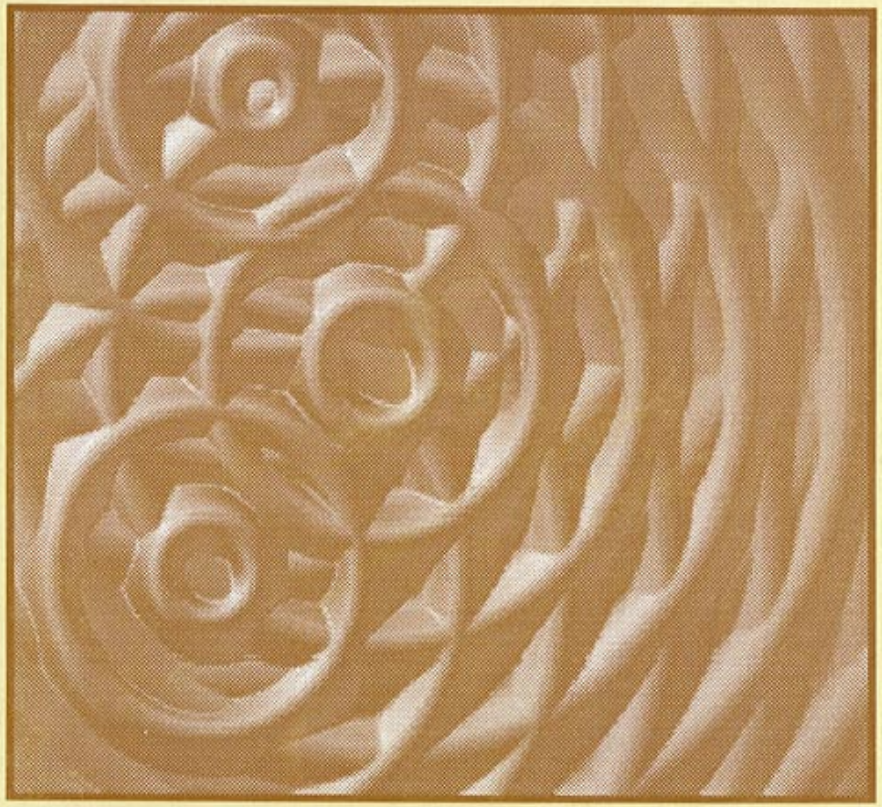
Social Clause as an Element of the WTO Process



Monograph# 2

9804

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Published by:

कट्स ⊠ CUTS

CUTS Centre for International Trade, Economics & Environment
D-218, Bhaskar Marg, Bani Park
Jaipur 302 016, India
Email: cutsjpr@jp1.vsnl.net.in
Website: www.cuts.org

Written & Edited by:

Bipul Chatterjee and Pradeep S. Mehta

Laser setting and layout by:

Mukesh Tyagi
CUTS, Jaipur

Printed by:

ISBN: 81-87222-10-7

#9804 SUGGESTED CONTRIBUTION Rs.15/$5

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SUMMARY

The moot point is whether the issue of interaction between trade and labour standards (social clause) is 'new' to the GATT system or not. According to one school of thought that is not. Their argument is based on Article XX (e) of GATT 1947 treaty which provides for trade measures which can be taken against goods made by prison labour. However, the issue has remained dormant for decades before rearing its head in early 1990s.

Thus, by all practical account social clause is a new issue to the world trading system, particularly after the advent of multilateralism through the GATT 1994 treaty. The issue was discussed at the Singapore Ministerial Conference, two years after the WTO came into being. The meeting agreed that the International Labour Organisation is the competent body to deal with non-adherence with agreed labour standards.

The central question is whether poor labour standards results in comparative advantage for a country or not, i.e. the validity of the concept of "social dumping". There is no conclusive `economic' proof that so-called poor labour standards in the developing countries has positive correlation with export intensities of these countries. Neither is there any conclusion that imports from developing countries cause unemployment in the developed world.

