

# ***The Impact of Labor Standards on International Trade: A Chinese Perspective***

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**Abstract:** This paper first compiles some of the representative literature exploring the relationship between labor standards and international trade, and explores the different attitudes of developed and developing countries on the linkage between labor standards and international trade, and on this basis, analyzes the impact of labor standards on international trade based on China's perspective. The paper argues that labor standards, which are predominantly promoted by Western countries with a focus on workers' rights, have a dual nature and exert various effects on the development of international trade. It is not desirable for Chinese enterprises to take a passive attitude of resistance in the face of challenges. Only by implementing social responsibility management into all levels of the enterprise organization structure, transforming the certification pressure into competitive power, and changing the one-sided view of foreign countries on China's labor standards can we win a favorable position in the fierce international competition and a greater space for the development of Chinese enterprises.

**Keywords:** Labor Standards, International Trade, Chinese Perspective

## **1. Introduction**

Labor standards are legally speaking labor rights. It generally refers to the conventions and recommendations adopted at the International Labor Conference, as well as other international agreements and well-established systems of rules. It encompasses fundamental human rights and working conditions related to the economic benefits of international trade, including employment, wages, working hours, occupational safety and health, vocational training and social security. The "labor standards" in international trade is "the WTO on the implementation of uniform, the most basic labor standards in each country", that is, on wages, working hours, labor protection, social welfare, etc. to formulate a series of international standards, so that all countries in the world must comply with the implementation of international trade, in order to make all countries in the world to implement the international trade. All countries in the world must comply with the implementation of international trade in order to achieve "fair competition".

In international trade, labor standards are a sensitive and controversial issue that cannot be circumvented. With the advancement of economic globalization, the contradictions and conflicts of economic interests among countries are becoming more and more prominent, and the impact of labor standards on international trade has aroused widespread concern in the international arena. Tang Feng

and Tan Jingrong argue that labor standards serve as an indirect trade cost and act as barriers to international trade [1]. Under the assumption that trading partner countries produce homogeneous products, if exporting countries implement stricter labor standards, the cost of production (mainly the cost of labor) will go up in the short term. As a result, the exporting country, particularly low-labor-cost developing countries that have a comparative advantage in labor costs, may weaken or even lose this comparative advantage, thus reducing their competitive advantage in price competition in the international market. However, the implementation of stricter labor standards can enhance the productivity of workers, leading to an increase in the quantity of products and generating positive effects that are beneficial for exports. Most of the empirical studies on the relationship between international labor standards and international trade focused on developed countries. For example, Vanbeers' study uses 1992 cross-sectional data [2], trying to reveal the impact of differences in the degree of strictness of labor standards in OECD countries on inter-country trade flows. Bonnal studies the impact of labor standards on exports using 24 years of dynamic panel data for 112 countries and finds that the higher the labor standards [3], the higher the share of exports in GDP. Samy applies the gravity model and 14 years of unbalanced panel data of 13 EU countries to analyze the impact of labor standards on bilateral trade flows [4], finding that increasing labor standards by either importing or exporting countries leads to an increase in trade flows between them. As for researches focused on developing countries, Mah takes 45 developing countries that are not members of OECD and regresses their export share of GDP on labor standards and finds that export is negatively correlated with the right to freedom of association and strongly negatively correlated with the prohibition of occupational discrimination [5]. Chen Jiang takes Anhui province for example to make empirical analysis and draws a conclusion that there is a positive correlation between total foreign trade and labor standards [6]. Regarding the impact of labor standards on China's international trade and China's countermeasures, Liu Wen and Yang Fuping argue that China should pay close attention to and actively respond to the progress of labor standards in international trade agreements [7], strengthen cooperation with developing countries and the International Labor Organization (ILO), improve its voice in the field of international labor standards on the basis of perfecting and improving the domestic labor legislation and enforcement mechanisms, explore the formation of a Chinese model for the incorporation of labor standards into trade agreements, and promoting the establishment of labor standards representing the interests of developing countries in the Regional Comprehensive Economic Partnership (RCEP). Ma Jiaying and Ma Jiaxin suggest that China should increase its assessment of the role of labor standards in the international trade perspective [8]; China should further expand substantive negotiations on labor standards with its trading partners in free trade agreements to better safeguard its future economic and trade interests. Tian Yuan points out that although China's accession to the CPTPP still faces big challenges in the process of negotiating labor standards [9], in the long run, benchmarking the CPTPP labor standards is conducive to China's high-quality foreign investment and cooperation, and it is necessary to make a good plan and actively respond to it by deepening research, implementing structured policies, carrying out early and pilot tests, and perfecting domestic rules.

