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## Article

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### European integration and labour market cooperation: a comparative regional perspective

Daniel P. Gitterman\*, *University of North Carolina, USA*

**Summary** National economies around the world are becoming increasingly integrated. While regional integration offers opportunities for mutual gain, it also fosters distributional consequences, thus creating economic and political risks for governments. Governments pursue different strategies for coping with risk. The first strategy is protectionism. A second strategy is to link economic openness with the provision of domestic compensation. A final strategy is for nations to develop mechanisms to coordinate rules, norms, or principles to govern working conditions and industrial relations. The political conflict between nations at different stages of economic development, and the regional responses in the EU, NAFTA, MERCOSUR, and ASEAN all follow a similar pattern, with the more advanced economies pressing for some harmonization that would moderate the competitive advantages of developing countries. Given this cleavage, various compromises have been struck, which confirmed national policy control but also amounted to an incremental convergence toward common minimum standards.

**Key words** comparative labour policy, labour cooperation, labour markets, regional integration, social dimension

**Résumé** L'intégration régionale offre l'opportunité d'engranger des profits mutuels, elle a également d'autres conséquences distributive comme celle de créer pour les gouvernements des risques politiques et économiques. Pour y faire face, les gouvernements développent différentes stratégies. La première stratégie est le protectionisme. Une deuxième stratégie consiste à associer l'ouverture de l'économie et des dispositions de manière à assurer une compensation au niveau national. Une dernière stratégie est de développer des mécanismes pour assurer la coordination des lois ou des principes gouvernant les conditions de travail et les relations industrielles. Le conflit politique entre des nations arrivées à des stades de développement économique différents, et les réponses régionales comme l'UE, ALENA, MERCOSUR et l'ASEAN, suit un modèle similaire. Les économies plus avancées font pression pour atteindre une certaine harmonisation de manière à limiter les avantages compétitifs des pays en développement. Etant donné ce clivage, divers compromis ont été établis; ceux-ci confirment la maîtrise de la politique nationale mais aussi mènent à une convergence progressive vers un minimum de normes.

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### Introduction

National economies around the world are becoming increasingly integrated. Emerging regional economic agreements take a variety

of forms: most promote trade and mobility of capital, and some promote the mobility of labour across national boundaries. The integration process is bringing nations and societies with different rules and norms that

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govern labour markets into closer and more frequent contact with one another. The regulation of labour markets has been traditionally a sovereign domestic matter, determined by voters, domestic interest groups, and national governments, without regard for its effect on labour markets and standards in other nations. However, policies and events originating in one nation are increasingly seen to have distributional effects on the welfare of citizens and an impact on levels of social and labour protections in other nations (Gitterman 2000).

Trade is thought to increase economic efficiency by allowing nations to specialize in the production of those goods for which they have a comparative advantage and to benefit from any economies of scale in production that may result from having a larger market for their goods. But allocative efficiency is not the only motivation for deeper integration: governments' other objectives include achieving distributional goals as well as responding to potential distributional consequences (Mattli, 1999). While integration offers opportunities for mutual aggregate gains from trade, it also fosters distributional consequences, thus creating economic risks for citizens and electoral and political risks for governments. The economic risks and dislocations associated with greater capital or economic liberalization and openness tend to affect less-skilled workers and owners of specific assets, especially those tied to labour-intensive, exposed sectors.

Governments pursue different strategies for coping with economic and electoral risks. One can expect the demands of groups facing the risks of economic openness and the supply of political solutions to vary. The first and most obvious strategy is protectionism. A second strategy is to link greater economic openness with the provision of domestic compensation or social insurance. For example, many advanced economies have policies to facilitate labour market adjustment and to partially compensate workers who are displaced from their jobs. Developing countries, however, may remain protectionist because they lack the

resources for internal transfer programs. A third strategy is for nations within a regional economic area to harmonize minimum labour standards and/or develop other formal and informal mechanisms to coordinate rules, norms, or principles that govern working conditions and industrial relations. A final and often associated strategy is for advanced members to provide financial and technical assistance or other transitional subsidies to developing members in an effort to help them improve their labour standards and to increase their compliance with existing standards. A large literature focuses on the first two solutions, often to the neglect of the latter two important strategies.

