising tide of Cohesion funds. As for the rich North, it is happy to ignore even gross violations of social rights, so long as they do not lead to job and investment transfers. No one, for example has cried “social dumping” against Portugal, where child labour is endemic, simply because Portuguese children as yet pose no direct threat to European jobs.³⁸

But Britain is not alone in rejecting the insidious change of ‘social dumping’. The Spanish government, for example, has routinely maintained that lower labour costs simply reflect lower productivity a position echoed even in a recent commission report.³⁹

On the other hand the need to reconcile blatant ‘social protectionism’ with the removal of trade and investment barriers has led the commission to some preposterous contorsions of economic logic in order to justify its directives. Its draft directive on “atypical” workers mandates, that, part-time and temporary workers receive social protection identical to that offered full-time workers, vacation time, dismissal payments and seniority allowances on exactly the same basis, in proportion to hours worked. It further more forbids replacing any existing job with temporary work. Employment and pay

38. *ibid*, p.17.

39. *ibid*, p.18.

measures require unanimous council approval. But since ensuring the rights of "atypical" workers will increase labour costs, the commission has concluded that harmonisation is essential to prevent "distortions of competition". Thus the measure will be decided by qualified majority voting, which is reserved for laws "essential for the completion of the single market".

EUROPEAN FEARS OF RISING UNEMPLOYMENT

The European Commission, as well as the Organisation for Economic Cooperation and development (OECD), expects the EC jobless rate to reach 12 percent by the end of 1994. Nearly half the EC's jobless have been out of work for over a year, compared to just over six percent in the U.S. since 1974, the EC has created 3.1 million new private sector jobs, compared with 29.8 million in North America. During the 1980's, EC unit labour costs rose on an average of four percent a year, compared to one percent in the U.S. The accumulated economic effects of steadily declining European competitiveness are now too high for business to ignore. Papandreou in 1989 ridiculed the notion that rising labour costs could undermine EC industrial competitiveness, declaring Germany, with the World's highest priced labour, to be the world's most competitive economy. An implicit causal mechanism was being posited - that higher labour costs let to higher productivity. This bizarre view underlay the Eurosocialist fantasy that German wages and working conditions could simply be imposed around the community, with productivity growth somehow magically following in train. The idea has been shown to be all the more absurd given that Germany itself can no longer bear the cost. With German manufacturing wage costs now 60 percent higher than those in the U.S., BMW and Mercedes-Benz are shifting their units of production across the atlantic. Meanwhile, German unemployment growth is accelerating.

In his own words, Benn Steil says that, “the barbarians are at the gate, and president Delors bravely leads the socialist call to arms. He demands “a new social pact”, warning that “the whole of society is threatened-its values its traditions and its future”. Exactly, who? or what is so maliciously threatening European society? Foreigner’s of course. More specifically, those socially incorrect foreigners with lower unit labour costs. The Marauders include not only Americans and Japanese, but the vast new enemy camps forming all around Latin America and South East Asia”.⁴⁰

The European Union has joined the American camp in blaming the developing countries for their reducing wages of unskilled, and the increase in employment. But until recently while America and Europe were dominating the trade in manufacturing products the Third World had the same grudge against them. But today Americans and Europeans have raised alarm even before the benefits of liberalisation and globalisation of free trade took its real shape. Mainly because of the reason that they want to control the developing countries export potential in manufacturing industry. Moreover today the developing countries (especially the South East Asian nations) are trading as equal partners specially in manufacturing commodities, which is making North lose its “hegemony over the global trade”.

The French prime minister Edward Balladur, demands that “Europe (read France) be protected from foreign traders with “different values”. French President Francois Mitterand calls for trade sanctions against nations with inadequate social protection”.⁴¹ France seems to be more concerned by the

40. *ibid*, p.19.

41. *ibid*, p.19.

developing countries trade and the cheap labour there. Both America and France became the champions of the workers safety and their wages by raising alarm over the manufacturing conditions, and labour standards in developing countries. But what about the cheap labour and child labour which is very next to France in Portugal. France is not concerned about them as they belong to Europe and it will keep quiet as long as they don't pose a threat to Europe (read France) in general.

EUROPE'S CONCERN FOR CREEPING PROSPERITY:-

Moreover Europe is concerned by the 'creeping prosperity' to developing countries. Today as developing countries grow at a faster rate than the developed countries, Europe is on its nerves. As pointed by Delor's "it has hardly been lost on him that the collapse of communism has led to the dreaded domino effect, as nations from Mexico to Malaysia fall firmly into the free-market camp. No longer content with surviving on their own brand of "social cohesion" transfers from international aid organisations, they now seek to prosper by selling their goods and services. As this presents an intolerable threat to Eurosocialism, Delor's now demands a "global social contract", which he hopes will put a stop to this creeping prosperity".⁴² But at the same time Delor's fails to understand that the developing countries have abundant unskilled labour, and short of either skilled labour like North or the required modern technology.

In Europe workers are paid according to their skill and minimum wages are maintained by law according to their economic development.

42. *ibid*, p.19.

Comparatively even in the developing countries workers are paid according to their skill and the economic development and market requirement. While in the developed countries \$4000 are required for an average life style (per month) in India less than \$200 is sufficient for an average middle class family. These variations of cost of living and the prices should also be taken into account. While more wages certainly raise the economic strength and living standards, the developing countries are in no shape to spend 70 percent of investment for the maintenance and 30 percent on investment and production, as it is happening in the North (specially in United States). The only way through which the developing countries can develop is through trade. And now the North is trying to thwart the trade of developing countries, which will further lead to the destabilisation of developing countries economies under the presence of developed countries protectionism.

'SOCIAL CLAUSE' AND JAPAN

While the North became exceptionally vocal about the 'social dumping' and became, the champion of 'workers rights' not surprisingly Japan maintained 'diplomatic silence' and it pretends as it is not much concerned atleast now about the 'social clause' issue. It must be because of its strategic interest or economic interest in the Asian parameter. It can be understood that Japan by maintaining silence over the issue, may gain the hearts of Asian nations.

But on the other hand while Japan is silent on 'social clause', it has raised its voice against U.S.A. for the use of protectionist measures such as super 301 on Japan in the end of 1993. Japan criticised U.S. for using unilateral protectionist measures to protect its markets from international competition.

The reason behind Japan maintaining silence can be because of its number one position in the world economy and it does not see any actual threat in the near future either from the west or from Asia itself, as both United States and Europe are running at snails pace in growth compared to 'Asian Tigers'. In Asia though 'South Korea' is growing at a faster rate, it might actually take some time before it can threaten Japan's position in Asia.

But Japan is also concerned at the rapid development and drastically increasing growth rate of Asian nations. And it is because of this reason Japan is maintaining friendly relations with Asian countries by way of trade, investments, aid, loan, grants, and incentives.

However Japan is also facing the same epidemic like the west. The unemployment rate is increasing (though slowly), and Japanese workers face the end of the one certainty that motivated their untiring devotion to sacrifice for the national interest the 'life time employment system'. Even Japanese based MNC's like SONY and NEC are no longer interested to employ expensive Japanese workers when Thai- and Malaysian workers will do the same job for much less.⁴³

However Japan also rose from rubbles. Its productivity increased over the years nearly ten times. While Japan's average wages were less than ten times three decades ago, its wages increased as productivity increased to nearly 110 percent today, which equals that of America and many developed countries.

43. Terry Collingsworth, and others, "Time for a global new deal", Foreign Affairs, Jan/Feb 1994, p.9.

It is an accepted fact that at the long run the manufacturing industry trade with developing countries by Japan is certainly going to offset its position. But Japan because of its strategic trade interests and because of its large investments and growing trade around Asia with developing countries, its dependence for raw material on Third World countries, may not bring a fundamental change in Japan's policy towards the 'social clause' and developing countries. It is in the interest of Japan not to support 'social clause' as the immediate victims of 'social clause' would be the Asian nations where Japan's future lies.

'SOCIAL CLAUSE' : INTRA NORTH CONVERGENCE AND DIVERGENCE OF OPINION :

While the developed countries made a big hue and cry over the 'labour rights' and low wages in developing countries, not surprisingly it was the Asian countries which raised their voice against the North's protectionist measure. However not all developed countries spoke for the inclusion of 'social clause' under the World Trade Organization (WTO).

UNITED STATES OPINION

Among the North both United States and France remained more vocal than any other country. The U.S. and European Union, particularly France, say these new concerns are trade related and need strict regulation to prevent the South from exercising "unfair trade advantage". Both Washington and Paris want to hit developing countries and export-driven economies with trade

sanctions, on grounds that these benefit from cheap labour.⁴⁴ The 'social clause' subject topped the U.S. and French agenda in the Marrakech meeting of final GATT round meeting at Morocco in April 1994.⁴⁵ And as a senior U.S. official quoted in April 1994 saying "president Clinton is committed to making workers rights part and parcel of World Trade Organization (WTO), and that the task of United States trade representative will be to ensure this".⁴⁶ The United States wanted a clear-cut statement on worker's rights and labour standards to be included in the Marrakech Ministerial declaration.

When India in a bid to turn the table, linked immigration policy and world trade to counter U.S. and some other developed countries, the U.S. rebuffed it later by questioning India's immigration policy and its problems in South Asia, with regard to Bangladesh.

Moreover in a determined effort by the U.S. to get the ILO to consider a link between minimum worker's rights and international trade, at the ILO's governing council meeting which ended on 17th Nov. 1994, received support only from France and Germany (to an extent) Canada and some Latin American countries. But it has met opposition from both developed and developing countries.⁴⁷

The United States hopes it will take more concrete form and perhaps result in recommendations to the WTO, at the next ILO governing council

44. Indian Express (New Delhi), 29th March 1994.

45. ibid, Indian Express

46. ibid, Indian Express

47. The Hindu (Gurgaon, New Delhi), 18th November 1994.

meeting in March, 1995. But to its surprise the Third World countries acted in unison and thwarted the North's purpose. The linkage of trade and minimum labour rights in a way that countries which do not observe these rights would face trade sanctions has become a major focus of U.S. strategy in both the ILO and the new WTO.

EUROPEAN UNION'S OPINION

France also on the other hand is much more concerned about 'labour rights' than any other European country. Since the beginning of the Marrakech round Paris always supported U.S. on the 'social clause' issue. Speaking on behalf of the European commission, its trade representative, Mr. Leon Brittan said in Marrakech that "the social issue being raised by the community was not related to low wages in the developing countries, nor was it an attempt to dilute the comparative advantage of these countries arising out of lower labour standards, and costs. EC was in fact concerned with child labour, forced labour and the worker's rights of free association, he said and suggested that these could be discussed at both the ILO and WTO fora.

The trade representatives certainly may not be presenting the French perspective in particular but European perspective in general. While French were for the inclusion of 'social clause' in the new WTO with immediate effect Germany on the other hand, though presented similar dissatisfaction over the labour standards in developing countries, maintained that the time is not ripe for the inclusion of 'social clause' under the WTO with immediate effect.

German view is that any attempt of bringing in new regulations into international trade would thwart the purpose of trade and the GATT in particular. So it wanted a little more time to be given to developing countries to become stable economies and to make GATT agreement functional first. Britain also maintained the same view, but it does not support the American and French view to bring in 'social clause' into WTO with immediate effect.

On the other hand all other European countries maintain diplomatic silence over the issue of 'social clause'. However it is certain that even they are concerned about the Third World worker's rights, but they are not as vocal in reaction as compared to France. It must be because they are not much effected atleast today by the developing countries trade. Canada on the other hand supports U.S. over the 'social clause' issue either because of the compulsion as a member of NAFTA or because of the direct threat which it expects from the Mexican exports to Canada directly as member of NAFTA.

Japan on the other hand prevents its own view over 'social clause' and gives a very dicy picture. It has not made its stand clear till now over the inclusion of 'social clause' under the new WTO.

During the April 1994 Marrakech meeting Japan proposed a vogue reference to 'Social Conditions'. It has charged the developed countries of bringing in new protectionist measures and at the same time presented some drawbacks of trade with Third World on trade and environment, but it forbidded from using 'social clause'.

But Japan though because of its strategic, economic, and political interests in Asian continent remained away from commenting and charging developing countries of 'social dumping'. In reality it is also concerned by the rising trade threat from South Korea, Taiwan and the increasing growth rate in potential countries like China and India,

Today Japan by any means does not support the western view point on 'social clause'.

The developed countries either those support 'social clause' today or those countries who argue for a little delay in implementation should understand that the credibility of both the ILO and WTO would suffer if it were to coerce labour standards through trade linkage. The purpose of developing countries which started to reform and are joining the process of development (economic), should not be thwarted by the rich North on the name of 'social clause' by bringing in new non-trade issues and link them with trade .

The North should understand that at the beginning of development, they were also in the same situation; their wages were low; their productivity was low; and their wages increased as their productivity increased. This is same to any country. If the developing countries are really interested for the safety and worker's rights then they should transfer the technologies and necessary resources for the speedy development of the Third World countries but in the guise of worker's rights protectionism, and become the champions of Third World worker's.