Based on these existing researches, this paper tries to explore the impact of labor standards on China's international trade.

## **2. Whether Labor Standards Should be Linked to International Trade**

Differences in the impact of labor standards on the international trade of different countries are reflected in the attitudes of them towards linking labor standards to national trade. Among them, the attitudes of developing and developed countries are polarized. Since China has the characteristics of both developed and developing countries in international trade, it is necessary to study both aspects.

## 2.1. Perspectives of Developed Countries

Developed countries strongly advocate the linkage between labor standards and international trade, and they often sanction "social dumping" of commodities from developing countries on the grounds of deviation from their labor standards. The rationale is based on the following:

Firstly, the excessively low labor standards of developing countries are the main cause of the lower production costs of their products, thus constituting unfair competition to developed countries, so that the relevant domestic industries in developed countries have lost their original advantages and international competitiveness.

Secondly, the excessively low labor standards of developing countries are the cause of the unemployment of industrial workers in developed countries. On the one hand, the relevant industries in developed countries have been hit, reducing domestic employment opportunities. On the other hand, capital from developed countries has been exported to developing countries in large quantities due to the attraction of low wage costs, which is tantamount to giving up their employment opportunities to developing countries easily.

Thirdly, the excessively low labor standards in developing countries pose a threat to the standard of living in developed countries. As a result of the two effects mentioned above, there is a tendency for "low standards to drive out high standards", i.e., the wage levels of workers in developed countries will converge with those of low-income developing countries, which will lead to a decline in the standard of living in developed countries.

Fourthly, developing countries do have human rights shortcomings. Such as the massive use of child labor and prisoners, discrimination against women and ethnic minorities, circumvention of labor legislation, weak collective bargaining capacity of workers, and the authoritarian system of political rule, etc., which are all serious violations of human rights.

Fifthly, it is convenient for developed countries to utilize the WTO Dispute Settlement Body (DSB) for the purpose of defending their own interests. As we know, developed countries control the formulation of WTO rules to a certain extent, and they are good at using the DSB to solve international trade disputes, while the implementation of international labor standards is mainly through the sense of cooperation of members to achieve common interests, lacking the necessary physical operation mechanism and mandatory constraint mechanism. Therefore, once the international labor standards are included in the WTO framework, developed countries can logically use the DSB mechanism to restrain developing countries.

## 2.2. Perspectives of Developing Countries

Developing countries are strongly opposed to linking labor standards and international trade on the basis of the following arguments:

Firstly, lower labor standards in developing countries are a necessity at their particular stage of historical development. Developing countries, due to the low economic level, the relative "surplus" population, the expected low labor remuneration, in terms of unit wages, has the advantage of low labor costs is very natural, this is a kind of human resources cost comparative advantage of the objective.

Secondly, low labor costs in developing countries on the impact of the relevant industries in developed countries is limited. On the one hand, relative to the overall economic scale of developed countries, this impact is insignificant. On the other hand, low wage costs in developing countries are often concentrated in labor-intensive industries, and the export of their products is only directed at a very small number of manufacturing industries and unskilled labor industries in developed countries, so the impact on the relevant industries in developed countries is limited.