Ultimately, economic integration poses new political and policy challenges related to efficiency and equity trade-offs, and to what individual nations and regional groups determine to be desirable levels of both social and labour market protection. Faced with a domestic policy choice of either protecting comparative advantage or harmonizing regional labour standards, nations within regional areas are developing a strategic combination of both. While there is significant scholarship on how institutions and policies can be constructed to compensate the losers from integration, there has been little examination of labour market cooperation and variation in regional responses. Careful regional case studies on the politics of economic, social safety net, and labour market reforms still remain in short supply.

This article represents an effort to shift the discussion of globalization and labour markets away from the aggregate and the global to more specific regional processes of integration and labour market cooperation. A distinctive aspect of the emerging global economic order is the creation or consolidation of regionalist economic arrangements. In existing accounts, globalization and regionalization tend to be either simply conflated or seen as sharply antagonistic. However, the invocation of regionalization need not imply globalization and the invocation of globalization need not

imply regionalization (Hay, 2000). The phenomenon of regional integration is defined as voluntarily linking the economic and political domains of two or more formerly independent nations to the extent that authority over key areas of policy is shifted toward the supranational or regional level (Mattli, 1999).

Regional arrangements take a variety of forms and vary radically in scope, depth, and governance mechanisms as well as in the collective political commitment to reduce regional imbalances and enhance socioeconomic integration (Higgot, 1998; Lawrence, 1996). Although most integration schemes aim at liberalization of trade in goods and services, they differ significantly in reliance on sectoral exceptions, degree of coordination of trade policy, degree to which they harmonize domestic policies, and how much they liberalize capital and labour movements and cede national sovereignty to regional or supranational governing bodies. Yet this market process does not take place in a vacuum; it requires policy cooperation and coordination. For my purposes here, I explore why nations cooperate on labour standards and account for variation in its nature and form.

The labour market and the employment relationship involve much more than the exchange of a worker's labour for payment in the form of a wage. Governments, through collective bargaining or statutory legislation, establish labour standards that characterize different things in varying national and/or regional contexts. For example, labour market protections in the European Union (EU) are defined as restrictions on the ability of economic agents to enter and exit formal, contractual employment relationships. Labour and employment law in the North American context regulates freedom of association and protection of the right to organize, to bargain collectively, and to strike; prohibition of forced labour; protection for children and young persons and migrant workers; and minimum employment standards. For comparison across regions, labour standards are defined broadly to include 'rules and norms

that govern working conditions and industrial relations' (OECD, 1996).

The EU represents the important comparative case, as its regional integration and institution building are clearly the most advanced. In North America, a Free Trade Agreement (CAFTA) between the United States and Canada was signed in 1989, and it grew into the North American Free Trade Agreement (NAFTA) when Mexico joined in 1994. In the 1990s, several integration projects were started in Latin America, the most notable being Mercado Comun del Sur (MERCOSUR), comprising Argentina, Brazil, Paraguay, and Uruguay. In Asia, the most well-known regional grouping is the Association of Southeast Asian Nations (ASEAN), formed in 1967. Their arrangements vary significantly in terms of the present or planned level of integration, the nature of institutionalization and preexisting institutional capacity, and the magnitude of disparities in real wages and labour costs between more advanced and developing countries within the common economic area.

This article further probes the relationship among external economic shocks, social stability and economic insecurity, and regional cooperation on labour markets. After a brief literature review, I explain why all nations within a regional area have an economic incentive to retain their comparative advantage, and why governments also have political incentives to respond to the distributional implications of greater openness. Then I compare the EU with the other major regional cases and explain how and why groups of nations respond in different and similar ways. In the end, it appears that some convergence toward common regional minimum standards and principles is necessary for deeper integration to be politically sustainable among national integrating economies at very different stages of development.