Thus, the issue is a political one. As rightly pointed out by Jagdish Bhagwati, today's debate on social clause is clearly demarcated between 'Northern' and 'Southern' perspectives on fundamental rights, and incompatibility between these perspectives would result in suspension of another country's trading rights already protected under the GATT/WTO Agreements.

Then the relevant question is what is the way out of this dilemma. One option could be to leave it to the International Labour Organisation. But the ILO has no teeth to implement its own resolutions. Another option is to involve the WTO in this debate. However, the position of the developing countries is weak (with respect to the debate) at the WTO.

Hence, the best option is to go for a hybrid solution. The proposal is that the ILO should act as a first instance court in case of labour disputes, and then pass on the report of the dispute to the WTO for looking at its trade-related aspects. Two other options are to involve consumer organisations in the promotion of labour rights, and to promote labour rights through 'positive' measures.

I. INTRODUCTION

The multilateral trading system under the auspices of the World Trade Organisation (WTO) is based on the principle of 'free and fair' trade between nation-states. The WTO is an institution which was formed on 1st January 1995 after the culmination of the Uruguay Round of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT). Nearly 100-odd countries agreed to the new arrangement at Marrakesh, Morocco in April 1994. Thus the GATT 1947 was replaced by the GATT 1994.

One important difference between the GATT 1947 and the GATT 1994 is that the earlier accord had a semi-institutionalised character, whereas the WTO is fully institutionalised. The reason is that unlike the GATT 1947, the WTO system based on the GATT 1994 is a *single undertaking,* i.e. all the agreements are inter-linked. The agreement underlying the WTO thus recognises the interdependence of each of the 28 odd agreements on the principles of reciprocity. It subsumes the possibility of cross-sector retaliation in the event of violation of one, when a dispute resolved in one sector is not adhered to by the impugned party.

One of the 'new' issues which was voiced at Marrakesh—and reiterated at the Singapore Ministerial Review Conference, December 1996—was the inter-linkage between trade and labour standards. The idea was that for trade to be 'free and fair' certain minimum labour standards are to be adhered to by the exporting country. Otherwise, some countries would *enjoy* relatively better advantage in trade in certain goods and services. The debate centred on the issue: that if a country does *not* recognise certain minimum labour standards, would it be possible for the *importing* country to impose trade sanction on the *exporting* action. In other words, social clause (minimum labour standards) become a trade issue or not?

This paper analyses different aspects of the debate on social clause: what the issue is, whether the issue is new to the GATT/WTO system or not, what are the elements in a social clause, arguments for and against social clause (the linkage between trade and labour standards), and what is the appropriate mechanism to deal the issue.

II. WHAT THE ISSUE IS?

The central to the debate on social clause is 'social dumping'. Dumping is purely a concept of economics. Dumping occurs when, *ceteris paribus* (other

things being equal), the export price of a good/service is less than what prevailed in the domestic market of the exporting country. In the context of social clause, dumping means what happens when cheap imported products out compete the otherwise identical products produced domestically due to 'low' labour standards in the exporting country. In other words, the margin of dumping is the difference between the price of a product produced to the higher standard and that produced to the lower standard. Alternatively, the margin of dumping can be defined as the difference between the fictitious price of a product when all external costs are taken into account (regarding higher labour standards) and the actual price.

Then the relevant question is *what is a social clause?*

According to the definition given in Van Liemt (1994), "a social clause aims at improving labour conditions in exporting countries by allowing sanctions to be taken against exporters who fail to observe minimum standards".[1]

The perceived aim of the social clause is to restrict or halt the importation or preferential importation of products of countries where labour standards are relatively inferior, i.e. relative to certain minimum standards.

According to Hansson (1983), producers "that do not comply with the minimum requirements must choose between a change in working conditions or run the risk of being confronted with increased trade barriers in their export markets".[2]

Above mentioned definition and consequence (of not adhering to) of social clause clearly show that 'conditionality' is an essential aspect of the debate on social clause. Now, conditionality can be approached in two different ways—positive as well as negative. In the former sense, if a party fulfils certain minimum labour standards or compiles with certain minimum requirements it is rewarded by giving favourable treatment. On the other hand, the negative conditionality means imposition of 'sanctions' against a party who fails to comply with certain minimum standards.