Thirdly, the harmonious development of international society is the ultimate goal pursued by the whole human society. Developed countries link labor standards to international trade on the grounds of respecting human rights, and promote global labor standards to improve the human rights situation in developing countries, which does have its rationality on the surface. However, respect for human rights in developing countries must be based on their objective historical development, and respect for their unique human rights situation means respect for their most basic human rights, the right to life and the right to development. As far as human rights are concerned, in a certain sense, the WTO system itself can be said to have an expansionist and aggressive character, while the international human rights system is characterized by defensiveness and can only exceptionally restrict the freedom of trade. When there is a contradiction between the two value objectives, both international and domestic labor standards must establish the concept of economic development giving way to free trade as appropriate. Only when developing countries develop economically can their human rights situation be fundamentally improved and the international community develop in true harmony. Therefore, developed countries should help developing countries to develop their economies, rather than resorting to protectionism disguised as barriers to trade.

### **3. The Impact of International Labor Standards on China's International Trade**

#### **3.1. The Short-Term Impact**

In the short term, enterprises in China that violate international labor standards are unlikely to quickly adjust their competitive advantages and development direction; therefore, the impact of international labor standards on China's foreign trade in the short term is mainly negative.

First of all, it becomes a new trade barrier for China's export industry. China is a big country with labor cost advantage, no matter in politics or economy, China's influence in the international market is increasing, many traditional ways of trade barriers can no longer be used against them, the abolition of trade quotas and licensing system makes many countries worry about the market of labor-intensive industry products a large number of influx of Chinese products, but also worry that this will affect their economic interests, and even political stability. Therefore, they must find new trade barriers to inhibit China's development and foreign trade in order to protect their own interests. When they find that some Chinese enterprises are in violation of international labor standards, they make a big fuss about it and make waves, using international labor standards as a trump card to restrict the exports of Chinese enterprises and affect their ability to export. Some countries have accused Chinese enterprises of violating international labor standards in the production process, for example, low wages for workers, poor working conditions provided for workers, child labor employment, and so on. These accusations can be said to be increasing and becoming more serious. The negative impact of international labor standards on China's foreign trade cannot be ignored.

Secondly, it is easy for foreign trade enterprises to blindly rely on international labor standards. The development of international labor standards since the rise of the 1990s has involved some well-known international companies such as Adidas, Nike, KFC, and McDonald's, who have declared that their enterprises comply with international labor standards. The implementation of international labor standards also automatically leads consumers to buy products that have been certified, and this trend also easily creates a dependence on international labor standards by Chinese export enterprises, who will blindly pursue to be certified by international labor standards. In the certification process, most enterprises are difficult to meet the requirements of international labor standards, and some of them have to spend a high price to implement black-box operation, which not only increases the cost of the enterprise, but also contributes to the bad atmosphere, but also does not enable the enterprise to get substantial improvements in internal labor standards. This is not conducive to the healthy

development of China's foreign trade enterprises, and damage to the image of China's foreign trade enterprises, the formation of a vicious circle, China's foreign trade adversely affected.

Additionally, it increases the production cost of labor-intensive products. Obviously, the increase in labor standards on China's foreign trade is the most direct impact on the substantial increase in product costs. Specific items that increase the production cost of products are: wage standards, overtime wages, increase the number of workers, vacation pay, labor safety protection facilities and protective equipment input, labor sanitation facilities input, professional training fees for labor safety, health inspection fees, social insurance premiums, welfare inputs, trade union dues, and other inputs, certification fees and maintenance fees. As a developing country, most of China's export products are labor-intensive, and labor cost is an important comparative advantage for China. And it is mainly labor-intensive industries that are subject to international labor standards. Therefore, the implementation of international labor standards is restricted mainly to labor-intensive industries, and the implementation of international labor standards will certainly put some Chinese enterprises under greater pressure.