The North is concerned by the pace, at which development is taking place in the developing countries. They consider further trade with developing

countries would threaten their own living standards by providing a competitive edge to the exporting country (read developing countries) with their cheap labour and negligible labour standards. These fears are raised by almost all developed countries though they disagree over its need today to raise 'social clause' and tie it with world trade organization.

The North made an unsuccessful attempt at Marrakech to bring 'social clause' under the WTO. But certainly this will remain as the main issue in the North's agenda, because they are concerned of the creeping prosperity to developing countries, and which might even double with the removal of trade barriers in international trade. The developing countries are blamed for every reason; because they have abundant cheap labour, because the wages are low; for rising unemployment in the developed countries; for falling living standards of the North; for their trade deficit; for the closure of manufacturing industries in developed countries; and finally for the increase in the productivity of developing countries.

While trade with developing countries is certainly one of the reasons for rising unemployment, and closure of manufacturing industry in many developed countries, the main reason for rising unemployment of unskilled is because of the sophistication in technology and innovations. It is the rising cost of hourly wages, and for the increase in maintenance charges and investment charges.

Moreover developed countries believe that inclusion of 'social clause' under the WTO would serve their dual purpose of taking action on countries violating the labour standards and also could be used as pretext to cut developing countries exports, to regain their international trade

competitiveness. The North argues that ILO be made more powerful and effective to make states legally bound to protect the labour standards, by inclusion of 'social clause' under WTO is necessary.

In the coming years, with GATT agreement signed, the competitive threat from Third World exports are likely to increase, but those who regard it as "unfair" for developing countries workers, say, to be paid less than developed northern ones, and who call for tariffs to redress the balance, are in teeth opposed to all trade between rich and poor countries. This is extreme protectionism in the crudest possible disguise. And when they claim, as well, to have the best interests of developing countries workers in mind, they are surely hypocrites too. Developing countries cannot pay their workers more merely by deciding to do so. They must first produce more, and the best way to spur growth is to trade.

To insist on a levelling of "working conditions" to that of North, like hours worked each week, standards of health and safety in the work place, entitlements to holidays, health care, sick-pay, pensions and so-forth-would be in every case to insist on a standard of living that poor countries, being poor, cannot afford. But concerns such as removal of child labour and slavery cannot be dismissed. In cases such as these, basic freedoms are at stake and a country need not be rich to remove child labour, slavery and protect rights like free speech and assembly.

However pressure should not be used on developing countries to remove them, by way of protectionism by North. Which might lead to the failure of the smooth functioning of World Trade Organization (WTO).

CHAPTER - III

'SOCIAL CLAUSE' AND SOUTH'S PERSPECTIVE

INTRODUCTION :-

On the eve of the formal ratification of GATT in Morocco on April 15th 1994, the Northern countries have launched a vigorous offensive to enlarge the scope of the world trade agreement to include contentious areas like labour standards, environment and human rights. The North argued that these were trade related and need strict regulation to prevent the South from exercising "unfair advantage". On the other hand the developing countries claim the U.S. is endangering the entire multilateral trading system by introducing issues that do not belong to GATT.

Moreover, developing countries demand the social clause (a non trade issue) to be discussed at the International Labour Organisation (ILO). The apprehension of developing countries being that "such issues are being brought on the trade agenda by industrialised countries not for any altruistic reasons. The motive is to impose their own standards and to erode the competitiveness of the developing countries' exports and their access to developed countries markets".⁴⁸ Trade will neither be free nor fare if non-trade issues are sought to be used to raise new focus of trade barriers.

48. The Telegraph, (Calcutta), 7th April 1994.

The North has raised the protectionist 'Social clause', in order to thwart the gains, which the South would enjoy through globalisation of trade and removal of trade barriers all over the world. Actually the protectionism of North began much earlier, during the 1970's and 1980's. New forms of intervention in trade emerged, such as "Voluntary Export Restraints (VER's) 'Orderly Marketing Arrangements' (OMA), and 'Voluntary Import Expansion' (VIE). While VER's and OMA's were intended to preserve the status quo (i.e. protect traditional markets), VIE's apparently aim to overcome foreign structural barriers and open up new markets.⁴⁹ The VER's were particularly detrimental to the welfare of the importing country, as they function like quantitative restrictions and result in a loss of tariff revenue. The OMA's tend to freeze sales or prices. In addition both VER's and OMA's suppress competition because (a) they reduce incentives for efficiency or innovation (since market shares or prices are flexible) and (b) make it difficult for potential new competitors to enter the market.

Even in the capital flows, foreign direct investment has now become almost the extensive domain of the so-called "triad" of industrial regions, (Europe, U.S.A. and Japan), not only as the source of the vast majority of investment, but also as recipients. At present, less than 20% of all new foreign investment flows to the countries of the Third World.⁵⁰ A pronounced fall-off has occurred in Africa and most South-American countries. On the other hand, the Asian 'Tigers' (South Korea, Taiwan, Singapore, Hong Kong), plus China, Malaysia, Indonesia, Thailand, Brazil, Colombia, Mexico and

49. Phedon Nicolaidis, "Trade and Competition policies in an increasingly integrated World Economy", *InterEconomics* (Darmstadt), March-April 1994, p.84-91.

50. Heiko Korner, "The Third World in the 1990's problems and challenges", *InterEconomics*, March April 1994, p.94.

India recently are the preferred target for most of the North's investors in general and Japan in particular.⁵¹

Investment originating from Third World is no more than a marginal quantity relative to total world direct investment. Moreover the Third World Countries level of indebtedness has increased by an average of 2 percent per annum since 1987. According to the World Bank, it reached an overall total of \$ 1,300 billion by 1990.⁵² While the developing countries are trying their level best to develop economically, to feed their poverty ridden economies, they face increasing pressure because of the overgrowth of population and by protectionist measures adopted by the North. The central problem of developing countries in development process is the compulsion to develop resources, technology and industry under strong, rapidly increasing unemployment, inflation and the rising trade barriers, lack of resources, to develop and the industrialised North is not ready to share.

But the developing countries are relatively doing better, with their rising manufactured exports to nearly 40% in 1992. And they are (especially South East Asian Countries) relatively doing better in crucial development of infrastructure.

It is at this juncture that the North is bringing in new protectionist measure such as 'Social Clause'. With the signing of the GATT, the North is concerned that developing countries' products produced with cheap labour would be dumped in Western markets and would enjoy unfair trade advantage with cheap products.

51. *ibid*, p.94.

52. *ibid*, p.94.

The South is all set and they opposes 'Social Clause', on the ground that it is a new way of protectionism by the North to cut and control the developing countries' exports and protect their own markets from foreign competition.

'SOCIAL CLAUSE': SOUTH'S PERSPECTIVE:

In case of the various conventions of the ILO relating to right of workers - adults and child, male and female, agrarian and industrial, organised and unorganised agreements to which most of the developing countries have been a party, the governments have invoked national sovereignty to postpone ratification and delay implementation. While many of these countries have their own national laws regulating the workers rights, most of them, including India have wilfully ignored the issue of child and sweated labour. Since most of these countries well trumpeted export achievement consists of trade in garments, leather and granite, jems and jewellery, produced precisely by such labour. But countries like India have moved towards removal of these long existing practices and declared ban on child labour recently.

However of the issues which arise in this context; one relates to nationalism, while the other relates it to plain and simple humanistic morality. It is suggested that "the only way out for these countries including India is to clear up their own acts and implement the 'Social Clause' under their own stream".⁵³

53. The Telegraph, 14th April 1994.

The 'Social Clause' should be left within the purview of developing countries to implement it and the ILO should be made more stronger. However it should not be imposed on the poor countries who have just began the process of development.

Even the GATT agreement never talks about safe guards of labour, it only talks of free movement of goods with brand names, technology, investment, services etc. But the developed countries have lately expressed their concern for the Third World Labour, and labour conditions in developing countries realising that the potential developing countries may out pass them in development and growth rate, with the signing of the GATT agreement. Today it is the human factor of the populous developing countries which is at stake. The developed countries contradict themselves when on the one hand they try to impose 'Social Clause' and talk of the developing countries right to economic development and to pursue domestic policies appropriate to their level of development. This can be clearly understood in sir Leon Brittan's words that 'Social Clause', cannot be a taboo among participants in the world economy. He said WTO must address problems such as child exploitation, forced labour or the denial to workers of free speech or free vacation. He, however hastened to add that there must be adequate safeguards against unilateralism or protectionist abuse and the developing countries must be able to benefit from their natural advantages, to exercise their right to economic development and to pursue domestic policies appropriate to their level of development.

PROTECTIONIST ATTITUDE OF NORTH:

While stated as a principle, the 'Social Clause' doctrine actually represents little more than an attempt to justify protectionism under the guise

of concern for worker rights. Social-dumping exists in the eye of the higher cost beholder; but the charge is levelled exclusively at countries that succeed in attracting jobs and investment on the basis of having an advantage in unit labour costs. In order to raise their competitors' production costs, the socially correct seek to impose their system of labour relations, work place regulations, employment and remuneration laws and social security provisions, all the while maintaining that they do so in the interest of universal worker's rights. The Southern developing countries argue that the 'Social Clause' which North is bringing in is mostly a protectionist measure. Though the North disagree on this, the concern is raised by responsible leader's and some economists in the North makes one to believe that the 'Social Clause' being brought in is a protectionist measure. "For example Jacques Delor's pointed out that "the most important factor for the rise of unemployment rates in Europe, is because of the "rise of nations that are competing with them - even in their own markets at cost levels that they cannot simply match".⁵⁴ Even Klaus Schwab has raised same fears saying "competition from the emerging economies of the Third World has become a threat, perhaps the threat to the economies of the First World".⁵⁵

COMPETITION FROM THIRD WORLD EXPORTS.

However many economists and non-economists, consider it an established fact that competition from the Third World is a major source of current U.S. economic problems.⁵⁶ On the other hand the U.S. labour secretary 'Robert Reich, "attributed the unemployment problems of western

54. Paul Krugman, "Does Third World growth hurt first world prosperity", Harvard Business Review (Harvard) July- August 1994 p.115

55. *ibid*, p.118.

56. *ibid*, p.118.

economies to the mobility of capital”.⁵⁷ In effect he seemed to be asserting that first world capital now creates only Third World jobs, with investment flowing to Third World countries. In a way logically this is true. Capital exported to the

Third world is capital not invested at home, so such North - South investment means that Northern productivity and wages will fall. But actually this is not true. “The flow of capital to developing countries from North has been only \$100 billion in the peak year 1993. That is very low, when compared to the combined GNP’s of North America, Western Europe and Japan which totalled more than \$18 trillion. Their combined investment was more than 3.5 trillion. Their combined capital stocks were more than \$60 trillion. The record capital flows of 1993 diverted only about 3% of first world investment away from domestic use and reduced the growth in the capital stock by less than 0.2%. The entire emerging market investment boom since 1990 has reduced the advanced world’s capital stock by only about 0.5% from what it would otherwise have been”.⁵⁸

On the other hand it is pointed out that “the U.S. lacks a responsible or comprehensive global trade policy and has effectively delegated the policy making to multinational companies, which have fiercely resisted any efforts to regulate worker rights globally”.⁵⁹ The MNC’s successfully blunted attempts to include meaningful labour standards in NAFTA and prevented the inclusion of any “Social Clause” in the GATT and the European Community charter. This makes one

57. *ibid*, p.119..pa.lm10

58. *ibid*, p.119.

59. Terry Collingsworth, F. William Goold, Pharis F. Harvey, “Time for a global new deal”, Foreign Affairs (New York), January - February 1994, p.9.

understand that the North (specially U.S.) is bringing in 'Social Clause', to prevent the U.S. based multinationals from shifting their units of production to the Third World countries, which would result in the increase of unemployment in the North.

Today the world is getting integrated, with countries (economies) becoming more interdependent. At this juncture relations among countries in the field of trade and economic endeavor should be conducted with a view to raising standards of living and ensuring full employment, and removing poverty from the Third World Countries. This could be done only by removing the existing trade barriers but not by bringing in new trade barriers into trade such as 'Social Clause'.

In an interview conducted by Mr. Richard D. Bartel, Mr. Jagdish Bhagwati, said that "only a small fraction of the losses in real wages (say, 10%) was due to trade, (in U.S.) it would be a mistake to think that the worries would go away. Infact, if the 10% comes on top of a huge 90% from technical change, that could well be the last straw. Besides, labour cannot do much about technical change, but it certainly can try to stop trade liberalisation. And relief would be fine. This is, infact what we do about immigration. We cannot stop the huge illegal influx from Mexico, so we can act tough on the poor Haitians".⁶⁰ This statement clearly makes one understand, that the U.S. is bringing in 'Social Clause' in order to make the workers unions and the people of united states happy. Moreover U.S. cannot do much regarding technological advancement, as technical progress cannot be curtailed, which

60. Jagdish Bhagwati, Interview "Which way? Free trade a protection?" Challenge (Chicago), 1st December 1993 p.18.

has resulted in the rise of large scale unemployment of unskilled and semiskilled workers in U.S.