However, the 'conditionality principle' runs contrary to the established GATT principle of Most Favoured Nation (MFN) treatment. The MFN principle means that there should be *no discrimination* between Member states in matters of international trade in goods and services. Therefore, under the GATT practice, the importing country can apply some conditionality on imports (with respect to labour standards) under a Generalised System of

Preference (GSP). The GSP allows for preferential access for products from some countries which are signatories to the GSP rules.

Thus, the argument, as stated above, is based on a basic phrase: certain minimum labour standards.

What these standards are?

The question can be approached from two perspectives—economic and moral/ humanitarian.

The economic argument is that low labour standards provide exporters to an unfair comparative advantage relative to others with high labour standards. On the other hand, from a positivist angle, low labour standards in a country hinder economic growth (and hence income generating prospects of international trade) as economic development essentially means growth *with* equity.

The moral/humanitarian argument stems from the paradigm: growth *with* equity. It has been argued that certain minimum labour rights are universal human rights and are necessary for the well being of the humanity.

Therefore, the question: *does trade relate to human/social welfare?*

The answer is an emphatic 'yes', because the social welfare function depends on inter-personal utility, which in turn, depends on the quantity as well as the quality of goods (domestically produced as well as traded) consumed/ preferred. The argument is that, under perfect information, the preference pattern of a consumer may 'reveal' in favour of goods produced by labourers enjoying high labour standards.

III. A 'NEW' ISSUE AT THE WTO!

No! The issue is *not new* to the multilateral system of trade negotiations.

The Preamble to the GATT 1947 states:

"Recognising that their relations in the field of trade and economic endeavour should be conducted with a view to *raising standards of living*, ensuring full employment and a large and steadily growing volume of real income and effective demand, developing the full use of resources of the world and expanding the production and exchange of goods.

Being desirous of contributing to these objectives by entering into *reciprocal and mutually advantageous arrangements*….." (emphasis added).

Thus, the issue of labour standards was there in the GATT 1947 as an in-built agenda.

On the other hand, the Havana Charter (1948) was more specific on the issue:

"The Members recognise that …….. all countries have a common interest in the achievement and maintenance of *fair labour standards* related to productivity, and thus in the improvement of wages and working conditions as productivity may permit. The Members recognise that unfair labour conditions, particularly in production for export, create difficulties in international trade and hence promote whatever action may be appropriate and feasible to eliminate such conditions within the territory." *(emphasis added).*

The Havana Charter was not ratified by the Members, thus the issue remained dormant in the GATT system. However, Article XX (e) of GATT 1947 did allow trade sanctions 'relating to products of prison labour'. Now, if one interprets 'prison labour' as 'forced labour' then it is proved that the issue is *not new*; it is, at the most, 'dormant' in the GATT system.

Why there appears to be a 'renewed' interest on the debate?

According to Madden (1995), there are four reasons for 'renewed' interest (SEE Box 1 also).[3] They are as follows:

- Liberalisation: the Uruguay Round multilateral trade negotiations had brought down the rate of tariffs to a great extent. As traditional trade barriers (imposition of import tariffs) have lost import, countries are looking for more and more 'new' complications that a number of domestic policies have for trade.

- Globalisation: the technologically facilitated globalisation of markets and production have led to national economies becoming more integrated and the gradual relaxation of border controls on the movements of capital, goods and services. This led to the fear that there may be 'race to the bottom' by the Northern transnational corporations (to take advantages of low labour standards and, hence, low wages in Southern countries). A social clause, it is argued, would promote fair competition between

exporters by ensuring that those who respect minimum labour standards are not penalised.

- Unemployment: this argument stems from the above argument on globalisation. It is true that there is a coincidence between increased unemployment in the OECD countries and increased imports from the South but, the question still remains—is there a *causal* relationship?

- Communications: increased and improved global communication network has raised concern about labour conditions in the South.

Box 1: Why Social Clause Now?