Furthermore, the implementation of international labor standards in China will increase the cost of enterprises, and in order to keep the national industry from being blamed and attacked, appropriate measures must be taken to improve the image and competitiveness of enterprises, such as improving the working environment and raising the wages of workers. However, this will increase their costs, and small and medium-sized enterprises, as well as some enterprises that cannot adapt due to lack of internal capacity in the short term, will withdraw from the international market. Chinese foreign trade enterprises are now facing accusations in the international market from developed countries with mature implementation of international labor standards. It has also been proved that in the short term, Chinese foreign trade enterprises will be negatively affected by international labor standards in the process of conducting foreign trade.

### **3.2. The Long-Term Impact**

Although in the short term, China's foreign trade enterprises cannot avoid the negative impact caused by international labor standards, and the implementation of international labor standards will make foreign trade enterprises face the challenge of increasing fees and costs, it will certainly be fully implemented in China in the coming period of time, and in the long term, the benefits outweigh the disadvantages. First, the implementation of labor standards is conducive to the construction of a harmonious society in China. Although the Chinese government has enacted a series of laws and regulations to protect labor rights and interests, and has recently stepped up enforcement to protect workers' rights and interests, the labor force remains at a relative disadvantage, and its rights are often not guaranteed. Some workers have to work for long periods of time in working conditions without basic safety and security, and their physical and psychological well-being is jeopardized, with most suffering from serious illnesses due to a lack of basic rest and treatment. Therefore, the Chinese government proposes to build a harmonious society with the aim of changing the status quo and realizing common development. If labor standards are enforced, coupled with the Chinese government's further implementation of laws and regulations to protect workers, these private enterprises will be forced to change their minds and develop a sense of long-term development, begin to slowly focus on the rights of workers, improve the working environment and living conditions of workers, and gradually realize the harmonious development of the society and enterprises. Second, the implementation of labor standards is conducive to improving the long-term competitiveness of Chinese enterprises in the international market. Strengthening the implementation of labor standards will help improve Chinese enterprises' understanding of the macro-environment and micro-behavior, and guide them to participate in global strategic decision-making, combining corporate goals with social responsibility, short-term interests and long-term development. For a long time, China's

dominant export products have been labor-intensive, mainly in the apparel, footwear, toys, hardware, furniture, chemical materials and textile industries, which are also closely related to labor standards. The implementation of labor standards will certainly enable enterprises to care about and pay attention to the issue of labor standards, and it will also enable more enterprises to take active and effective measures to improve the wage structure of workers and their working environment and living conditions, and to protect their basic rights. This will further strengthen the international credibility of Chinese enterprises in order to gain recognition from foreign enterprises, enabling workers and enterprises to develop together while ensuring the rights and interests of workers, and ultimately enabling Chinese export enterprises to improve their market competitiveness in the international market.

#### **4. Analysis of Strategies for Coping with International Labor Standards**

At present, the discrepancy between China's legislation on labor standards and the status quo is obvious. Although there are factors of trade protection, with economic development and social progress, from the perspective of the scientific concept of development, workers' welfare standards should be improved. From the WTO development trend, the issue of labor standards is very likely to become a new round of multilateral trade negotiations to discuss the issue of international trade and labor standards linked to the trend will inevitably become. Therefore, China should conduct an in-depth study of international labor standards and take various countermeasures as early as possible to prevent the abuse of labor standards by trade partners for trade protection purposes, so as to occupy a more proactive and favorable position in future trade negotiations. At the same time, it should proactively implement internationally recognized labor standards to enhance the international competitiveness of Chinese products. At the government level, the government should make efforts to improve labor regulations, enhance labor welfare and industrial restructuring.

Firstly, improve relevant labor regulations and social security system. Focus on the implementation of the Labor Law to effectively protect the legitimate rights and interests of workers, and improve the re-employment of laid-off workers while deepening the reform of the economic system. The social security system will be further improved to protect the basic livelihood of workers and, where possible, improve their living conditions. Social security standards should also be raised gradually to ensure social progress and harmonious development. Management of occupational health and labor safety will be strengthened and the living conditions of working families will be improved. Meanwhile, effective measures have been actively taken to help enterprises develop a sense of crisis and encourage them to take initiatives to improve labor standards. The State must conduct regular spot checks based on existing labor standards and provide channels for workers to reflect on the situation in order to protect labor rights.