EMPLOYMENT FACTOR

The rich Northerners fear losing jobs and investment to the poorer club developing countries with high productivity and cheap labour, unless Northern labour and social costs could be imposed on them. Moreover with the liberalisation and free trade on the move, the Northerners cannot stop the North based MNC's from shifting capital and units of production from North and South, where the gains are comparatively far more for MNC's, so as one can understand the North consider bringing in new laws and regulations that prohibit or make illegal all the developing countries firms and MNC's which are paying low wages and violating the norms of international standards of worker's.

This would make the cost of labour in South costly and the MNC'S have to reconsider their purpose of investment. Moreover expected returns will in the long run make South lose importance in investment and increase unemployment rate in South and the meaning of free trade would be in jeopardy.

Moreover the imposition of 'Social Clause' would not serve the North's purpose, to uplift and develop the poor, in contrast it would lead to further increase the level of unemployment and poverty. If the North insists on high or equalent wages, then the developing countries would start recruiting only the skilled and professional workers and pay equalent wages. This will lead to large unemployment in developing countries where there is abundance of unskilled labour. This will lead to extreme poverty and deplorable conditions unimaginable.

WAGE FACTOR

On the other hand Northern countries are bringing in 'Social Clause' to match wage rates in the South, to that in the North, while the North has wage differentials among themselves. Germany has highest wage rates with \$26 per hour. America and Japan wage rates \$16 - 17 per hour are ten dollars less than German wages. The same case is with the rest of Europe. But the North is not much concerned about this as one can understand they are allies, all have common past, and they are not threatened by the Northern countries.

Moreover, even living conditions of children and wages are deplorable in some Northern countries such as Portugal, where child labour is epidemic, but the North does not raise voice of 'social dumping' against Portugal, simply because Portuguese children as yet pose no direct threat to Northern jobs.⁶¹ Even in the U.S., wage rates are based on race, where blacks are subject to low wages compared to whites. The North should first settle their own house then work for the improvement of living standards in the South, which will automatically improve in their wages with increase in productivity.

Moreover the wages in the developing countries are cheap because, there is division of labour. A skilled labour does the same job in one hour (North) while four unskilled labour does the same in developing countries. Since the pay has to be divided among four it also depends on the rate of development and productivity. Developing countries are in no position to pay equal wages to that of North as the developing countries are still in the

61. Benn Steil, 'Social Correctness' is the new protectionism, Foreign Affairs, January-February 1994, p. 17.

process of development. Moreover the wages increase as the productivity of labour increases, along with development and acquisition of Modern Technology.

The North if it is really concerned about developing countries workers and their living standards should not insist on equal wages and working conditions and standards of living. The pay differential between skilled and unskilled labour is on ever increase in the North.

In order to protect their marginal unskilled labour the North is insisting on 'Social Clause'. If it is implemented this will lead to class differences in developing countries too and there will be increase in inequality, which would lead to the domination of a class in society and Aristocracy. However it could be effectively curtailed by sustainable development, which can be possible only by the rich countries help to developing countries, through technological, economical assistance and cooperation and not by bringing in new regulations of protectionism.

INDUSTRIALISED COUNTRIES CONCERN FOR CREEPING PROSPERITY

The North does not make secret about their protectionist attitude towards South. They are more concerned about the competition from cheap labour in South rather than the labour welfare of the developing countries. This can be clearly understood in French Prime Minister Edvard Balladurs. Statement "that Europe (read France) be protected from foreign traders with different values". But the French president, Francois Mitterand became explicitly anti-

developing countries in “calling for trade sanctions against nations with inadequate social protection.”⁶²

However it is Delor’s who made it clear, that the North is concerned about the creeping prosperity to South where he said “that the collapse of communism has led to the dreaded domino effect, as nations from Mexico to Malaysia fall firmly into the free-market camp. No longer content with surviving on their own brand of social cohesion” transfers from international id organisations, they seek to prosper by selling their goods and services. As this presents an intolerable threat to Eurosocialism, Delor’s now demands a “Global Social Contract”, which he hopes will put a stop to this creeping prosperity”.⁶³

But the Europeans rather than getting concerned should raise an helping hand to developing countries, in their fight against poverty and unemployment by providing them with incentives and means to acquire the skills needed for faster and sustainable development. This is for the betterment of the North also as, the developing and the underdeveloped countries are the future markets for Northern producers. The North is over exhausted because of competition and markets, and no longer the producer (worker) is the consumer concept going to work with globalisation of trade. The new doctrine of ‘social correctness’ attempts to stampout competition, that the North consider essential and the politicians and special interests find effective.

It is pointed out that “a sharp increase in manufacturing and service exports kept, the U.S.economy from slipping into deep recession in 1992,

62. *ibid*, p.19.

63. *ibid*, p.19.

while the unemployment rates for adult men and women never reached the heights of earlier post-World War II recessions. Similarly, Japan's sharply increased exports have kept its current recession from producing unemployment figures at European levels of eight to ten percent." ⁶⁴ The North instead of getting concerned over the rapid growth of developing countries and their manufacturing exports should settle their own manufacturing industry to effectively compete with developing countries exports, rather than bringing in new protectionist measures. A recent World Bank study of eight East Asian "Superstates" - Japan, South Korea, Hongkong, Taiwan, Singapore, Malaysia, Thailand and Indonesia, shows that they do not try to manage short-term fluctuations in their domestic economies; they do not try to control the economic weather and they pursue policies to enhance the competitiveness of their industries in the world economy with only secondary attention to domestic effect. ⁶⁵

Moreover, the United States major concern seems to cut the flow of investment from home, which it believes would increase unemployment. But Peter F. Drucker, going through the past forty years of economic history finds that "investment abroad creates jobs at home. Further, in both 1960's and the 1990's expanded U.S. business investment overseas spurred rapid domestic job creation". ⁶⁶ However his findings also prove that protectionism leads to decline rather than progress. Evidence since last 40 years shows quite clearly that products such as soyabeans, fruit, beef and poultry - have fared a good deal better on world markets than have the more subsidized traditional crops,

64. Peter F. Drucker, "Trade lessons from the World Economy", Foreign Affairs, (New York) Volume 73.No.1; January-February 1994, p.99-108.

65. *ibid*, p. 99-108.

66. *ibid*, p. 99-108.

such as wheat and cotton. Equally persuasive evidence suggests that the American Automobile Industry's share of its domestic market went into a perceptuous decline as soon as the U.S. government forced the Japanese into "voluntary" export restraints. The protection breeds complacency, inefficiency and cartels has been known ever since Adam Smith. The counter argument has always been that it protect jobs, but the evidence of the last 40 years strongly suggests that it does not even do that.⁶⁷

The United States should leave its protectionist argument and try to become more competitive even in manufacturing industry. They should train the unskilled and create employment and technically sound workers, as it is the need of the hour. They should create healthy trend for international trade as developed countries should set the trend rather than bring in protectionist measures.

THE IMPOSITION OF TRIPs AND TRIMs

Moreover the North has retained complete control over technology by bringing in Trade Related Intellectual Property Rights (TRIPs) to restrict the technology transfer and gain control over the losing ground in technology. It has brought in intellectual property rights (IPR's) into the GATT agreement to gain control and restrict the transfer of technology to South. Through this the North intends to effectively protect its technological developments and skills, which the South was enjoying till now freely to develop with their own national laws.

67. *ibid*, p. 99-108.

But the TRIP's agreement will forbid the South from using the northern technology freely, till a specified (20 years) duration. This will further prolong the South's development efforts. The North, while, on the one hand restricted the development process of South through TRIP's, at the same time it expects the southern products to compete with their goods effectivity. This cannot be possible as one can understand the South has abundant unskilled labour. The goods produced in South are labour intensive and less competitive, hence in order to empty the abundant unskilled labour it should have cheap labour, because it requires to pay many and not one while the North does for a work. Moreover if the South employs only few available skilled labour then that will lead to problems such as unemployment and poverty. To cope up with these problems and to provide employment to every individual, to resist poverty, the South has to pay low-wages and employ more. The other reason is lack of technology. While the South is trying to develop faster by implementing western technology indigenously, the North successfully brought in TRIP's under the GATT agreement to restrict technology transfer or piracy. Which will further delay the process of development in the South. Not satisfied with that, North, is insisting on 'social clause' to thwart the developing countries exports, as this is the only area left. The Developing countries have lately realised the niche they enjoy over the Industrialised Countries by way of large human resources unskilled labour, and cheap wages, in manufacturing industries, But the North is insisting on 'Social Clause' to put an end to these advantages also.

However, the low labour standards, low wages and other labour problems cannot be removed instantly. They will Vanish as a country develops, economically. To develop economically, the developing countries need to educate the people, they need to provide employment to all, they should

mechanise all the industries, they should implement latest technologies and finally they need resources to develop.

TRADE FACTOR

Moreover the imposition of 'Social Clause' on developing countries would thwart most of the gains that are enjoyed by signing the GATT agreement. In the case of India, while the phasing out of Multi Fibre Agreement (MFA) would provide India with removal of barriers (tariff and non-tariff) with exposure to vast markets. For the first time there is scope that only developing countries would dominate and compete in this industry. But by the implementation of social clause India would lose much of its gains as most of the industry is dominated by cheap labour, and poor labour standards.

Even the NIC's which basically depend on manufacturing goods trade would lose most of their gains as the wage's are low and due to poor labour conditions. All the developing countries pay less than \$2.50 dollars per hour while compared to the North and even the labour conditions are low and, degradable in some industries. In such a situation all developing countries exports fall under the 'Social Clause' except for the agricultural products where the question of labour does not involve much. This would drastically bring down their trade with the North, and increase the North's trade surplus. This will lead to debt crisis in developing countries which will finally bring down the process of development in the Third World.

Today it is understood that only through liberalisation, foreign trade and exports, a country can develop faster. But by the implementation of

'Social Clause' developing countries would be effectively curtailed from exporting their cheaply produced products to North. This would further lead to either forced working conditions at the cost of industry and investor or cut exports and depend on internal markets, which would lead to low or no competition. The non competent goods production, closure of many industries, ineffective management of resources, without access to modern technology will further lead to increase in unemployment, and decrease in resources for the sustainable development.

NON-TRADE BARRIERS

The 'Social Clause' would go against the broader principle of global liberalisation. While the global liberalisation talks of removal of all trade barriers, the North is bringing in non-trade issues like 'social clause' and linking it to trade. This is absolute protectionism in the guise of worker's rights.

The developing countries have joined GATT with the purpose that it would remove all the trade barriers (tariff and non-tariff) and protectionist measures adopted by North all these decades. With this purpose, developing countries have either removed all trade barriers or in the process, according to GATT agreement. While the North was satisfied with the opening of new Third World markets it further wants to bring down the developing countries exports by imposing new restrictions on their exports. This is absolute protectionism by North.

Moreover North, is trying to bring the developing countries by way of pressures of trade and with its economic and technological domination. The

developing countries, with the implementation of 'Social Clause' would be placed at the mercy of the rich North.

The North is bringing 'Social Clause' to regain their lost prestige and control over the globe in developing countries, which have begun to develop at a faster rate than the North. More concerned with the potential countries like India and China which with their sheer size of populations and resources can threaten them. This is a method through which they intend to gain hold over the developing countries economies. As economy gained paramount importance over defence in International Relations. There is a shift in North's strategy from defence to economic power to gain control over the present International Economic order.

STANDARDS OF LIVING

The 'Social Clause' concept should be worked in reverse - that it is not the business of the developing countries to maintain the standard of living of the industrialised countries. The developing countries should insist on a "Social Clause" on the tremendous waste and squandering of natural resources and wealth to keep up the level of ostentations living which is neither necessary nor called for. The boot therefore is on the wrong foot and the time has come for developing countries to work in unison against the gross and crass violation of human rights of the two-thirds of mankind living in sub-human conditions. It will also be necessary to intensify South-South cooperation on a time bound schedule. The recent G-15 Summit has naturally voiced its concern over the emerging trends. The apprehension of developing countries is, such issues are being brought on a trade agenda by industrialised nations not for any altruistic reasons. The motive is to impose their own standards and to erode

the competitiveness of the developing countries exports and their access to markets.