### A review: the impact of 'globalization' on social and labour market protections

In a recent *JESP* special issue on Europe in a comparative global context (*JESP* 10:2, 2000), the thematic focus was on the impact of 'globalization' on social protections, specifically on national systems within four world regions in which social security dumping, defined as the extent to which transfers and services in social protection schemes are reduced or restructured by shifting the burden of financing, could be expected. The special issue is an example of a growing comparative social policy literature that examines the impact of globalization on welfare states, focusing on the decisions or non-decisions of governments in response to external pressures (Alber and Standing, 2000). Economic integration also generates external pressures on domestic labour protections through a process of labour cost dumping, defined here as a 'real or perceived' outcome disadvantageous to national standards, resulting from the operation of a single market or free trade zone encompassing wide variation in labour costs and/or regulations.

A growing comparative literature largely focuses on the relationship between economic openness and welfare compensation. The surge of scholarly interest has sparked a debate about whether openness spurs, constrains, or has little to do with welfare state compensation (Garrett and Mitchell, 2001; Iversen and Cusack, 2001; Rieger and Leibfried, 1998; Swank, 2002). The empirical literature generally concludes that distinctive institutional architecture and cultural configurations serve to channel, filter, and mediate common challenges in highly specific ways, often reinforcing the distinctiveness of national responses (Alber and Standing, 2000; Hay, 2000; Rieger and Leibfried, 1998). Swank (2002) concludes that the rise in international capital mobility has not, as many claim, systematically contributed to that retrenchment. Nor has globalization directly reduced

the revenue-raising capacities of the nation state.

A compensation hypothesis links globalization and development of social policies, concluding that there is a compromise between openness and domestic compensation that cushions market dislocations and that may actually strengthen the ability of governments to adjust to changing market conditions (Garrett, 1998; Rieger and Leibfried, 1998; Rodrik, 1997; Swank, 2001). Even though the aggregate gains of trade will outweigh the sum of the individual losses, reliable mechanisms of compensation are strategically important for domestic stability as exposure to international (and regional) trade expands (Rogowski, 1989). Bates et al. (1991) report that the greater the social insurance program mounted by a nation, the less likely the government is to block free trade. Civil societies demand and are likely to receive an expanded government role as the price for larger doses of external economic risk (Rodrik, 1998).

Burgoon (2001) confirms that greater openness poses economic risks that inspire demands for welfare policies as compensation, and argues that demands from vulnerable groups and responses from producers vary across different parts of the welfare state. Different forms of integration should yield distributional consequences, and the varying effects of trade between developing and developed countries should, in turn, result in different kinds and forms of compensation. For example, in the United States, vulnerable labour groups and their politician allies have focused compensation demands on Trade Adjustment Assistance (TAA) (Burgoon, 2001). These programs provide direct relief in the form of either active labour market policies (job training, relocation assistance) or passive labour market policies (unemployment insurance). A debate currently rages in the public policy literature over compensation, between those who advocate passive labour market policy and those who support the expansion of policies that promote labour mobility or enhance human capital and skills.

The debate is not only about efficient policy design but it is also about politics, and how collective responses to potential distributive issues vary across regions with integrating national economies.

The focus of most of the literature is on globalization's impact on the welfare state – those public expenditures that draw upon domestic general revenue sources such as income or consumption taxes or other specific sources that come disproportionately from investors and producers, such as payroll taxes (to the degree that they are not passed on to employees and consumers through lower wages and higher prices). However, by maintaining this focus, we risk neglecting the impact of integration on the choice of labour standards and the nature and form of regional labour market cooperation. Comparative political and policy analytical attention to the relationship between economic openness and labour protections is critical because labour costs are such a big part of trade and comparative advantage.

There has been a significant effort among economists to explore one aspect of the distributive problem: the effects of international integration on domestic wages in more advanced economies. The literature focuses on the employment and wages of less-skilled workers in advanced economies – whether they have been (or will be) determined by the global supply of less-skilled labour rather than by domestic labour markets (Freeman, 1995; Wood, 1995). One view is that deeper integration does put pressure on wages and employment in labour-intensive industries in advanced economies. Another view rejects the notion that trade in one sector can determine labour outcomes in an entire economy, and others suggest that the deleterious effects of trade on demand for less-skilled workers are modest enough to be offset through redistribution funded by the gains from trade (Freeman, 1995). Underpinning the analysis is a widespread view that unskilled workers are falling behind their more highly educated colleagues in terms of earnings and job security

(Kapstein, 2000). Deeper integration 'is exposing a fault line between groups who have the skills and mobility to flourish in global markets and those who either don't have these advantages or perceive the expansion of unregulated markets as inimical to social stability' (Rodrik, 1997).