Secondly, the pace of economic restructuring should be accelerated to promote the conversion of domestic industries. Nowadays, relying on the traditional comparative advantages of resources and labor factors to develop national economies is subject to relatively large spatial constraints. Many countries with clear advantages in this area have not seen much improvement in their economies, but some countries with less resources and labor compared to others are playing an important role in the global economy, such as Japan, Germany and Singapore. Therefore, it is necessary to adhere to the principles and safeguard our own interests, focusing on economy, technology and management in order to promote the upgrading of Chinese industries.

In addition, participate in the dialogue and cooperation of the International Labor Organization. In the face of the accusations of developed countries, China's government should take a balanced approach. On the one hand, it must not ignore the existence of this problem and try to work out practical measures to solve it; on the other hand, the government must not completely rely on or accept the provisions of international labor standards. China's labor market, like other markets, also

faces the competitive mechanism of survival of the fittest, which predetermines that the wages and working conditions of China's labor force will not be very good, and this is a process that requires long-term development and continuous improvement of accumulation.

Finally, actively participate in the formulation of international labor rules. China should actively participate in discussions on trade and labor standards, join hands with developing countries and actively propose some exceptions and exemptions in favour of developing countries, so as to ensure the interests of Chinese enterprises and achieve a balance between low-cost labour and international labour standards. At the enterprise level, enterprises should improve enterprise management while gradually raising workers' welfare benefits. Chinese foreign trade enterprises must recognize the objective existence and importance of international labor standards, and enterprises cannot avoid being affected by international labor standards on China's foreign trade. It is necessary to improve the production environment and working conditions, raise the treatment of workers, and gradually approach international labor standards. Since the international political and economic environment may change, enterprises have to change their target markets as well as marketing mix strategies in due time and play the role of enterprise chambers of commerce and industry associations. At present, China's business chambers of commerce and industry associations do not have enough influence on China's international trade. Enterprises generally only consider the interests and losses of their own enterprises, rather than considering their own interests comprehensively from a holistic perspective, which has led to business associations and industry associations existing in name only. However, some countries' business chambers and trade associations play a big role, especially in developed countries. In the anti-dumping allegations against China, the role played by business chambers and trade associations in developed countries cannot be ignored. Therefore, with regard to the issue of labor standards raised by developed countries, in addition to the talks and consultations between the Chinese government and the importing countries concerned, it is also necessary to promote the business chambers of commerce and industry associations to take the initiative to establish contact with the importing countries concerned to implement the core conventions of the international labor standards of nongovernmental organizations, to enhance mutual understanding, and to minimize the impact of these conventions on China's exports. Enterprises should take science and technology and quality as their core competitiveness. Foreign trade enterprises should pay attention to grasping the technological content and quality dynamics of their products, adjusting their quality strategies in a timely manner, and accelerating the transformation of export commodities into deep-processed manufactured products. Relying on scientific and technological progress, accelerate the transformation of scientific and technological achievements and the introduction of technology to improve the scientific and technological content of commodities and value-added, and fundamentally change the way of relying mainly on quantitative growth of exports. Relying on quantitative growth alone has a limited contribution to enterprise profits, and it is important to raise the level of technology and improve labor standards to improve enterprise competitiveness as a whole, and to fundamentally break through the social barriers that other countries have set up for China's exporting foreign trade enterprises.

## 5. Conclusion

As China continues integrating into the international industrial division of labor, it is necessary to consider the impact of international labor standards on China's foreign trade. Due to China's low labor costs, it exports a large number of labor-intensive products. This paper argues that the implementation of international labor standards will increase the cost of China's exports and reduce international competitiveness in the short term, but in the long term, it will promote the participation of enterprises in global strategic decision-making, combining corporate goals with social responsibility, short-term interests and long-term development. Based on this, this paper puts forward suggestions such as

improving relevant labor laws and regulations, and participating in the dialogue of the International Labor Organization (ILO).

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