The North instead of bringing in new laws of protectionism under the guise of Third World Development, should support the developing countries, by providing resources of development, technology know-how for a faster growth. But instead of doing that the North is bringing in new rules of protectionism. The 'Telegraph' has mentioned that through a common institutional framework and dispute settlement mechanism, the new WTO will integrate trade in goods, in services and the protection of IPR's. More important than this is the change in attitude of North vis a vis developing countries. The era of non-reciprocity is virtually finished. Gone are the days when it was accepted as a matter of faith and fairness that developing countries need "special and differential treatment" for their upliftment. That they must not be asked to undertake reciprocal obligations or grant equivalent concessions. One may say the Uruguay round signified the emergence of "an eye for an eye", a tooth for tooth, sentiment among the industrialised countries.⁶⁸ Accompanying this is a distinct trend to bring a variety of non-trade issues on the economic and trade agenda in bilateral and multilateral negotiations. Some issues already in the fore are human rights, environment, workers rights, labour standards, child labour, prison labour, good governance, multiparty democracy and women's status. This is a kind of exploitation as it can be understood by an article in 'Sunday Observer', that the Dunkel regime is the survival strategy of capitalism by exploiting the huge mass of populations in developing countries.⁶⁹ One has to remember that Dunkel text talks of

68. Telegraph, 7th April 1994.

69. Sunday Observer, 11th March 1994.

free movement of goods with brand names, technology, investment, services, etc, but not labour. It is the human factor of the popular developing countries which is at stake.

'SOCIAL CLAUSE' AND ASIAN COUNTRIES PERSPECTIVE:-

The Asian countries would be the largest losers by the incorporation of 'Social Clause' under WTO. Most of their exports to developed countries basically depend on cheap labour. Moreover the North is bringing in 'Social Clause' alarmed at the pace of growth rate in some Asian developing countries specially Taiwan, South Korea, Singapore, Hong kong, Indonesia, Malaysia, Thailand, China, India and Vietnam.

Not surprisingly the Asian countries raised alarm ever since the western 'move' began. India took a firm stand along with Malaysia and Brunei in the G-15 ministerial meeting and made their respective statements at the plenary of the GATT conference, saying that the linkage was unacceptable to the developing countries. Moreover India, Indonesia and Jamaica accused industrialised nations of attempting to impose fresh restrictions on trade by linking it to labour and environmental standards. The prime minister of India Mr. P.V. Narsimha Rao in his inaugural address to the ESCAP meeting rightly warned that the western moves to erect-non-tariff barriers to prevent 'social dumping' were, in fact, aimed at nullifying the comparative advantage the developing countries had, and this could lead to counter productive results. The need of the hour was cooperation not confrontation.⁷⁰

70. Tribune (Chandigarh) 19th April 1994..pa

The Bangladesh Minister, speaking on behalf of the least developed countries, strongly opposed the move stating "that linking worker's right and new labour standards with trade may not serve any useful purpose. In another move the minister of commerce of Bangladesh Mr. Shamsul Islam and the leader of Hongkong delegation, Mr. Chau Tak Hay, however, sounded a word of caution against inclusion of Social issues on the trade agenda".⁷¹

On the other hand Mr. Hay said, "we must not allow trade measures to be used to achieve non-trade objectives".⁷² The Economist observed that "those who truly seek to advance the cause of human rights in the Third World should weigh the matter carefully and reluctantly conclude that the costs of pressing for new binds between trade and basic human rights outweigh the likely benefits."⁷³ Moreover the developing countries raised immigration policies of the west which are contradictory to GATS agreement of GATT. Speaking on the occasion both the Egyptian minister of Economy and foreign trade, Mr. Mahmoud Mohamed and Bangladesh minister Mr. Shamsul Islam⁷⁴ said immigration policies and its relationship with trade and the issue of "restricted business practices" by the west were of vital importance to the developing countries. These issues must be put on the work programme of the preparatory committee in the manner that equal their impact on the countries on the one hand and international trade on the other.

71. Times of India, 13th April 1994.

72. Times of India, 13th April, 1994.

73. "Blinking in the Sunlight", Editorial The Economist, (London), 9th April 1994 p.76-78.

74. Times of India, 13th April, 1994.

'SOCIAL CLAUSE' AND G-15 COUNTRIES

The Surprise U.S. move has in fact pinpointed the *raison d'être* of G-15 which was projecting itself as a hesitant group, without cohesion, unity and common objective, to make it a going concern. That the G-15 summit could not be held in December 1993, for lack of quorum was indication enough of the lack of seriousness on the member-countries part to fight for a common goal. Only five countries including India, were at hand to deliberate on the burning issue of the increasingly belligerent and protectionist posture of the industrialised countries, with the U.S. in the Vanguard. In a G-15 meeting, attended by Argentina, Malaysia, Indonesia, Egypt, Peru, Brazil, Chile, Venezuela and Jamaica besides ambassadors of four other countries, decided to coordinate their position toward off the threat of social clause, in Marrakech.⁷⁵

However even among South there is no parity of decision and some Latin American countries like Venezuela and Argentina have supported 'Social Clause' in the last ILO ministerial meeting. The realism concerned to trade, the national interest and the dependency of South for high-tech technology and entry for services pressurise them, to bow before the North's protectionist measures. It is time to be united and resolve the protectionism of North, and the parity of decision making proves now, the South a unity and resolve to unite during crisis.

75. Times of India, 14th April, 1994.

At the same time, there is possibility of improvement in the labour standards laws in developing countries. And countries like India and other East Asian countries have already made a step towards by making child labour unlawful, though it is prevalent in many parts of Asia, and world. Compulsory education for children till the age of fourteen and pension are some standards to be followed. But in general the wages are low and they can increase only as the economy grows and productivity of labour increases. On the other hand the standards of living of labour can be improved by providing the minimum residence and compulsory annual leave and medical facilities, which many developing countries industries does not follow. ○

But the prevalent slavery and compulsory labour can be certainly removed and which many developing countries have made unlawful. But there are many places in developing countries where it is prevalent. For e.g.:- China is blamed for compulsory labour and slavery and certain cases of compulsory labour are prevalent in India also. These and child labour can and certainly need to be removed from society. This cannot be done by bringing in new regulations by North. But only through assistance and cooperation.

Moreover it is the developed countries, who are dependent on the South's unexplored and exploited markets which are opening now to international trade and competition. It is in the interest of the North to cooperate in removing the obstacles to development in South and improve the purchasing power of the Southern consumers which will add to their exports surplus or else the South will remain the same and North will not have rich consumers for their costly products. The South should unite and bargain only then the bargain remains effective, and it is the need of the hour.

CONCLUSION:-

The 'Social Clause' is a non-trade issue and the developing countries insist on discussing it at the ILO international forum. They feel that the developed countries are trying to impose their own standards to erode the competitiveness of developing countries exports and their access to market. They feel that, the North is concerned at the pace of development in South and the advantages they enjoy due to cheap labour, Hence through the liberalisation of trade and removal of barriers this will put South in an advantageous position by increasing investment and exports. So they are insisting an 'Social Clause'.

The South argue that right since the beginning of GATT in 1947 till today around five decades the developed countries have brought in various regulations in trade as it suits them. Until recently the rich countries never insisted on 'Social Clause' and social correctness in South, but through global liberalisation, as countries open their markets for international competition the North for the first time will face open competition from South. As they (North) also need to remove all trade barriers (tariff and non-tariff) they are trying to bring in new rules that will regulate or cut down the South's exports. This is absolute protectionism.

The North is basically bringing in clause of regulation to prevent, the flow of investment and production from North to South. Also, they want to protect their low-tech manufacturing workers and industry from closure and decrease unemployment rate. By insisting an 'Social Clause' the North

would effectively stop the flow of investment to South and production units. Moreover the North has already brought in TRIP's agreement through which they have cut the flow of technology from North to South.

Though the GATT agreement is signed, and an international trade conflict resolution mechanism is formed, even today trade has become the area of rich countries domination. The rules are framed according to their interests. The GATT agreement was signed because the rich countries needed an effective international mechanism to control trade and is insisting on 'Social Clause' to be brought in WTO because it serves their need of protectionism. The South is becoming an absolute centre of exploitation of North even in the period of globalisation of trade. The North after the centuries of colonisation and exploitation of human's resources and the closure of indigenous industry, are considering South as equal's in trade and competition today. Though while, millions of people around the South still live below poverty with not a meal to survive, the rich countries lead a lavish life wasting much resources and dumping the waste in the South.

Still they pretend to be concerned over the position of labour in South and wage rates. This is absolute hypocrisy on the part of North. The South should not yield to the North's pressures and should wage a united battle against the North's protectionist measures under humanitarian disguise.

CHAPTER IV

NORTH-SOUTH TRADE NEGOTIATIONS ON 'SOCIAL CLAUSE'

INTRODUCTION :

Conceptually, the 'Social Clause' is an international trade arrangement which renders it feasible to link imports with conformity to labour standards. This arrangement could provide for restriction or prohibition of imports of products from countries, industries or enterprises where there is no compliance with stipulated labour standards. It could also provide for preferential imports of products from where there is compliance with stipulated standards.

For over one hundred and fifty years, labour standards have received attention in the perspectives of both human dignity and economics. In the economic perspective, they have come to be projected in the context of industrialisation and international trade. The dimension of labour standards brought under sharp focus in international trade has almost invariably been that of comparative advantage. Specific discussions on labour standards have been premised on different expediencies on different occasions - infant industry protection, trade preferences; fair labour practices; gender disparities; equity and social justice; and human rights.

In the current century, the issue of linkage of labour standards with international trade has been discussed and debated in different contexts; formulation of ILO Constitution in 1919, the abortive Havana charter, 1947; early European integration days, 1950's; Brandt Commission, 1980'

Commodity Agreements of the 1980's; the Uruguay round of trade liberalisation, 1986-1993; and NAFTA, 1994.

The GATT ministerial meeting with which the Uruguay Round ended has left the issue of the 'Social Clause' open, of course, without the GATT/WTO framework. The matter has been partly debated in a working party of the ILO Constituted in June, 1994. The working party document discusses different aspects of the social dimension in the international trade system, the context of a social dimension, the trade liberalisation dimension in ILO's activity and possible modalities of linking the social dimension on the one hand and GATT/WTO and ILO procedures and standards on the other.

LINKAGE BETWEEN 'SOCIAL CLAUSE' AND THE INTERNATIONAL TRADE NORTH - SOUTH VIEWS :

The advocates of the 'Social Clause' justify it on many grounds; the need for social progress keeping pace with economic progress; the 'solidarity' argument (that the industrial countries should press for adoption of universal minimum labour standards, failing which they may be seen as collaborating in the exploitation of workers in developing countries); pre-emption of universal protectionism in trade; and the concept of 'fair trade' involving 'harmonisation', 'level playing field' and pre-emption of 'races to the bottom' - all of which mean equilisation of regulatory labour standards.

It is argued that a new consensus should evolve on income-related and non-income related issues. The specific suggestion made in this content is that certain basic conventions, that is, those relating to freedom of association,

right to organise and collective Bargaining etc., be taken as mandatory, which should be adopted regardless of income.

The rationale of trade linked labour standards is also presented at the legal and institutional levels in Article xx(e) in the GATT Agreement (original Post-War agreement) which provides for exclusion of goods made by prison labour has been cited to argue that labour standards are already covered in the GATT. (This Article allows GATT signatories to adopt measures, inter alia, to restrict trade so as to protect human health).

The North strongly recommends the ILO's involvement in labour rights and trade linkage. It argues that if ILO does not take an active role in addressing the issues involved in the 'Social Clause', they may get captured by protectionist interests in the rich countries. Moreover, they argue that the ILO has expertise, gathered over the years, in monitoring complaints on conformity to conventions by its standing committee of expert jurists. The use of this expertise within the ILO framework may greatly moderate the abuse that is certain to be caused if the rich countries become the jury and the complainants, in the process selectively choosing targets for their own arbitrary purposes.

The North maintains that ILO-agreed standards being the products of tripartite agreement, and not being exclusively or even primarily dictated by trade concerns, will be impartial and fair to be justifiably applied as minimum conditions for free trade when countervailing tariffs and trade sanctions are invoked against poor countries, which may be accused of not meeting such standards. The ILO could insist that the establishment of facts concerning violation of labour rights, must be carried by impartial and symmetric

procedures under its own umbrella. This would also help poor countries address complains about the violations by rich countries.

THE SOUTH'S ARGUMENT

The South maintains that, the 'Social Clause' in terms of a mechanism for correcting distortions in comparative advantage in international trade, amounts to the revival of the old "paper labour" argument, that the gainful trade with low wage countries is harmful. The demand for "upward harmonisation" of labour standards involved in the 'Social Clause' as a pre-condition for free trade could undermine free trade altogether. The reason simply being that the basis for international trade itself is comparative advantage and cost differences. The proposition, therefore, just does not have economic justification. The protectionistic application of the 'Social Clause' would also seem counter to the very objective of structural adjustment launched by several developing countries, seeking inter-alia to liberalize trade. Justice Mark Fernando of the supreme court of Srilanka has observed that comparative advantage is in fact very heavily tilted in favor of the rich countries. It is because of their command over, and access to, superior technology, access to finances and marketing and economies of size and scale gained through decades of prosperity. In such circumstances, the enforcement of a 'Social Clause' will inevitably make the Third World producers more uncompetitive, causing increased unemployment, and so the 'Social Clause' will fail to achieve its stated objective of improving conditions of labour.⁷⁶

76. Agenda item Six, The Labour Ministerial Conference of Non-Aligned and Developing Countries, Unpublished Final Document, 19-23 January 1995, New Delhi. p.15.