Rodrik (1996) argues that much of the economics literature has focused on identifying the magnitude of the downward shift in the demand curve for low-skilled labour rather than on its greater elasticity. Deeper integration of nations with high and low labour costs can be thought of as an enlargement of the effective labour supply. In an economy that is more open to trade and investment, the demand for labour will be generally more elastic: employers (and consumers) can substitute foreign workers by investing abroad or by importing products made abroad (Rodrik, 1996). More importantly, Rodrik (1996) suggests that increased trade and foreign investment makes it more difficult for workers to force other groups, employers in particular, to share in the costs, and concludes that the adverse impact of globalization on unskilled workers will eventually generate political effects in the form of greater protectionism or even more severe social disruption.

Freeman (1994) argues that while there are significant differences in real wages and labour costs between developed and developing countries, it is not conceptually or empirically clear that higher labour standards means higher labour costs. In fact, labour cost dumping need not occur, as any nation that prefers higher standards can purchase them for itself, regardless of other countries, by currency devaluation, a direct downward adjustment in wages, or an increase in taxes (Freeman, 1994). However, Rhodes (1998) warns about the impossibility of competitive devaluation within the context of a single European currency and suggests a common currency is likely to (further) encourage competitive deregulation and what he terms 'social devaluation': the reduction of wage costs by a reduction in the level of social charges or

social cover for employees. In addition, theoretically, redistributive or technical assistance mechanisms can help developing countries increase compliance, as they may not have the resources to meet higher standards.

There is also a significant literature on the impact of globalization on labour standards (Lee, 1997). Much of it is an empirical test of a 'race to the bottom' hypothesis, which predicts that in the absence of cooperation, countries will have to lower their own labour standards to be more attractive to foreign investment or to gain a competitive advantage. Notwithstanding the viability of this logic in political conflict, there is little empirical evidence to support it. The major conclusion from EU specific studies is that integration has led to neither a race to the bottom nor a race to the top (Adnett, 1993, 1995; Andersen et al., 2000; Erickson and Kuruvilla, 1994; Kluth, 1998; Krueger, 2000; Lange, 1992; Mosley, 1990; Rhodes, 1992, 1993; Ross, 1995). A number of recent studies, as reviewed by the Organization of Economic Cooperation and Development (OECD), also suggest there are both opportunities in and constraints on the outcome of a race to the bottom (OECD, 2000).

#### *Towards a theory of cooperation on labour markets*

Governments within regional economic areas are faced with conflicting economic and political incentives related to greater economic openness and labour markets. Theoretically, the simple Heckscher-Ohlin model predicts that expansion of trade will reflect specialization based on factor endowments. The simple theory of comparative advantage claims that nations can profit from differences in endowments of technology, capital, skilled labour, unskilled labour, and other inputs. As barriers to trade are removed and competition intensifies, nations will seek to improve their competitiveness, which depends upon relative unit labour costs of producing a unit of output

compared to those borne by competitors. Accordingly, the mobility of capital is assumed to allow capital-labour ratios to equalize across nations, and thus to result in equality of marginal productivities of capital and labour (Ehrenberg, 1994).

If governments respond, at least in part, to economic efficiency requirements, we should observe them protecting their comparative advantage and reacting individually to changes in their respective economic environments. There is limited economic incentive for more advanced and less-developed economies to harmonize regional labour standards: this artificially raises labour costs and reduces the comparative advantage of nations with relatively large supplies of unskilled labour, thus reducing the benefits of free trade for all countries (Ehrenberg, 1994). Many economists predict that nations at different levels of income will choose different standards, depending on such factors as endowments, income growth, and culture or values. The more different nations are, the more they stand to gain from trading with one another. Each country will have an incentive to choose the 'right' level of labour standards, given its preferences and level of development. With greater economic growth and development, labour standards in all developing countries will rise in due time.