International trade takes place only because of comparative advantages in production processes between nations. The "factor of cost" is the key element of international trade. Low labour costs or cheap labour , in the developing countries have always been perceived as an advantage by the manufacturers in the industrialised nations. The mounting economic problems in the western nations, particularly the European Community and the United States, the rise in unemployment and fierce competition in their traditionally strong areas such as manufactured products from newly industrialised South-East Asian countries affecting labour intensive western industries have resulted in increasing protectionist measures. So the social clause is one such measure which is being seen by developed countries as a counter to the erosion of their competitiveness.

In the increasingly globalising economy, this western weakness is particularly noticeable in new technology sectors and in highly labour intensive industries such as textiles, clothing, footwear, leather, toys and assembling and testing of electronic products. So a lot of western businesses have shifted to low labour cost countries of Asia.

Source: Suresh, N, Social Clause in the GATT—A Boon Or Bane for India,CUTS Briefing Paper, No 3, 1995

IV. ELEMENTS OF A SOCIAL CLAUSE

As early as in 1918, Part XIII of the Treaty of Versailles had mentioned international labour standards and envisaged international efforts to establish provision for:[4]

- right of association,
- wages for a reasonable standard of life,
- an eight hour day, 48 hour week and rest of 24 hours each week,

- abolition of child labour, and
- equal remuneration for men and women and equal rights for migrant workers.

Developed countries, led by the US, wanted that the GATT/WTO system of multilateral trade negotiations should include the following rights:

- right to organise and to collective bargaining,
- freedom of association,
- forced labour convention,
- minimum age convention, and
- equal remuneration convention.

It is interesting to note that *equal rights for migrant workers* was left out from the above mentioned list of rights (though there in the Treaty of Versailles).[5] All these rights have originated from various conventions of the International Labour Organisation (ILO) (see Table 1 for number of ratification of the basic ILO conventions).

Table 1: Number of Ratification of ILO Conventions

Convention	Number	No. of Ratification
Employment policy	122	78
Minimum age for employment	138	41
Tripartite consultation	144	60
Discrimination:		
Equal remuneration	100	106
Employment and occupation	111	106
Freedom of association:		
Right to organise	87	94
Right to collective bargaining	98	105
Forced labour	29	114
Abolition of forced labour	105	94

Source: World Labour Report, ILO, 1995

According to International Confederation of Free Trade Union (ICFTU), a social clause along the lines of the following should be included in the GATT and similar international agreements:[6]

"The contracting parties agree to take steps to ensure the observance of the minimum labour standards specified by an advisory committee to be

established by the GATT and the ILO, and including those on freedom of association and the right to collective bargaining, or the minimum age for employment, discrimination, equal remuneration and forced labour."

V. ARGUMENTS FOR AND AGAINST SOCIAL CLAUSE

The literature on the issue inter-linkage between trade and labour standards has a plethora of references. The analyses can be done by taking into account three central aspects of the debate on social clause—political, economic and humanitarian/moral.

The political aspect *for* social clause rests on the argument that a multilaterally agreed social clause would strengthen the multilateral trade system by stemming unilateral actions as well as the advent of social clauses in bilateral/ regional social clauses. Moreover, from the point of view of trade union rights, it has been argued that a minimum provision for social clause would enhance liberalisation of international trade (as it would act as a kind of 'safety net'). The case *against* political justification of social clause rests on the 'slippery slope' syndrome of 'new protectionism' (see Box 2). However, the point to note is that bilateral/regional social clauses can lead to a greater protectionism than of a multilateral one.

Box 2: Genuine Concern or Protectionism!

In 1995, the US stopped the import of garments made by children below 15. Bangladesh, one of the world's poorest countries, was the first to be hit. Garments makers had to send home at least 50,000 children employed by them. The 1.5 mn families that depended on this source of income from child wage earners were thrown to the streets, thus

- exacerbating their poverty and social disintegration, and
- leading to higher crime rate, child prostitution etc.

The nation too felt the pinch. For, garments account for 55 percent of Bangladesh's export earnings and it earned $ 700 mn from exports to the US alone in 1994. Garments makers had agreed to phase out child labour by 1997 but the Washington-based Child Labour Coalition would have none of this. It called for a boycott of Bangladesh garments in the US.

