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***WTO at the age of 20***

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**TRADE AS AN ENABLER OF PEACE AND BETTER LIVING CONDITIONS**

***Discussion paper presented by Mr. J. Leichtfried (European Parliament)***

*About a twenty-something...*

Ladies and Gentlemen, fellow parliamentarians,

1. We are gathering here today for the annual 2015 session of the Parliamentary Conference of the WTO, which invites us to reflect on the "WTO at the age of 20". The age of 20, is the right age to have plans for the future and ask: "What do you I want to achieve with my life?" It is an age, at which you should have "realistic" dreams, which you should strive to accomplish. I believe that the WTO should pursue the vision of promoting a trade policy, which makes trade an enabler of better living conditions. How could this be achieved? Allow me during my presentation to elaborate on this matter with the aim of stimulating a discussion.

*How should we define "better living conditions"?*

2. First of all, we need to define what we understand by "*better living conditions*". In my view, this term goes beyond work-related matters and covers the broader potential effects of trade, which impact holistically on the life of citizens all around the globe. As a starting point, I would like to suggest defining "*better living conditions*" as a concrete and palpable expression of the objective of sustainable development with a social, environmental and economic strand.

*How does trade generate growth?*

3. Let us start with the economic potential of trade: Trade is generally considered as being an enabler for growth, and, there is a considerable amount of empirical evidence available, which illustrates that those economies having enjoyed the highest growth rates over the last 60 years have achieved this, because they were open to trade and investment: South Korea, Singapore, China<sup>1</sup>. Why has trade led to so significant levels of growth? Trade enabled growth as it has led to technology transfer, thereby, allowing developing economies to start a process of catching-up with developed countries, notably by increasing their productivity.

*And how can trade enable inclusive growth?*

4. It seems commonly accepted and proved right by scientific evidence that trade and investment generate growth. However, the evidence remains inconclusive to whether trade is also an enabler of poverty reduction: This has to do with the inclusiveness of growth - who benefits from growth generated by trade? The inclusiveness of growth generated by trade depends on a variety of accompanying measures such as education policy to be understood in a broad sense, ranging from literacy rates, to higher education, professional skills and life-long learning, and infrastructure, also to be understood in a wide meaning covering physical transport infrastructure, hospitals etc. to the availability of digital technologies of the country. Though every country has its own specificities, it is still crucial to have active labour market policies and investment in education, skills and training – to better match labour supply with demand – as well as adequate social safety nets and

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<sup>1</sup> "The Growth Report: Strategies for Sustained Growth and Inclusive Development" published by the World Bank, 2008, Washington.

competition policies in place. In order to climb up the global value chain and enable a country to generate more qualified and better paid jobs on its own territory, people need to have access to on-going education and professional training.

5. The wealth generated by growth tends to benefit largely urban elites. Infrastructure development enables more remote areas to benefit also from the growth generated by trade. By enlarging access to the benefits of trade - access of people through education and access of regions through infrastructure - the growth generated by trade can be more inclusive. It is the role of the governments to design the right policies to ensure that this happens. And trade policy-makers such as the WTO need to work hand-in-hand with international organisations such as the ILO, the World Bank and the IMF and governments, in order to optimise the leverage of trade policy for generating not only growth, but *inclusive* growth.

*How can trade impact positively on social standards?*

6. This brings me to a second element of the social dimension - trade as an enabler of "better working conditions". Trade can not only enable people to enjoy better wages, but can potentially also contribute to improve working conditions and labour rights. A first factor enabling better social conditions relates to the fact that opening up economies to foreign investment and trade has also the potential to open up societies for a positive social policies. I would call this phenomenon social rights spill-over.

7. Let me start to make this argument by dispelling one of the myths we hear about free trade, namely that free trade necessarily leads to a race to the bottom when it comes to labour standards as countries start to compete by lowering labour standards to attract investment and boost their comparative advantage. First of all, there is no evidence that poor labour conditions attract disproportionately more Foreign Direct Investment<sup>2</sup>. On the contrary, gender inequality, child labour and lack of civil rights are negatively correlated with FDI inflows<sup>3</sup>. This suggests that FDI may tend to encourage better working conditions and vice versa. Why is this case? A sound legal system with civil rights as well as more harmonious relations between capital and work provide stability and, thereby, predictability for trade and investment. Furthermore, foreign companies investing in or trading with other countries can also bring in their know-how in terms of dealing with social partnerships and improving employer-employee relations. Allow me to give you the example of a leading German carmaker, which established factories in the US and introduced elements of its "*betriebliche Mitbestimmung*" - co-determination by trade unions/workers in the management of the company - in its factories in the US. The bottom-line is - opening up to trade and investment brings in new ideas, also in the social sphere.