Economists who study regional integration look primarily at market relationships among goods and factors of production within a region, often assuming away the relevance of institutional and political forces (Mattli, 1999). If we accept the assumption that governments only respond to the criteria of economic efficiency, theories of optimal governance would predict no cooperation on labour markets. Political scientists, in contrast, focus more on the political incentives and choices, and the rules, regulations, and policies that govern regional economic areas. The important question is political incentives to cooperate, and the degree to which nations preserve national heterogeneity. A small literature suggests that governments cooperate to resolve

domestic political dilemmas and that domestic politics create incentives to propose international (and regional) rules (Goldstein, 1996; Oatley and Nabors, 1998; Richards, 1999). Governments are motivated to maximize the economic gains from trade and to minimize the political risks.

Recent literature on the political economy of trade contends that harmonization of standards can be explained by rent-seeking protectionist demands of labour groups (or import-competing firms) in advanced economies which seek to prevent competition from developing countries based on comparative advantage (Bhagwati, 1994; Hansson, 1983; Srinivasan, 1996). Brown et al. (1996) suggest that a nation's position in international or regional trade, as either a net exporter or net importer of those goods most affected by labour standards, will determine its preferences for high or low standards. According to Aho and Bayard (1984), using a political economy of trade logic, certain interest groups have sufficient political power to block or delay socially beneficial changes unless they are generously compensated or otherwise assisted. By requiring competitors to improve or harmonize domestic labour standards, these pressure groups, according to rent-seeking logic, strategically and successfully increase prices of goods produced by labour-intensive technologies in developed economies by increasing the cost of labour.

While much of the benefit from integration accrues to society as a whole in the form of lower prices for consumers, the losses fall heavily on particular groups and industries from certain geographic areas. Developed economies relatively abundant in capital and high-skilled labour, and scarce in unskilled and semi-skilled labour, tend to import products intensive in the use of unskilled and semi-skilled labour, and they tend to export those intensive in capital and skilled labour (Burgoon, 2001). As Rogowski (1989) notes, whereas the political losers have incentives to impede or reverse change, the beneficiaries of changing trade exposure have incentives to

maintain or accelerate change. As Midford (1993) warns, a three-factor model is often confounded by the complex division of labour found in more developed countries. When an economy becomes more complex, the division of labour becomes finer and large aggregate groups such as labour, land, and capital lose much of their meaning. Thus, labour cannot be conceived as homogenous, and changing exposure to trade will affect the position of some types of labour differently than others.

In policy areas where economic gains and distributional conflicts are high, we should expect governments to have conflicting incentives and motivations. However, not all regional political and/or institutional outcomes can be explained by rent-seeking theories based only on the wasteful influence or pervasive success of domestic labour groups. The demand side is just one side of the story. Domestic political and regional institutional conditions mediate the connections between economic openness and cooperation on labour markets. Governments must be willing to accommodate demands, and supply particular outcomes. This article assumes that demand-side influences are filtered through domestic politics, and national preferences are aggregated within the decision-making rules of existing regional agreements. The regional responses to real or perceived labour cost dumping vary across the cases, depending on the national preferences of the member states or trading partners; the formal institutional and decision rules for aggregating national preferences; and the collective action problem of joint decision making among many governments. While deeper integration has produced new domestic pressures to harmonize labour standards, the regional responses have varied from only establishing *minimum* rules (EU), norms, or core principles (MERCOSUR), or a floor under competition to improve enforcement of domestic standards (NAFTA) and sharing of information (ASEAN), while still protecting comparative advantage and perpetuating national regulatory diversity.