Source: Mehta, Pradeep S, Textiles and Clothing—Who gains, Who Loses, and Why!, CUTS Briefing Paper, No 5, 1997

The economic case *for* social clause is based on the notion of "efficiency wage hypothesis". The argument is that uneven competition between 'lower' and 'higher' standards would result in unsustainable development as it hinders the growth of the efficiency of labour. The second argument *for* social clause rests on the notion of "beggar-my-neighbour" which a, in turn, might be the cause for "race to the bottom".

On the other hand, the economic case *against* social clause is based on the empirical findings that compared to import competition (due to 'lower' labour standards in the developing countries), technological innovations/inventions have far more robust impact on job losses.[7]

The humanitarian/moral ground for abiding for social clause stems from the premise that certain minimum core labour standards must be maintained irrespective of the level of economic development. The idea rests on the adage: "Even if it is a fact that the sun never sets in the kingdom, yet sun rays seldom enter into workers' huts".

However, the above mentioned adage was based on the 19th century (during the first industrial revolution in England) perspective of labour conditions. But, today's debate on social clause is clearly demarcated between the 'Northern' and 'Southern' perspectives on fundamental rights. As pointed out by Bhagwati (1994), incompatibility between 'Northern' and Southern' perspective would result in suspension of another country's trading rights' already protected under the GATT/WTO agreements.[8]

Therefore, there is no conclusive answer to the debate—whether the social clause be included in the multilateral trade system under the auspices of the WTO?

VI. THE WAY OUT

As it is mentioned above, there is ambiguity in the debate on social clause, but if one takes the position of the ICFTU the issue of social clause should be debated in a multilateral framework. Furthermore, the results of a survey on the issue of social clause on southern NGOs and trade unions by Pain Pour le Prochain, Switzerland, revealed that an overwhelming number of NGOs and trade unions in the south were in favour of 'inclusion' of social clause in a multilateral system of international trade. The survey was conducted by sending questionnaires to the selected samples. The sampling distribution was as follows:

- Latin America: 28,
- Asia: 21,
- Africa: 16, and
- Eastern Europe: 2.

Among the samples, 80 percent were NGOs, 13 percent were trade unions, and 7 percent were research centres. The main results are shown in Table 2.

Table 2: On Social Clause: Response From Southern NGOs and Trade Unions

Unit: Percentages saying 'yes'

Parameter	Percentages
Should social clause be introduced into trade agreements?	91
Is the social clause an efficient means to improve labour conditions?	84
Should social clause be based on seven conventions of the ILO?	90
At what level should the social clause be implemented?: [a]	
Multilateral	87 (86)
Regional	75 (53)
Bilateral	63 (47)
Private	69 (60)
At the multilateral level, which body (bodies) should implement it?: [b]	
ILO/WTO	49
ILO	25
New organisation	21
WTO	0
Can social clause be accompanied by sanctions?	90
What types of sanctions are requested?: [a]	
Prohibit market access of incriminated product	55
Suspension of preferential tariffs	44
Reduction of development aid	33
Increase of border tariffs	28
Granting of preferences [c]	48
Lowering of border tariffs [c]	36

Note: Figures in parentheses are responses from northern NGOs; a. Figures are not added up to 100 due to multiplicity of response; b. Figures are not added up to 100 due to non-response from some samples; c. Positive sanctions

Source: Egger, Michel and Catherine Schumperli, Social Clause: Survey Among NGOs and Trade Unions of the South, Pain Pour le Prochain, 1995

According to Evans (1997), the Dutch Advisory Group to the Ministry of Development and Co-operation argued that there was a three-fold test for labour standards to pass before they could be accepted as universally accepted and applicable. The tests are:

- the social test: were the conventions targeted at human rights and basic human needs?

- the political test: was there widespread international acceptance of the convention?

- the economic test: would the standards impose undue economic hardship or impede economic development?

Taking these tests into account, Evans (1997) suggested that there are three options regarding the debate.