The issue is, in fact, one of resource transfer and not comparative advantages or disadvantages. It is resource transfers and not trade sanctions which will find solutions to these problems. Therefore, the 'Social Clause' is a wrong policy instrument, application of which would only be in the nature of treating the symptom rather than the ailment.

Coming to the institutional aspects : The argument that trade-linkage already stands established within the GATT forum in terms of Article xx (e) of the GATT agreement is not very persuasive. In this context, Mr. Jagdish Bhagwati would say; "political compromises struck after the war, and among contracting parties that were overwhelmingly developed, have no value as precedents today."⁷⁷

As regards the suggestion to provide for an international trade dimension in the activities of the ILO, certain historical aspects of world thinking within the ILO seem to be contextual. The Director General of ILO has himself refused to this in his report to the international labour conference of June 1994.⁷⁸ While the Philadelphia Declaration calls for examination by the ILO of all international economic and financial policies in the light of its fundamental objective of securing social justice. The member states have been reluctant to allow the ILO to enter the domain of economic policy.

The framers of the ILO constitution deliberately discarded as coercive an early British draft of the ILO constitution which called for discrimination against the articles produced under conditions of unfair competition based

77. *ibid* - p.16.

78. *ibid* - p.16..pa

on “oppressive conditions”. A proposal of the ILO office to call upon the Director to submit every year to the conference a report on developments in economic and financial field having a bearing on maintenance of full employment and promotion of higher standards of living was not approved by the Philadelphia conference of 1994.

Viewed in this background, grant jurisdiction to the ILO in respect of the ‘Social Clause’ may seem to be in the nature of a virtual constitutional change. It may not be appropriate to make a constitutional change, extending ILO’s framework intrusively into national sovereignty. The issue is not really the institutional aspect. Once trade-linked labour standards are established within the framework of the ILO it would surely be construed as a ready made licensed weapon available in ILO armoury, and it would only be necessary for trade-linked demand being made to use it for enforcement of such standards.

The procedural aspects of trade linkage are also rather complicated and seem to defy logical and practical measures. Issues relating to definition, establishment of ground rules, enforcement etc, may not lend themselves to clear-cut delineation in the case of pure-trade issues. Nor can ILO- established norms and standards be made bodily enforceable by any agency because within the ILO itself they have been liberally negotiated and established and are meant to be accepted by member-states only voluntarily within open-ended time - frames. In any case, there are procedural aspects which may be construed as irrelevant when the very concept of the ‘Social Clause’ is itself a matter of controversy.

‘SOCIAL CLAUSE’ AND NORTH-SOUTH NEGOTIATIONS

In the pre-Marrakech GATT deliberations of course opinion on the need for discussing the ‘Social Clause’ was itself sharply divided; and Uruguay round has concluded, leaving the matter open-ended. Both in the international labour conference of June 1994 and in the meeting of ILO’s working party of Nov, 1994 a few developed countries have made a strong plea for introduction of the ‘Social Clause’ while certain others have taken neutral position. A substantial number of developing countries have taken strong positions against it. By and large, the employer’s constituency in the ILO is against the ‘Social Clause’ while the worker’s constituency is desirous of a “non-coercive” ‘Social Clause’. The declaration of the Fourth conference of Minister of labour of the Non-aligned and developing countries (Tunis, Nov-1990), interalia, mentions that: “The Ministers of Labour expressed concern at the increasing attempts of certain developed countries to link international trade with allegedly minimum labour standards and felt that such attempts were mere guard for further protectionism and must be resisted resolutely.”⁷⁹ Even the G-15 Summit of March, 1994 and the Golden Jubilee session of ESCAP of April, 1994 have looked at the ‘Social Clause’ quite disapprovingly.

Today, the Third World and developing countries are in the threshold of rapid economic and industrial development with the formation of WTO and liberalisation of international trade and commerce. The strategic economic decisions made today will decide the fate of developing countries, their economies, industry, trade and above all their resourcefulness in unity and co-operation at times of crises.

79. *ibid*, p.18.

Before making any important bargain and negotiate with the developed North, it is wise to understand the strategy North followed during previous economic negotiations with the Third World. Their method of conducting negotiations, the level of understanding and co-operation among them, and the tools used by them in dividing South for their own purpose.

Until recently (1989) the international trade negotiations on GATT Agreement generally included negotiations among states pertaining to trade liberalisation reduction of trade barriers and export restraints, price control in international trade and free trade areas. Infact Third World and the developing countries participated in multilateral trade negotiations since the 1960's. However multilateral trade negotiations then held were mostly within the GATT perview.

The bargaining process was conducted mainly on the basis of principal 'Supplier' rule. Hence largest producer and importing countries negotiated to determine tariff levels to all its contracting partners. Moreover the developing countries were mere participants and hardly took any initiative, nor they had the power to take any decision.

To cite an example, the Kennedy Round of GATT trade negotiations which took place between 1964 and 1967 were dominated by industrialised countries with the United States and European community as the main actors. On the other had "the developing countries had a very weak position: many performed more like observers than genuine actors in the negotiations. Even bargaining was conducted only between the largest

traders, who through the Most-Favored-Nation (MFN) principle determined the tariff level for all participants”⁸⁰

It is understood that until recently developing countries participated in multilateral negotiations only as observers while decisions were made by the developed countries. While the decisions were imposed on developing Third World Countries this South neither had the might nor were they economically sound to contain the mighty North.

However the Third World nations have conspicuously elevated their level of aspiration in the Uruguay Round. During the Kennedy Round (1963 - 1967), of GATT negotiations,

Third World countries were only peripheral actors. developing countries were more involved during the Tokyo Round (1972-1979). This engagement culminated at the beginning as well as at the end of the negotiations. Primarily, developing countries tried to voice their interests by means of coalition behaviour, notably with the help of informal structures of “Group 77” (i.e. developing countries).

During the Uruguay Round of negotiations a new pattern emerged among developing countries. The large coalition of Third World countries has not really been mobilised. The larger developing countries, such as Brazil, India and Argentina, have preferred individual action in the areas of interest to them. These important Third World countries have actively involved and

80. Kremenyuk, Victor A., ed., International Negotiation: Analysis, Approaches, Issues, (San - Francisco, 1991), p.319.

influenced the whole process of multilateral negotiations. The Third World countries should act unitedly against the protectionist measures being raised by industrialised countries atleast.

Until recently the agenda for multilateral trade negotiations were unilaterally decided by the industrialised countries and imposed on all participants. But a situation has developed where in today the repeated efforts of developed countries to bring in 'Social Clause' under the GATT agreement have failed.

The reasons being the GATT/WTO brought an end to chaos in international trade and commerce by way of its fundamental norms and principles of liberalisation, non-discrimination and national treatment. On the other hand the traditional block confrontation between North-South seem to grow relatively insignificant. The important developing countries are choosing to act on their own.

The predominance of industrialised countries over the international trading system and their mutual co-operation contributed to the relative predictability of negotiations in this area. But by the emergence of new international actors (developing countries) complicated the situation. However in the contemporary world the guiding principle of international trade has been 'fair trade', rather than free trade.

However since the Tokyo Round of GATT negotiations, linkage politics are on increase, which cannot be found in the previous negotiations. This can be because of the increasing heterogeneity of issues or because of the emergence of several newly industrialised countries on negotiating table as equal partners.

Moreover, with the gradual disintegration of agenda formation since the Tokyo Round of GATT negotiations, it involved only a few contracting parties and countries which had stake in negotiations. This has brought down the level of Communication, interaction, unity and cooperation among developing countries. Hence important developing countries are choosing to act on their own according to their national interest.

The traditional disadvantage of developing countries when it comes to dealing with complex issues can be further understood by the successful bringing in of GATs and IPRs by industrialised countries into WTO. This is further strengthened by the fact that industrialised countries have a superior support of their respective regional organizations which the developing countries lack among them. Most of the countries in South are busy with border disputes, external enmity, ideological bonds and religious unity are dominating over their national interests. Moreover some of the Third World countries are still remain underdeveloped, busy with external and internal tribal warfare. They are not in a position to realise their national interest and unite for gainfull bargaining.

It is this understanding of the fact which is uniting the developing world through regional and block level co-operation and unity. On the other hand Today 'national interests' in the area of international trade and power capabilities are the main factors which influence behaviour of a particular state.

Which until recently tariff barriers and quantitative restrictions were globally acknowledged as trade problems nontariff barriers have occupied the centre stage in international trade negotiations. The 'Social Clause' should

be viewed from this angle. Considering their share of world population, the Third World countries and developing countries remain very weak in the international trading system. Further many of the potentially important Third World countries have had their diplomatic freedom curtailed by their captivity in a debt trap.

However while tariff barriers and quantitative restrictions were until recently globally acknowledged as trade problems today non-tariff barriers have occupied the centre stage in international trade negotiations.

Moreover while the GATT had not evinced any interest in the 'Social Clause' issue, the ILO is going ahead with a debate on the issue. On referring the issue to the ILO, Mr.Sutherland said "It was futile to raise the issue of worker's rights (at GATT) without knowing what it meant and where it was leading to."⁸¹ There are divisions within the US itself on this issue. The Republicans did not want it. A view was expressed that the only way to advance the issue without jeopardising the trade agreement talks was to take it up in another forum.⁸²

At a meeting of the ILO's governing council which ended on November 16, 1994, the U.S. received support only from France, Germany to an extent, Canada and some Latin American countries. The U.S. hopes it will take a more concrete form and perhaps result in recommendations to the new WTO in the next ILO meeting scheduled in March 1995.

81. The Hindu (Gurgaon New Delhi), 9th December 1994..pa

82. ibid...pa

The linking of trade and minimum 'labour rights' in a way that countries which do not observe these rights would face trade sanctions has become a major focus of U.S. strategy in both ILO and the new World Trade Organization.

The U.S. has said that it is motivated by the idealistic desire to ensure that the fruits of Global prosperity are shared equitably by all sections of the society, including workers.

The U.S. is trying to get the ILO to recommend that countries should adhere to a "core group of worker's rights", failing which the WTO would be asked to consider possible trade sanctions. Considering that the ILO and the WTO are two entirely different organisations, and that most future members of the WTO are also opposed to this, the U.S. faces a difficult task. But the U.S. is using its political and economic clout. The Clinton administration is plugging away its task, and could well win a number of countries over. France has also championed this cause, as have a number of Latin American countries who are in the process to set up free trade areas with the U.S. and have an interest in going along with the U.S. For example Chile and Argentina are the only developing countries in the ILO governing council who supported the move to link worker's rights to trade.

Now, with the GATT agreement signed by more than half of the world countries (and almost all developing countries) there would be little gains for those who remain outside GATT/WTO, if they disagree for the inclusion of 'Social Clause' in GATT/WTO (unless it is decided by simple majority). On the other hand with the agreement signed and ratified, there are few

chances of breakdown and moreover U.S. president is on the move to woo the American trade unions and people making ground work for the next presidential elections scheduled in 1996.

But the U.S. is committed to bring in 'Social Clause'. This can be understood by a senior U.S. official who said that "president Clinton is committed to making worker's rights part and parcel of the WTO."⁸³

The North is (specially U.S.) using all its political and economic clout to gain GATT/WTO member countries under its umbrella. While France had championed the cause, other developed countries like Canada slightly lean towards North, and the rest maintain a neutral position. On the other hand the two developing countries Argentina and Chile are for the inclusion of 'Social Clause' under GATT/WTO, because they are interested in joining the Organisation of American Free Trade Association (OAFTA) which is scheduled to come into effect by 2005 AD. However the U.S. is not able to do much in this aspect and even now the balance is tilted in favour of developing countries who more or less maintain unity over the issue of 'Social Clause'.

However the U.S. is leaving no stone unmoved and doing its best with the help of France for the inclusion of 'social clause' into GATT/WTO, either it is in the ILO governors meeting held in 1994 or in the United Nations meeting scheduled in March 1995.

There seem to be a slight policy shift in the U.S. administration over the 'Social Clause' issue. It appears they feel it better to raise it in other

83. Indian Express, (New Delhi), 29th March 1994.

international forum such as ILO, but link it with trade and make ILO more effective. This can be understood by the paper circulated by the Government of India during the Fourth Conference of ministers of Labour of NAM and other developing countries held in New Delhi 19-23 January 1995.⁸⁴

The U.S. is optimistic that the next U.N. conference of labour ministers scheduled in March 1995 would come out with more concrete proposals over 'Social Clause'. The U.S. is committed to make 'Social Clause' part of GATT/WTO no matter however long it takes and it is going to cause irk to developing countries and this is going to be a testing time for the developing countries and non-aligned countries unity and co-operation.

SOUTH NEGOTIATIONS

Most of the developing countries had obviously rejected the inclusion of 'Social Clause' in GATT/WTO. They feel that uniform labour standards cannot exist without uniform living standards and the ILO would be well advised to promote economic progress first and leave questions of Social justice to follow.