8. Here, an ambitious trade agreement can give a boost to the process of social change: Sustainable development chapters in trade agreements are key as they tie in the opening up of the economy to a set of basic common social standards. Providing a forum, for instance through a Sustainable Development Committee, can contribute to enhance the social policy change triggered by the increased openness of an economy. Under certain circumstances, governments are even willing to commit to a broader sustainable development agenda as was done by the government of Peru and Columbia, when signing-in the Free Trade Agreement with the EU, as they committed to pursue roadmaps for sustainable development.

*What power do consumers have to improve working conditions?*

9. Another factor element of how trade and investment can improve the working conditions relates to the power of consumers. Companies, in particular well-established brands, rely for their success on the image of their brand. Various companies are sourcing their products in countries, where labour is cheaper than in the countries where they undertake their research and development activities. These companies have the power to support contractors to improve the working conditions of local suppliers, thereby, transferring their "social knowledge". Furthermore, established brands are increasingly scrutinised by media and NGOs about the working conditions

<sup>2</sup> "Trade and the quality of employment: Asian and Non-Asian economies", by Robert J. Flanagan and Niny Khor in "Policy Priorities for International Trade and Jobs", Editor Douglas Lippoldt, OECD, 2012p. 259 ff.

<sup>3</sup> "Trade and employment in a fast-changing world" by Richard Newfarmer and Monika Sztajerowska in "Policy Priorities for International Trade and Jobs", Editor Douglas Lippoldt, OECD, 2012, p. 37.

in their supply factories and reputation-sensitive companies cannot ignore the findings of such scrutiny. Of course, this mechanism only works, if consumers are also responsible and care about how a product is produced, which seems to me increasingly to be the case in many countries.

10. Unfortunately, very often it is only tragic events, which lead to the awareness of consumers living far away from the place of production of the products which they consume. I would like to refer to a recent example, where trade acted as an enabler for better working conditions following tragic events: Bangladesh, one of the poorest countries in the world, experienced unprecedented growth of its ready-garment industry in part due to the possibility granted by the EU under its "Everything, but arms" initiative to export textiles without any duties to the EU. For Bangladesh, trade led to economic growth by specialising in its comparative advantage in the ready garment-industry. The collapse of the Rana Plaza building brought to public attention the poor working conditions and hazardous health and safety situation in this sector. Policy-makers understood quickly that immediate action was needed to improve the situation - not only on moral grounds, but also driven by economic interests - as consumers otherwise would turn away from products produced in Bangladesh if they were associated with appalling working conditions. Therefore, the "Sustainability Compact", an initiative by the EU, the US, the Bangladeshi government, the ILO and trade unions was set up. It aims at improving labour rights by granting freedom of association as well as health and safety at work by inspecting the factories for their safety. The ILO plays a key role in this process by advising the government on labour laws by improving building and fire safety in ready-made garment factories and by monitoring of the effective implementation of the new legislation.

*And what role can trade agreements play to stimulate this process?*

11. The case of Bangladesh illustrates not only the power of consumers, but also the political leverage of trading partners as the EU is a key market for Bangladesh. How a country shapes its trading relations through a trade agreement - be it a unilateral trade preference, a bilateral, pluri- or multilateral agreement - has the potential to impact on its social and economic conditions. The need to comply with ILO core labour standards, a binding chapter on labour rights with a dispute settlement mechanism, an advisory role for the ILO to implement the core labour standards, technical assistance to build-up capacity to monitor the implementation of labour standards and health and safety at work are just a few concrete areas, which can impact positively on living conditions and which should be part of trade agreements. For the benefit of the people, governments should not shy away from using these elements adapted to the characteristics of the countries, which shape their trading relations through a trade agreement. The GSP+ scheme of the EU- which makes certain unilateral trade preferences conditional on good governance and compliance with international labour conventions - is a clear example of such a responsible trade policy.