*The European Union and a 'social dimension'*

European integration has proceeded the furthest and has been reinforced by the creation of the Single European Market and the European Monetary Union (Andersen et al., 2000). Labour, capital, goods, and services flow freely across borders, and most countries share a common currency. The EU possesses characteristics of a supranational entity, including bureaucratic competence, overriding judicial control, and significant capacity to develop or modify member state law. If a country fails to incorporate an EU directive into domestic law, individuals can seek enforcement through the European Court of Justice (ECJ). The European Commission monitors the performance of members and may initiate enforcement proceedings. Any harmonization of policy or transfer of decision-making authority is the result of a dynamic interaction among domestic groups, EU-wide associations, member states, and Community institutions within the parameters of existing regional decision rules. The preferences of members in the Council of Ministers and the European Council are influenced by the demands of domestic groups, EU-wide associations, the European Trade Union Confederation (ETUC), and the Union of Industrial and Employers' Confederations of Europe (UNICE). Governments have had to balance which domestic groups to accommodate and which to resist over time. Currently, a majority of EU countries have center-left governments.

Over time, negative integration – policies eliminating restraints on trade and distortions of competition – has not been challenged, as all members signed the treaties, all national parliaments ratified them, and all agreed to create a common market. Positive integration – policies that shape the conditions under which markets operate (i.e. the 'social dimension') – has been more difficult, as it depends on member agreement in the Council of Ministers and thus is subject to all the con-

straints of intergovernmental collective action problems (Scharpf, 1997). While the EU's social dimension has been characterized as all policies that provide rights, opportunities, benefits, or protections to actual, potential, or former participants in the labour market, the focus here is solely on EU directives aimed at improving labour standards and workers' rights (Lange, 1992; Cram 1993).

During the years prior to the 1957 Treaty of Rome, there was political concern about the distributive dimension of a newly integrated economic area. The six original members (Belgium, France, Germany, Italy, Luxembourg, the Netherlands) had achieved similar levels of economic development, and the consensus was that only minimal harmonization was required for a customs union (Teague and Grahl, 1990). Under the 1957 Treaty, members committed themselves only to economic and social cohesion: to raise living standards and improve employment conditions in member states. The labour market provisions focused on mobility (Articles 48, 52, and 59), training (Article 128), and equal opportunity for men and women (Article 119). The Treaty also created a European Social Fund (Articles 123–128) to make the employment of workers easier, increasing their geographical and occupational mobility within the EC (Teague and Grahl, 1989). Article 118 promoted only 'close cooperation' in matters relating to employment, labour law, and working conditions, vocational training, social security, occupational health and safety, and the right of association and collective bargaining (Lodge, 1990). Decision rules required the Council of Ministers to act unanimously before any social dimension proposal could be approved.

The EU has agreed to promote free mobility of labour ever since its inception. Over time, members have unanimously agreed to harmonize rules relating to labour mobility through directives and resolutions that allow citizens to move between nations, to maintain residency in other nations after employment, to be eligible for all social insurance programs in

other nations, and to receive recognition of professional qualifications across nations (Ehrenberg, 1994). Since July 1986, citizens have been entitled to employment in other nations on equal terms and conditions with residents. The citizens of Spain and Portugal, admitted to the EC in 1986, fully received these rights in 1993.

With Denmark, Ireland, and the UK joining the EC in 1973, Greece in 1981, and Spain and Portugal in 1986, there was again intensified concern that members with higher labour protection would confront greater heterogeneity in standards and costs from less-advanced economies. Deeper integration thus generated political pressures from within nations with higher labour protections for the creation of a 'social' dimension. At the 1972 Paris Summit, members committed themselves to a social agreement, and launched a 1974 Social Action Programme with three goals: full and better employment, improved working and living conditions, and greater participation of workers in EC decisions (Teague and Grahl, 1989). During the 1970s and early 1980s, members agreed to set approximate standards only for equal pay and other specific labour protections such as gender discrimination in working conditions; advance notification of mass layoffs; a guaranteed payment of wages and other employee claims in the event of firm insolvency. In the 1980s, the Council did not approve Commission-proposed directives, as proponent members were constrained by the preferences of the least ambitious member in a minimum winning coalition (i.e. the UK), often resulting in a lowest-common-denominator outcome (Addison, 1991, 1994).