Trade liberalisation is only one of the elements in the over-all structural adjustment of economies and its consequence for the society as a whole of which working people are a part, are vast in spread, varied in dimensions and complicated in nature. This can be understood by the Member of Indian delegation to ILO Mr. S. Tirumurti's comment saying.⁸⁵ "The ILO has no

84. Agenda item Six, The Labour Ministerial Conference of Non-Aligned and Developing Countries, Unpublished Final Document, 19-23 January 1995, New Delhi. p.14.

85. Indian Express, 17th November 1994.

more mandate now than it had earlier to deal with international trade". India he said, warning that labour organisation was steering away from its original mandate, Indian delegate said that, "Every institution rests on certain principles which form its pillars. The ILOs pillars are Voluntarism, tripartism (government, business and labour) and free choice of social partners".

The developing countries led by India pointed out that "the ILO would lose its credibility if it doesn't assist in economic progress going hand in hand with social justice, and the developing countries led by India resisted these moves in GATT and now in the ILO. On grounds that there cannot be uniform labour standards in the absence of uniform living standards".

Developing countries also maintain that "trade linkage to labour standards has no economic rationale and equalisation of labour standards would only make international trade arthritic and ultimately paralysed".

Pitching for a fair and equitable trade system where labour standards compromise one component, India holds that factors like technology transfer and foreign investment have a far greater bearing on questions of social justice than trade. But the fight has only begun".

Ever since the 'Social Clause' issue was raised by U.S. in March 1994 after the GATT agreement was signed, India along with the developing Non-aligned countries, had met and convened discussions regarding the issue. Not only did the developing countries discussed issues, they also came out with a counter strategy by relating immigration policies of developed countries to general agreement on trade in services in GATT/WTO agreement. This can be understood by the Commerce minister of India's statement to the

GATT plenary conference in April 1994 which read “that immigration had a direct bearing on international trade in services and therefore, it must be discussed in WTO.”⁸⁶

G-15 AND NAM EFFORTS TO OPPOSE SOCIAL CLAUSE

The surprise U.S. move has in fact pin-pointed the *raison d'être* of G-15 which was projecting itself as a hesitant group, without cohesion, unity and common objective to make it a going concern. The failure of G-15 summit proposed to be held in Dec-1990s is itself an example of the lack of seriousness on the member-countries part to fight for a common goal. Moreover the developing countries should insist on a “Social Clause” on the tremendous waste and squandering of natural resources and wealth to keep up the level of ostentatious living which is neither necessary nor called for. The developing countries should work in unison against the gross and crass violation of human rights of the two-thirds of mankind living in sub-human conditions. And it is at this juncture that the developing countries recognise the need of the hour and came in unison to discuss the common goals of ‘Social Clause’ at the forth labour ministerial conference of non aligned and developing countries in New Delhi.

The Conference discussed various levels of cooperation needed to thwart the North’s purpose of ‘Social Clause’ and the need to cooperation and exchange in various branches of economic development. The South is formulating its own methods of poverty alleviation, such as structural adjustment, employment generation, Productivity, Human Resources

86. The Times of India, (New Delhi), 14th April 1994.

Development, vocational guidance and counselling, employment services, Management of labour market, Elimination of gender discrimination and Elimination of child labour. Also the problems of international - national migrant workers, in country migrant workers, International trade and employment and Horizontal Cooperation among members Countries are sought to make their own national laws to eliminate Social evils and work for the betterment of human dignity and workers safety. But at the same time the developing countries reject to adhere to the inclusion of 'Social Clause' in GATT/WTO. They find it a political measure adopted by North to thwart the South's efforts towards development.

South should further remain United. This is the testing for South's Co-operation and a momentous time in history of World Economic Relations. The future depends on today's unity and strength, which one expects from South and a new era of international economic relations had began. On the other hand the national governers should make periodic review of the ILO established labour standards for their progressive, consistent and enhanced economic growth. Further national government should try to ratify international conventions which are made for the removal of social evils such as Slavery, Compulsory Labour, Child Labour and bonded labour.

CHAPTER V

EFFECT OF OPERATIONS OF THE 'SOCIAL CLAUSE' ON INDIA'S TRADE AND INDUSTRY

Indian Industry and trade have supported early conclusion and speedy implementation of GATT round results. With the economic liberalisation in full swing, Sectors such as international trade, Industry and finance witnessed the far reaching policy reforms. Both government and industry realised that the access to global market is critically important to expand exports and encourage the inflow of Foreign Direct Investment (FDI).

The expected increase in exports to India is likely to occur from tariff reduction on a large number of agricultural and industrial products which has new trade creation effect. Further, new avenues of trade creation have emerged on account of dismantling of the Multi-Fibre Arrangements (MFA), elimination of "Grey Area" measures such as voluntary export restraints, market sharing arrangements etc.

The proposed reduction of tariffs over the next six years would bring increased benefits to India in product groups such as textiles garments, farm products, pharmaceuticals, organic chemicals, construction equipment, medical equipment, steel furniture, farm equipment, spirits, beverages, paper and toys. This is by way of exports to developed countries. Taking the overall view, the outcome of GATT round is favorable for the Indian economy. But issues pertaining to environment and trade linkages, labour standards, social policy and human rights have come to the fore front in the post Uruguay`

Round scenario. These issues may act as powerful constraint to international trade in the coming years if they are linked with trade. With the rising importance of international trade and globalisation of production, proposal to link labour policy to trade through the use of sanctions in the form of withdrawal of trade benefits have been raised, with increasing intensity. These are viewed with increasing concern in developing part of the world, particularly in India. The largest increase anticipated in world trade are in the areas of clothing (60%), agriculture, forestry and fishery products (20%) and processed foods and beverages (19%). India should try and cash upon it.

However a systematic analysis will show that on the whole the Uruguay Round has benefited the rich industrial nations, while most of the Third World countries have lost out. The estimated gains and losses by trade liberalisation from year 2002 AD, based on a 30 percent cut in tariffs and subsidies as then envisaged in the round are, of the US \$213 billion over all gain, \$142 billion will accrue to the North (including \$94 billion to Europe, \$19 billion to the U.S., and \$26 billion to Japan); \$37 billion to China and \$27 billion to "upper income Asia".⁸⁷

The big losers will be Africa (estimated to suffer a loss of \$2.6 billion, Indonesia \$1.9 billion loss and the Mediterranean region \$1.6 billion loss. But most of the gains even to the other regions (Asia, Latin America) of the world basically depend, on conditions of world trade, i.e. if the developed countries does not bring into GATT/WTO any new protectionist measures such as 'Social Clause' and Human Rights.

87. Martin Khor Kok peng, "Uruguay Round and Third World interests", Link, 1st May 1994, p.15.

On the other hand the stiff resistance from Third World countries, to the Northern push and interpretation of the “new areas”, by the final two years of Uruguay Round had melted, and in the end the Uruguay round adopted texts to liberalise services and internationalise investments and to protect “intellectual property rights”.

Whilst the South as a whole had been pressurised to concede on areas where it would be put in a disadvantageous position, before the GATT agreement was signed in Marrakech, with losing most of the advantages they gain, the post Marrakech period proved death nel and questioned the survival of GATT/WTO as such by the basic issues such as ‘Social Clause’ environment and Human rights. For India the ‘Social Clause’ would prove costly with most of the production units and exports falling under this clause.

IMPLICATIONS OF ‘SOCIAL CLAUSE’ ON INDIAN TRADE AND INDUSTRY

As indicated the market access negotiations in the Uruguay Round would lead to global tariffs being reduced by an estimated 33 to 40 percent so that the average tariff level of industrialised countries would fall to 3-4 percent from the current rate of about 5 to 6 percent. Any reduction in tariff in a particular market obviously increases the competitiveness of exporters to that market, because of the reduced protection for domestic industry in that economy. This implies greater opportunities for Indian exporters. This is because, the prevailing levels of tariffs in industrialised countries (which are the main markets for Indian exporters) are already extremely low (averaging about 5 to 6 percent) and do not pose much of constraint for Indian

exporters. Therefore, increased potential trade growth for Indian exporters is likely to arise more from the reduction in non-tariff barriers rather than tariff cuts.

As such the implications of 'Social Clause' would be felt on almost all the industries and exports in particular because the 'Social Clause' links the wage factor, labour standards, and the working conditions in developing countries with trade.

INDIAN TOBACCO INDUSTRY

When compared with the developed countries Indian wages are less than 10% with miserable working conditions and labour standards. For example on the one hand the tobacco producers in India are adversely affected by the reduction in export of tobacco to North. Dr. T.D. Prasada Rao is optimistic that "cigarette tobaccos could become number one agricultural export from India".⁸⁸

But India would lose most of its revenue through export of tobacco industries and lead to large explosion of unemployment and socio-economic problems.

INDIAN SOFTWARE INDUSTRY

Even in the Software Industry Indian would face plenty of difficulties by the implementation of 'Social Clause'. The Bangalore based software industry would also face difficulties, because of the low wages. The worker's

88. "Indian Exports take centre stage", Public Opinion, (Monthly Public Opinion Surveys), April - May 1994. p.42.

of Bangalore based software industry earn an average of rupees thirty thousands (Rs.30,000/-) (\$960) a month which is about one-eighth of their counter parts' salaries in America.⁸⁹

Though the industry has international sales of \$10 million and a market capitalisation of \$70 million, will face stiff resistance from developed countries as most of their software deals are with U.S. based companies such as Reebok and Nestle.⁹⁰ In this case either they increase their wages and improve labour standards or close down their industry. In either case which is going to be a major problem.

On the other hand WIPRO-Info-Tech a software subsidiary of WIPRO holds over 80% of sales of \$80 million to American-high-tech clients such as AT&T, Intel and Sun Micro Systems, which will have to lose most of these exports if the 'Social Clause' is implemented.⁹¹ Moreover the foreign Multinationals such as IBM, Texas Instruments, Digital Equipment Corporation, Hewlett Packard, Motorola and 3M have setup local operations. This is due to the availability of cheap but efficient and productive labour. Once the wages of developing countries equal to that of North, the developing countries cease to enjoy wage differential factor and most of the foreign investment will be taken back. This would hurt Indian Industry and economy and the governments efforts towards trade liberalisation will go waste by implementation of 'Social Clause'.

89. Indias Business; *Blinking in the Sunlight*, The Economist, (London) 9th April 1994, p.76.

90. *ibid*, p.78.

91. *ibid*, p.78.

FOREIGN INVESTMENT AND INDIAN EXPORTS

The most attractive factor for foreign investment in India is its vast human resources and a factory wages of barely \$100 a month.⁹² At this ratio almost all manufacturing export products, from India fall under the purview of 'Social Clause' and would lead to fall of exports to developed countries which are the largest markets for developing countries manufacturing products. India is certain to lose its soft ware exports of nearly \$220 million a year and nearly \$ 2200 million exports of gems and jewellery.⁹³ The confederation of Indian Industry has commissioned a study to assess which Indian Industrial sectors will be competitive as tariffs come down; its results have not come out yet but losers will probably include steel, computer hardware and mechanical engineering goods because of GATT agreement. But industries such as software, textiles, chemicals, pharmaceuticals, leather goods, gems and jewellery may export more.

THE TEXTILES, CARPET AND OTHER INDUSTRIES

But this will also remain a dream because of the fact that Indian leather, Jems and Jewellery industry and textiles have large number of child labour and cheap labour. India need to forego all these advantages. For example, it is estimated that 80 percent of total carpet export from India is from Mirzapur-Varanasi-Bhadoni sector where 25 percent of the 50.000 thousand workers engaged in Carpet weaving were children and even the men are paid very meagre wages.⁹⁴ Which will put an end to most of the carpet exports from India.

92. *ibid*, p.77.

93. *ibid*, p.77.

94. Leela Dute, "The Economic roles of children in India; Mehodological issues", Poverty and Underdevelopment, (Geneva), 1981, p.196.

The condition of weavers is equally bad in four corners of the country. There are many instances when weavers commit suicide and die because of poverty. The factory workers are also paid less than Rs. 3000 per month which is below 20 times the Northern wages. So 'Social Clause' would have a certain drastic effect on its exports. Even Gem polishing industry in India is in a poor condition with nearly 15% of child labour and with meagre wage of Rs.5 to Rs.6 for men. This could lead to the closure of Industry and contribute to economic and social problems of poverty. The 'Social Clause' is not going to target, as such on any industry or industries but in general it will be applicable to all those industries which are primarily export oriented to a large extent, because they will be more effected. For example India would lose most of its revenue generated through the export of Gems and Jewellery, garments and leather and granite as these are the area's where India enjoy's a niche over other countries in exports. Most of these were exported to developed countries. By implementation of 'Social Clause' by linking it to trade India will have to forego all these advantages.

THE 'SOCIAL CLAUSE' AND POVERTY IN INDIA.