Option A: Leave it to the ILO

The argument is that the ILO is a tripartite body with representations from workers, government and employers. However, the core problem for the ILO is that of maintaining its legitimacy in the face of the social clause debate. In other words, the ILO is faced with the "razor edge" problem – how to maintain the balance between the developed world's demand to enforce labour standards vice-versa the developing economies' position to limit the role of the ILO as that of an advisor only. Moreover, the greatest drawback of the ILO is its lack of enforcement capacity. Then the question is does the ILO option allow for the passing of the Dutch test.

There is no gainsaying of the fact that the ILO conventions on core labour standards are aimed at economic development of the Member states. Furthermore, there is an in-built reciprocity in the ILO conventions as it can act against the Members who, even after ratification, do not comply with the conventions. However, the ILO does not have a dispute settlement procedure.

Option B: Incorporate labour rights into the WTO

It is a fact that the WTO option passes all three tests mentioned by the Dutch Advisory Group. First, the overall objective of the WTO is economic development (*raising standards of living*). Secondly, the WTO has an institutionalised dispute settlement mechanism. And thirdly, the reciprocity

clause was there in the GATT 1947 treaty (*being entering into a reciprocal and mutually advantageous arrangements*). It was further strengthened by the *single undertaking* clause of the GATT 1994. However, it is also true that the WTO can only entertain disputes which arise out of the agreements already signed by the Members. As on today, there is no agreement on social clause.

Option C: Hybrid scheme

In recent years, countries have developed the opinion that neither the ILO nor the WTO *per se* can deal with the issue of social clause. The ILO, on its own, cannot make much progress on trade-related issues. On the other hand, the WTO can, at the best, take into account the trade-related aspects of the social clause (it is not an institution to deal with the human rights aspects of the social clause).

This ambiguity makes route for a hybrid option. The proposal is that the ILO should act as a first instance court in case of labour disputes, and then pass on the report of the dispute to the WTO (as a court of final resort) for looking at its trade-related aspects.

Apart from the options mentioned above, there are two others. The first is to leave it to the consumer. There are initiatives mainly by the civil society in the North, to promote labour rights through social labels (e.g. Max Havellar, STEP, Veillon in Switzerland; Rugmark, Kaleen in India) or Codes of Conduct signed by the TNCs. Even the ILO has suggested a social label.

The second option is to promote labour rights through positive measures. Some 'positive' measures are better market access, increased Official Development Assistance, educational programmes, debt reduction etc. This option stems from the strong negative correlation between poverty and low standards, especially regarding child labour.[9]

VII. CONCLUSIONS

Social clause as a policy instrument in the international trading system is a contentious issue. The heated debate at the Singapore Ministerial Conference resulted in an agreement that the ILO is *the* competent body to compliance, through appropriate processes.

Furthermore, there is no conclusive proof that 'low' labour standards make a country internationally competitive. The export-oriented growth of the newly industrialised economies of South-East Asia is not necessarily a result of 'low' labour standards. If 'low' labour standards is the only factor of growth in trade, then today's developing economies would have been super powers by now—democracy does have a *value* for economic development. On the other hand, it is not true that 'high' labour standards will lead to dynamic comparative disadvantage. This was also the conclusion of a study by the OECD in 1996.[10]

There are many players on the stage of 'social clause': the exporting country (domestic producers); the importing country (foreign producers from the viewpoint of the first); the domestic trade union and the civil society; and the foreign trade union movement and the civil society. The issue is a political one, and the debate revolves around the politico-economic coalition between these players.

There is a clear coalition between the northern producers and the northern trade unions—the earlier want their businesses to remain intact, and the second one is concerned with job loss due to increased imports. At the same time, there is an implicit coalition between the southern producers and the southern trade unions—the earlier want to keep labour standards 'low' for reasons of competitiveness. The latter has a vested interest in keeping the labour (or even environmental) standards low to maintain job opportunities. The existence of explicit and implicit coalitions creates divisions within the civil society. However, within the social movements in the South, it is a mixed bag. There are a large number in favour of a social clause so that the situation can improve at home. Yet, another large number are against it for fear of protectionism, which could only lead to an adverse impact on industry, and thus job losses.

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