Historically, collective regional decisions have been made on the basis of unanimity voting. Britain manipulated the decision rules, particularly the unanimity rule, to impose its preferences and block efforts toward any harmonization. Since its admission, the UK has had an uneasy relationship with other members due to its preference for deregulating labour markets (Hargreaves, 1997). Over time, unanimous decision rules were modified

slightly by Article 118a of the 1986 Single European Act (SEA), which allowed for qualified majority voting (QMV requires a minimum of 54 of the 76 weighted votes cast by representatives in the Council) only for directives related to 'the working environment as regards the health and safety of workers'. In negotiations leading up the SEA, members agreed in Article 100a to extend QMV for measures that have 'as their object the establishment and functioning of the internal market'. However, this was conditional on Article 100a(2), where the members insisted that the rights and interests of employed people were still a matter for unanimous voting only (Bercusson and Van Dijk, 1995). There has been agreement among members to harmonize worker health and safety standards, as these regulations are generally concerned with 'goods' rather than 'people' – 'product' rather than 'labour' market regulations (Ross, 1995).

The UK and employer groups viewed harmonization of health and safety rules as important for securing the single market, and regarded comparable regulatory costs as essential to level the playing field for competition among EU firms. The British originally agreed to QMV, believing their 'existing system of worker health and safety standards to be higher than those of other members' (Friedholm, 1999). On the other labour market issues, the UK, domestic employers, and EU-level employer groups demanded a strict interpretation of Treaty law; the Commission, backed by a majority of the members, and domestic and EU-level labour groups sought ways to gain a more expansive interpretation (Rhodes, 1995). The EU crafted hybrid directives, combining labour market directives with what were strictly health and safety protections, in order to exert regional authority under Article 118a.

By the early 1990s, members with 'higher' standards – Belgium, Denmark, France, and Germany – pushed for greater harmonization, because the incongruity of labour protections and the increased wage and non-wage costs of

heterogeneity would expose their national systems as a competitive cost liability, leading to labour cost dumping. Members with 'lower' labour standards – Portugal, Greece, Ireland, and Spain – would be predictable losers, as regional harmonization would raise their existing standards but would not reflect national production cost structures (Lange, 1993). Spain's socialist government supported harmonization, though the country was similar to the other 'lower' standard nations in socioeconomic terms. The UK and Portugal, supported by UNICE and domestic employer groups, opposed harmonization, as it would prevent or delay the adjustment process necessary before national economic performance could begin to improve (Rhodes, 1991). The UK, with periodic support from some of the less-developed members, pushed for greater labour market flexibility. To preempt action, in conjunction with Italy and Ireland, it launched the Action Programme for Employment Growth, proposing a redirection of regional cooperation toward greater labour market flexibility (Rhodes, 1991).

To address political demands from members with higher standards, Jacques Delors, beginning during the 1987 Belgian presidency, pushed for regional cooperation on minimum norms or conventions. The EC would influence national collective bargaining and labour market protections without explicit harmonization (Teague and Grahl, 1989). This represented regional convergence in goals rather than harmonization of standards (Teague and Grahl, 1989). With the 1989 EC Charter of Fundamental Social Rights (Social Charter), the subsequent Action Programme, and their consolidation in the 1991 Social Protocol of the Maastricht Treaty, members agreed to cooperate on minimum standards only in specific labour market areas (Baldry, 1994). While it guaranteed 'rights' to freedom of expression and collective bargaining, the Action Programme ruled out any harmonization in this area, as members believed control rested with them, in accordance with their 'national traditions and policies'.