The developed countries argue that they are pressing for 'Social Clause' to uplift the labour conditions in developing countries by asking for leveling the wages in South to that of North, and to improve the condition of living in South. In his message the European Commission trade representative, Mr. Leon Brittan for example said that, "the 'Social Clause' being raised by the community was not related to low wages in the developing countries, nor

95. The Hindusthan Times (New Delhi), 15th november 1987.

was it an attempt to dilute the comparative advantage of these countries arising out of lower labour costs. EC was infact concerned with child labour, forced labour and the worker's right of free association.⁹⁶

But the developed countries fail to understand that by asking for leveling the wages in South to that of North, they are going to increase unemployment, which will directly affect the economy. In the case of a country like India, with abundant human resources, and scarcity of resources of capital and technology, the only way out is to generate employment by dividing the work force. Hence this will serve the dual purpose of generating the new avenues for employment and to create employment and increase production levels with the limitation of modern technology.

In India there are almost 30 million unemployed, equal to that of OECD countries. The present employment is barely able to feed the needs of half of India's population. And almost all Industries in India will fall under the 'Social Clause' if implemented by which either they increase the wages of labourers or close down the industries depended mostly on exports. And the other Industries face a cut throat competition within the country and end up with marginal gains barely enough to handle the employee's salary and their living. Moreover this will not boost for opening up of new industries in private sector and end up with loss of investment and large explosion of unemployment.

The large scale unemployment would lead to further poverty, by falling standards of living and which will eventually lead to mass economic troubles. This will become impossible for the government to handle and put the country at the mercy of either IMF/World Bank or the developed countries, funding.

96. Times of India (New Delhi), 14th April 1994.

The role of private investment is very important to any country's economic development. India has lately realised this importance. But if the wages in India are levelled to that of the developed countries without improvement in the productivity of labour, private investors would consider it suicidal to invest in such markets and prefer to invest abroad or not invest at all.

This will add to the problems as there will not be any new employment generation in the country. On the other hand the signing of GATT/WTO agreement will become meaningless. Since on the one hand it is not bringing any new riches to the economy, the country will have to forego the exports to developed countries before GATT agreement.

In such a case it will be beneficiary for India not to accept 'Social Clause' and resist it till the end and if necessary remain out.

On the other hand India cannot gain foreign investment by the implementation of 'Social Clause', and the process of liberalisation will have no meaning to it. India has already started cutting down its tariff rates and restrictions on foreign direct investment by liberalisation process and GATT agreement. But as the cheap-labour cease to exist, the main attracts of FDI, (cheap and productive labour) they will cease from investing in India, which will eventually lead to capital investment in share markets by FDI and not in industry. The Foreign investors buy huge shares in stock markets and dominate the policy making. On the other hand, the liberalisation of Indian economy, (by cutting tariff rates) will flood India by western products and dominate the Indian markets with costly products forcing the Indian consumer either to purchase or to remain out.

On the other hand the 'Social Clause' and GATT/agreement would have negative impacts on Indian Industry. While the 'Social Clause' forbids Indian Industry from exporting its cheaply produced products to developed countries, the signing of GATT agreement will flood Indian markets with Western products, thereby which will affect Indian Industries (small and large scale) and lead to closure of many Industries. Indian Industries, while, forbidden from exports will face stiff competition within the country from foreign products and in the process this will lead to winners to gain.

Moreover, in India though the salaries are less, compared to developed countries, people can make a living by \$2000 per year, which is respectable by Indian standards. But this is less than one tenth of the developed countries wages. This the rich countries fail to understand.

On the other hand India lacks the required technology for rapid progress to increase its productivity. The Northern countries are not ready to share the technology for the economic growth of South, and they have included the TRIP's agreement under GATT - by which they intend to take action on those countries violating the IPR's.

The South while it is developing at a rapid pace by using developed countries technology, the rich countries have put an end to it also by bringing in IPR's. By doing this the North contradict themselves.

On the other hand India face multifaceted problems such as poverty, which is nearly 30% (30% of Indian population live below poverty), population problems, problems of illiteracy, health care besides the economic problems. In order to cater to all these needs India needs sustainable development. For

sustainable development India needs to diversify its resources to various branches of economy and not just on industry. While Industry is part of economy, it alone cannot lead to development. The development of a country takes place by mass education, provision of food shelter and clothing, providing health facilities and by employment generation.

This is a long process and India is on the path of development. People have started getting educated and the move is towards family planning and decrease in population growth rate, while the economy is improving. However as the condition of living improves in India the productivity of labour will increase and with productivity wages will increase. For this the developed countries are absolute examples, (the way France and Britain have developed and improved their productivity from shambles after the end of Second World War by way of Marshall plan).

INDIA'S EFFORTS TO IMPROVE LABOUR STANDARDS AND REMOVE CHILD LABOUR:

While it is an undeniable fact that India permits the low wages and lower standards of labour, the government has started its efforts towards the improvement of labour standards and removal of child labour. The Prime Minister of India in his historic speech from the Red Fort on 15th August 1994, declared child labour illegal and cautioned to punishment if any industry is encouraging or found using child labour.⁹⁷

97. The Hindu (New Delhi), 16th August 1994.

But many industries are still using child labour without maintaining labour standards. For example the conditions of workers in carpet Industry and Gem polishing industry are awesome.

Though there are legal laws made by the government for the provision of minimum standards of labour, the poverty, illiteracy and population problems force the labourers to work for a minimal wage and in awesome conditions. Which place the government in difficulty while implementing the laws.

But efforts are on to improve the labour standards and remove child labour. It is understood that by the end of this century the country will become free of child labour and improve the working conditions of labour by stringent measures.

While the government in India is obviously not in a position to impose wages, that of developed countries, they can certainly remove the social evils such as slavery, forced labour, child labour and can improve the labour laws such as provision of freedom of association, Right to organise and collective bargaining etc., which will not have any direct social or economic implications on the economy.

Efforts are on by the government towards providing greater freedom and involving workers in the management. But this will take time as making laws alone will not help. And the closed market economy with public sector dominance in India, made it more non-functional, procedural and inefficient. On the other hand this needs education, and economic development which will provide knowledge and confidence to the workers to ask for their right.

For this the government should take up mass programmes to educate people and workers regarding their rights and create a sense of confidence and awareness among them. Which even a developing country like India can take up without much of economic implications. On the other hand they should reject the bringing in of 'Social Clause' under GATT/WTO agreement, as it is impossible for a developing country like India to accept such stringent laws linking trade with non-trade issues.

CONCLUSION:-

On the outset India should reject the 'Social Clause' as it would be suicidal to agree. The country will lose its existing exports, leaving the gains made by signing the GATT/WTO agreement. The country would further lead towards poverty and unemployment with most of the industries either closed or curtailed from exports.

It is the need of the hour for Indian government to remain stiff and the political parties have a responsible role to play in creating large scale awareness in the country regarding the problems of signing 'Social Clause'. They should further remain united, in support of the government. On the whole India should join hands with the developing countries and Third World Countries to raise a united resistance. India should try and unite the Third World using its Non-aligned ties and resist the Common threat from the west.

CHAPTER VI

CONCLUSION

INTRODUCTION

It is understood that 'Social Clause' being raised by the North is a protectionist measure, being brought in alarmed by the pace of development and growth rate in developing countries. The North also intends to raise the standard of living and wages of the 'unskilled' labour in developed countries and to bring down the level of unemployment. This can be made possible only by cutting down exports to rich countries and by bringing down the flow of investment from rich countries. But by signing the GATT agreement of international trade liberalisation, the North needs to cut down their tariff rates and removal of trade barriers, which would restrict them from raising any new trade barriers.

It is with this motive, the North raised 'Social Clause' calling all the developed countries to protest against the alleged 'Social dumping' by the development countries, with their low wages and lower labour standards. The North is trying their best to link 'Social Clause' with trade as they call it a trade concern, where the developing countries enjoy upper hand because of low wages. By linking it to trade they intend to bring into GATT/WTO agreement a new trade barrier, in a period of Global liberalisation of trade and removal of all kinds of trade barriers. While

this itself is a protectionist measure, the North puts a humanitarian cover to it by saying that they are bringing in 'Social Clause' to make workers 'partner's of prosperity' being brought by the Globalisation of trade through GATT/WTO and to improve their level of wages and standard of living to that of North. This is absolute protectionism under humanitarian disguise.

The other important reason for the north to raise 'Social Clause' in a hurry and its continued efforts to bring it under GATT/WTO must be because, 'that they are concerned by the Globalisation of trade, and the volume of increase it would bring in the exports from developing countries by the removal of all trade barriers by the year 2000 A.D. Moreover, the North intends to regain its lost Glory once again by controlling the world markets by way of new protectionist measures, by protecting its own industry and markets from Third World Competition.

The developing countries have reached a position today, where in the north consider them equals in trade and development. And one can understand that these protectionist measures ('Social Clause') being brought in, is to control the developing countries exports, markets, and their trade and industry by way of low wages and lower labour standards.

Moreover, today, as economy has gained paramount importance over defense, the North intends to control the international trade by way

of bringing in new barriers and liner them with trade to control developing countries exports and curb, their pace of development and put them under pressure from North and ultimately under their mercy.

On the other hand the developed countries gain access to developing markets by the removal of trade barriers, which is facilitated by GATT agreement. It is for this reason the 'North' was all for legalisation and regularisation of international trade for removal of all trade barriers and market access to Third World Market. While the Third World is required to remove all barriers and provide access to international flow of capital and investment, the developed countries not satisfied with TRIP's and TRIM's are bringing in new protectionist measures such as 'Social Clause'.

For the developing countries, the pace of development and growth depends on their amount of exports trade with developed countries. But the developed countries (specially U.S. and France) are in no position to accept the 'Social dumping' by developing countries and they are ought to include 'Social Clause' under GATT/WTO.

Even in the North though there is unanimity among developed countries regarding the 'alleged social dumping' by developing countries, they disagree over the need to bring in 'Social Clause' now, because some (Germany and Britain) consider it is not the right time and

it might become a protectionist measure and jeopardise the entire functioning of GATT agreement. Even developing countries like Argentina and Chile have supported the North's move to link 'Social Clause' with trade.

However the developing countries have shown increasing concern over the protectionist measures being raised by North, and feel a need to unite to oppose the bringing in of 'Social Clause'. The developing countries feel that while the North on the one hand forced them to include TRIP's and TRIM's whereby protecting their own trade and industry and on the other hand by bringing down the rapid pace of technological development in South by way of Northern technology by the inclusion of TRIP's and TRIM's agreement.

The North moreover contradict themselves on the one hand by bringing in TRIM's and TRIP's and by pushing for 'Social Clause'. While TRIP's and TRIM's agreements have already gave seven setback to southern rapid technological and industrial development by, way of patent rights and market access regulations, the little gains that are expected from South's exports to North by way of cheap and excess labour would be thwarted and this could lead severe economic problems in South.

While 'Social Clause' would cut effectively all exports from South

as they maintain comparatively low wages and low labour standards, on the other it will put an end to the international flow of capital and investment to South because of high wages and low productivity. This would jeopardise the Southern industry and economy putting them at the mercy of Multinationals and developed countries.

However the North's argument of linkage of 'Social Clause' with trade is not possible and feasible. As one can understand, nations are diverse with different Geographical, social and economic problems. The South Cannot afford to level their wages and standards of labour to that of North because:-

- 1) They have population problems with least skilled labour and vast unskilled. In order to employ and feed this vast unskilled and unproductive labour they have to pay low wages according to the standard of living in that particular country.
- 2) Moreover the South neither has the required skill (technology) nor the skilled labour which can make it effectively competitive with that of west to pay equal wages. and since there is a sea of change between standard of living and cost of living between North and South, even low wages in South would permit for a luxurious life according to their standard. However the South cannot be forced to level their wages and maintain labour standards to that of North, as wages increase with productivity and productivity increases with education, training, and by access to latest technology. For this the South need to improve their level of poverty and illiteracy by way of effective population control measures, by sustainable development of poverty removal measures, by education and training. This is cyclical problem and wages and industry cannot be separately seen. By increasing the cost of wages and improving labour

standards, productivity of a labour doesn't improve all of a sudden, and by just improving his standard, millions of people living below poverty all over 'South' would not benefit.

Moreover it is going to be a burden on those poor, as the increase in wages by ten fold is indirectly collected from them and directly that will lead to their further poverty by like in commodity prices and large scale inflation in, the south. For this the linkage of 'Social Clause' with trade is not feasible and any attempts by North to link it with trade would only become a protectionist measure and would lead to further collapse of Third world economics, which have begun the process of modernisation and liberalization.

On the other, the North's efforts to bring 'Social Clause' under GATT/WTO is against the broader principle of Global liberalisation of trade. While the North has begun the process of liberalisation and regularisation of international trade by signing GATT agreement to remove the barriers international trade and investment on the other hand they themselves are bringing in New Clause of protectionism under the guise of humanitarian concern. This is absolute protectionism under humanitarian concern and is against the broader principle of international trade.