*Can boosting trade also be beneficial for environment, in which we are living in?*

Ladies and Gentlemen,

12. I tried to outline under which conditions trade can be an enabler for improving the social and economic situation of people's lives. But how can it also impact positively on the environment, in which we are living?

13. Let me start by addressing another common myth about trade, namely that stimulating trade contributes to climate change due to the increase in greenhouse gas emissions from transport associated with trade. Globally, it is estimated that transportation accounts only for about 15% of greenhouse gas emissions<sup>4</sup>. Research, even by academics with a very critical view of the impact of trade on sustainable development, indicates that the increase of greenhouse gas emissions due to an increase in trade flows of goods is marginal compared to overall greenhouse gas emissions, in general<sup>5</sup>. On the contrary, trade can help to reduce emissions as it leads to increases in productivity due to technology transfer and other factors outlined above, where input in terms of energy and other commodities needed is the lowest.

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<sup>4</sup> [http://ec.europa.eu/clima/policies/transport/index\\_en.htm](http://ec.europa.eu/clima/policies/transport/index_en.htm)

<sup>5</sup> See for a more in-depth analysis of this topic, for instance, "The truth about trade - the Real Impact of Liberalization" by Clive George.

14. The recent 'Green Goods Initiative' launched in July 2014 by the EU and 13 other members of the WTO shows that trade policy can also be an enabler for better environmental conditions. This initiative aims at removing barriers to trade and investment in 'green' goods, services and technologies. It covers products, services and technologies that contribute to green growth, environmental protection, climate action and sustainable development by helping clean the air and water, helping manage waste, being energy efficient, controlling air pollution, helping generate renewable energies such as solar, wind, or hydroelectric.

15. By giving trade preferences to environmental goods, we make these technologies more competitive and reduce their costs. This will, in the end, also contribute to improving our living conditions as cleaner air and water as well as slowing the pace of climate change (and, thereby, extreme weather events) will be for the benefit of everybody.

*What could be done to enhance the potential of trade as an enabler for better living conditions?*

16. I would like to conclude by drawing a couple of conclusions and make some recommendations as to what trade policy-makers, namely the WTO and governments, could do to enhance the potential of trade to enable better living conditions.

17. First of all, not all workers and sectors will benefit from this growth per se as trade entails a process of "creative destruction" to use the terms of Schumpeter. Flanking measures are needed, in order to ensure that this growth generated is inclusive. Access to education and development of infrastructure in their broadest sense are key in this respect. Therefore, trade policy-makers must cooperate closer with the authorities responsible for regional development as well as with the decision-makers engineering social policies.

18. Secondly, trade can improve social conditions. In order to improve working conditions, consumers and trade unions should be empowered and companies investing in new markets should cooperate with their suppliers to also transfer social knowledge in terms of labour relations and health and safety at work. Initiatives such as the "Better working" programme of the ILO as well as recognised labels for fair trade can enhance the positive impact of trade on social standards. These labels can increase awareness of consumers and empower them further.

19. Thirdly, core labour standards as well as trade-related human rights should be part of trade agreements. Clearly, the ILO can play an important role in this process and should be involved in the monitoring of trade agreements. The WTO as well as governments should reflect further on how to associate the work of ILO more closely those of trade-policy makers.

20. Fourthly, trade policy should be used as a tool for increasing competitiveness of environmental beneficial products. In this respect, the aim should be not only to multilateralise the "Green Goods Initiative", but also to consider, whether bilateral or unilateral trade agreements could provide premium preferences for environmental goods. Furthermore, the "Green Goods Initiative" should not be limited to addressing tariffs, but should also tackle non-tariff barriers for such goods and be extended environmental-friendly services with the aim of providing them a competitive advantage and promote their rapid expansion on a global scale. This should be coordinated with TiSA negotiations, which address in particular "energy services".

21. I would like to finish by stating that at 20 one should have ambitions and dreams and the willingness to realise them! I have tried to outline to you some of them for the WTO on the occasion of its 20<sup>th</sup> birthday.