However the North instead of pursuing for 'Social Clause' should provide necessary help to South for their rapid economic, industrial and

technological progress. This has a direct implication on South's wages, labour standards and productivity.

The North should provide South with access to modern technology and economic assistance, with which the south has started their economic and industrial development. But further efforts are needed for proper coordination and cooperation in this field. And, organisations such as NAM and G-15 have a larger role to play which have championed the cause of Third World in the preceding decades of years.

Appendix

TABLE - 1

Poverty In The Developing World

Region	Population below poverty line (percentage)		Number of poor persons (millions)	
	1985	1990	1985	1990
South Asia	51.8	49.0	532	562
East Asia	13.2	1.3	182	169
Sub Saharan Africa	47.6	47.8	184	216
Middle East & North Africa	30.6	33.1	60	73
Latin America & the Caribbean	22.4	25.5	87	108
All developing countries	30.5	29.7	1051	1133

Source : World Bank, 1992

@ For the purpose of this data, poverty line is taken as one U.S.S per person per day.

TABLE - 2

Urban Poverty Incidence (Ratio)

Region	Percentage
Urban Asia	25.00
Urban Africa	45.00
Europe, Middle East and North Africa	38.00
Latin America	28.00

Source : World Bank, 1989

TABLE - 3

Selected Trade-performance Indicators, 1970-93

(Average annual percentage change)

Country group and indicator	1970-80	1980-90	1991	1992	1993a
Low and middle-income countries					
Import volume	3.5	0.8	11.3	8.6	6.5
Export volume	2.7	3.6	11.1	5.6	3.8
Terms of trade	0.7	-3.3	-5.5	-0.8	-1.7
Latin America and the Caribbean					
Import volume	0.1	-2.5	21.0	19.0	7.6
Export volume	2.5	2.7	5.0	6.3	5.6
Terms of trade	-0.3	-2.8	-3.7	-3.3	-3.7
Sub-Saharan Africa					
Import volume	-0.5	-4.9	8.8	-1.0	4.0
Export volume	-0.7	2.1	2.3	1.9	2.4
Terms of trade	-0.1	-5.8	-8.7	-4.2	-9.0
Middle East and North Africa					
Import volume	5.7	-4.5	3.6	10.2	1.0
Export volume	-2.4	-1.6	9.3	-0.4	1.2
Terms of trade	4.6	-7.2	-12.9	-0.2	-7.2

Asia

Import volume	7.3	7.0	16.4	9.4	11.2
Export volume	8.5	9.6	16.2	12.5	7.4
Terms of trade	-0.8	-1.7	-0.2	-0.3	1.7

Memorandum item

World export volume	4.2	4.6	6.1	3.5	2.6
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Note : Trade volumes measured in constant 1987 prices and exchange rates. Terms of trade are calculated as the ratio of export price to import price.

a = Estimated.

b = Including republics of the former Soviet Union.

c = Excluding South Africa.

Source : World Bank

Refer : World Bank Annual Report, 1994.

TABLE - 4

World Trade, 1984-1994

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993a	1994b
Value of Exports (Billions of Dollars)											
World	1,884	1,906	2,087	2,437	2,762	2,991	3,419	3,493	3,708	3,639	3,814
Developed market economies	1,240	1,282	1,488	1,736	1,986	2,127	2,454	2,502	2,647	2,524	2,624
Developing countries	520	503	472	569	644	735	841	886	970	1,026	1,137
Volume of Exports (Annual Percentage Change)											
World	8.3	3.0	5.9	4.7	7.3	8.0	5.6	4.6	5.5	2.7	6.0
Developed market economies	9.6	4.7	2.5	4.4	8.5	7.3	5.1	3.7	4.2	1.3	5.0
Developing countries	5.9	-0.1	15.2	6.6	4.4	11.8	8.7	8.7	8.5	8.3	7.4
Memo Item : World Output											
(Annual Percentage Change)	4.2	3.2	3.0	3.3	4.5	3.2	1.6	0.3	0.8	1.1	2.3

Source : IMF, International Financial Statistics, and DESIPA estimates.

a = Preliminary estimates

b = Forecasts

Refer : World Economic & Social Survey, United Nations, 1994.

TABLE - 5

Growth of the World Economy, 1988-1995

(Annual percentage change)

	1988	1989	1990	1991	1992	1993	1994	1995
World output	4.5	3.2	1.6	0.3	0.8	1.1	2.5	3.0
Developed market economies	4.5	3.3	2.4	0.7	1.6	1.0	2.5	2.75
Economies in transition	4.5	2.1	-6.2	-8.8	-15.2	-8.6	-6.0	0
Developing countries	4.5	3.5	3.0	3.4	4.9	5.2	5.0	5.0
World trade	7.3	8.0	5.6	4.6	5.5	2.7	6.0	6.5
Memo item :								
Growth of world per capita income	2.8	1.5	0	-1.4	-0.9	-0.6	-0.6	1.3

Source : World Economic and Social Survey, 1994

TABLE - 6

**Employment And Human Resource Development in Nine High-Population Countries :
Demography, Employment, Economic Growth, Poverty,
Education And Human Capital Formation.**

Human development Indicators	Brazil	Mexico	Egypt	Nigeria	India	Pakistan	Bangladesh	Indonesia	China
Population (millions)									
1972	101.0	53.7	34.2	56.0	573.0	65.0	70.0	123.0	862.0
1992	154.0	85.0	34.7	102.0	884.0	119.0	114.0	184.0	1162.0
Population growth rate (%)									
1987-92	1.6	2.0	2.1	2.9	2.0	3.0	2.0	1.6	1.2
Urban population (%)									
1972	58.0	60.5	42.7	21.4	20.4	25.5	8.3	18.0	17.3
1992	76.6	73.7	44.3	36.8	26.0	33.1	17.6	32.3	26.8
Employment : Labour Force (millions)									
		57.5	32.5	15.4	44.4	335.5	35.8	35.5	74.6
	698.5								
Women in Labour Force (%)									
	27.7	27.3	10.4	34.4	24.9	13.0	7.6	31.2	43.3
Labour Force in Agriculture (%)									
1970-75	38.0	40.0	49.0	70.0	71.0	57.0	78.0	62.0	76.0
1980-85	31.0	37.0	46.0	68.0	70.0	55.0	75.0	57.0	74.0
Labour Force in Industry (%)									
1970-75	24.0	27.0	18.0	11.0	13.0	17.0	5.0	12.0	12.0
1980-85	27.0	29.0	20.0	12.0	13.0	16.0	6.0	13.0	14.0
Labour Force in Services (%)									
1981-86	--	--	37.0	44.0	16.0	27.0	26.0	30.0	--
1987-92	--	15.0	40.0	--	--	33.0	18.0	31.0	--

Real earnings per employee (Index 1987=100)									
1972	51.3	139.3	69.1	--	83.8	50.8	99.0	54.1	--
Latest available	72.6	109.7	92.2	--	108.5	100.4	94.0	129.7	--
GNP per capita growth rate (%)									
1985-92	-0.7	1.1	0.8	3.4	3.3	1.7	1.7	4.7	6.0
Annual Rate of Inflation (%)									
1985-92	731.3	52.7	17.1	28.0	9.5	8.6	7.8	8.8	7.5
People below poverty line (%)									
1990									
Urban	38.0	23.0	34.0	--	38.0	20.0	56.0	20.0	--
Rural	66.0	43.0	34.0	--	49.0	31.0	51.0	16.0	12.0
Education investment : (latest available) as percentage of									
GNP	4.6	4.5	3.8	1.7	3.1	3.2	2.0	0.9	2.3
As percentage of Govt.									
expenditure	--	--	--	12.0	--	--	10.3	4.3	--
Adult illiteracy									
rate (%)	19.0	13.0	52.0	49.0	52.0	65.0	65.0	23.0	27.0
Gross Secondary									
enrolment (%)	39.0	55.0	80.0	20.0	44.0	21.0	19.0	45.0	51.0

Source : (i) World Tables, (World Bank), 1994
(ii) Social Indicators of Development, (World Bank), 1994
(iii) World Bank Atlas, 1994
(iv) World Labour Report, (ILO), 1994
(v) Statistical Year Book, (UNESCO), 1993

TABLE - 7

**Agenda for horizontal cooperation in the field of employment and human resources
between Non-Aligned and other developing countries**

Agenda for cooperation and action	Goal	Programme of action for horizontal cooperation						
		Seminar	Workshop	Survey	Study tours	Data base creation	Inter Institutional cooperation	Exchanges
Employment growth strategy	* Securing full, freely chosen and productive employment				*		*	
HRD and skill development	* Development of human capital to enhance employability		*				*	*
Productivity	* Enhancement					*	*	
Employment services	* Matching skills with jobs * Improvement of access to jobs	*						*

Migration	<ul style="list-style-type: none"> * Humanisation : - labour protection - social security - reduction of dependancy ratios 			*		*		
Informal sector	<ul style="list-style-type: none"> * Recognising it as a base for alternative, non-exploitative employment 			*		*		
Decentralised	<ul style="list-style-type: none"> * Securing their viability * Promotion of contribution to national output * Labour protection 	*						
Gender disparities	<ul style="list-style-type: none"> * Progressive elimination 	*		*		*	*	*
Child labour	<ul style="list-style-type: none"> * Progressive elimination 	*	*		*			
Social security	<ul style="list-style-type: none"> * Universalisation of coverage * Securing sustainability 	*				*	*	*

Poverty	* Immediate alleviation	*	*				
	* Progressive elimination						
Technology	* Promotion of R&D						
	* Sustainable development		*	*	*	*	*
	* Self-reliance						
Labour Laws	Making them instruments of employment generation	*		*	*	*	*

Table - 8

**Secondary Education : Gross Enrolment Ratios in Nine
High - Population Countries**

	1980	1991
Brazil	34%	39%
Mexico	48%	55%
Nigeria	19%	20%
Egypt	54%	80%
India	30%	44%(1990)
Pakistan	14%	21%(1990)
Bangladesh	17%	19%(1990)
Indonesia	29%	45%(1990)
China	46%	51%

Source : Statistical Year Book, UNESCO, 1993.

TABLE - 9

Average Private Rates of Returns to Education : By Levels and Regions.

Region	Primary	Secondary	Higher
Latin America	61	28	26
Africa	45	28	33
Asia	34	15	18
Select high income countries	19	12	11

Asian Development Review : 1993:Vol. 11.No.2

TABLE - 10

**Primary Education : Survival Rates in 1988
in Nine High - Population Countries**

	Grade I	Grade II	Grade IV
Brazil	100%	63%	47%
Mexico	100%	90%	81%
Nigeria	100%	82%	67%
Egypt	100%	100%	99%
India	100%	79%	61%
Pakistan	100%	67%	59%
Bangladesh	100%	67%	52%
Indonesia	100%	97%	89%
China	100%	95%	86%

Source : EFA (Education For All) in the nine high population countries:
Analysis and Synthesis: UNESCO, 1993

@ Survival rates are rates of continuance of children in grades
II and IV vis-a-vis entry in grade I.

TABLE - 11

Direction of Merchandise Trade, 1992
Percentage of World Trade

From :	To:			High-Income Countries				Low-and middle-Income Countries					All
	USA	EC(10)	Japan	Other HIC	All HIC	East Asia	South Asia	Europe	MENA	SSA	LAC	All LMICs	
ALL HIGH-INCOME	10.3	34.3	3.4	15.1	63.2	5.2	0.7	3.6	2.5	1.2	3.7	16.9	80.1
USA	--	2.7	1.3	4.0	8.0	1.0	0.1	0.3	0.4	0.2	2.0	4.0	12.0
EC(10)	2.7	24.2	0.8	5.9	33.5	1.0	0.3	2.7	1.4	0.8	0.9	7.0	40.6
Japan	2.7	1.7	--	2.4	6.9	1.7	0.1	0.1	0.3	0.1	0.4	2.8	9.7
Other high-Income	4.9	5.7	1.3	2.8	14.7	1.5	0.2	0.5	0.3	0.1	0.4	3.1	17.8
ALL LMICs	3.3	5.9	2.3	3.6	15.2	1.1	0.3	1.2	0.6	0.4	1.1	4.8	19.9
East Asia & Pacific	1.4	1.1	1.4	2.6	6.4	0.8	0.1	0.2	0.2	0.1	0.2	1.6	8.0
South Asia	0.2	0.3	0.1	0.1	0.7	0.0	0.0	0.1	0.0	0.0	0.0	0.3	0.9
Latin America	1.1	1.1	0.2	0.2	2.6	0.1	0.0	0.1	0.1	0.0	0.7	1.0	3.6
Other LMICs	0.7	3.5	0.7	0.7	5.5	0.2	0.1	0.9	0.3	0.2	0.2	1.9	7.4
All Countries	13.7	40.2	5.7	18.7	78.4	6.3	1.0	4.8	3.1	1.6	4.8	21.6	100.0

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