Prior to the Protocol, a majority pressed to adopt EU directives from the Action Programme, and Britain opposed decision rule changes that would subject directives to QMV (Lange, 1992). Directives on part-time work, organization of working time, content of employment contracts and proof of their existence, information and consultation with workers with EC-scale companies, and protection for pregnant women and new mothers were blocked. Due to opposition from Ireland and Portugal, the Action Programme also failed to establish a minimum pay directive, proposing only an opinion (Bazen and Benhayoun, 1992). In the end, 11 members (Britain opted out) signed the Declaration of Principles, which guaranteed 12 fundamental social rights. They agreed, in accordance with national rules and practices, to guarantee the rights in the Social Charter and implement the necessary measures to accomplish this (Teague and Grahl, 1992). The 1991 Protocol specified issues on which the 11 could avoid British vetoes by allowing QMV only in specific labour market areas (Van Wezel Stone, 1995). Since the Social Protocol retained the provisions of the Treaty of Rome and the SEA, all members could still cooperate, but with majority voting limited to only the harmonization of health and safety rules. Most importantly, members retained control over industrial relations and collective employee rights: the right to pay, the right to association, and the right to strike or impose lockouts.

By signing the Protocol, Portugal, Greece, Ireland, and Spain made themselves potentially vulnerable to regional standards that could be adverse to their national competitiveness (Lange, 1993). Thus, the EU decided to provide compensation to them in the form of structural funds to offset costly new steps toward deeper integration. These side payments were offered to lessen political opposition in these 'lower'-standard nations and to allow them to adjust to the short-term costs of new regional standards. They provided short-term cover to governments who saw integration as important to their long-term economic

growth and preferable to exclusion (Lange, 1993). Delors won over these nations with promises of more structural funding, and in the case of Spain, with direct solidarity appeals to the socialist government (Moravcsik, 1998).

After 18 years of British veto threats, the newly empowered Labour Party signaled a preference to join the 1991 Protocol. Before assuming control in 1997, the Blair government led the way in negotiating the 1997 Amsterdam Treaty, but warned that Britain would oppose any labour market harmonization that would place excessive burdens on British firms (Rice-Oxley, 1997). The Amsterdam Treaty, signed in 1997 and entered into force in 1999, was an agreement among all members to accept majority voting on issues beyond worker health and safety rules (McGlynn, 1998). Following the example of the 1961 European Social Charter and the 1989 EC Charter of Fundamental Social Rights, the Treaty referred to promotion of employment, improved living and working conditions, proper social protection, dialogue between management and labour, the development of human resources with a view to lasting high employment, and combating exclusion. The Amsterdam Treaty added equality between men and women to the list of Community objectives (Article 2 of the EC Treaty), and a new Article 141 of the Treaty lends greater support to equal treatment of men and women and to equal opportunities, whereas the former Article 119 was confined to issues of equal pay for equal work.

However, unanimous voting among all members was still required for collective regional decisions on many issues, and the rights to association, strike, and lockouts were specifically excluded (EC, 1999). The following were also excluded: social security and social protection of workers; protection of workers whose employment contract is terminated; representation and collective defense of the interests of workers and employers, including codetermination; conditions of employment for non-EU country

nationals legally residing in Community territory; and financial contributions for promotion of employment and job creation. A central feature of the 1991 Protocol, which became applicable to all EU countries as a result of the UK signing the Amsterdam Treaty, is that EU trade unions and employer associations can propose directives. Thus, the EU's reforms empowered these social partners; shifting authority and decision rules at the very moment the Council of Ministers was adopting QMV. With the social partners playing a greater role in regional decisions, the new approach involves the introduction of a framework agreement that is intended to advance minimum standards but requires parallel implementation in each of the nations. Under the Treaty, members also agreed at the 1997 Luxembourg 'Jobs summit' to promote a new series of priorities at Community level, intended to promote employment and improved living and working conditions (European Commission, 1999). Benchmarking plays a key role, as members highlight best labour market performances and aim to identify, evaluate, and disseminate good practices in the field of employment and labour market policy (Commission of the European Communities, 2001c,e). Guidelines would be translated in National Action Plans for Employment (NAPs) by members, then analyzed by the Commission and the Council, whose results would help reshape the guidelines and provide country-specific recommendations on employment policies.

As the Treaty of Amsterdam qualifies fundamental social rights as only 'guidelines' for activities, there was increasing pressure from higher standard members for the region to adopt a European Union Charter of Fundamental Rights, which they did at the 2000 Nice European Council meeting (European Commission, 2001b,d). While France preferred to establish fundamental social and economic rights, Britain viewed the Charter only as a 'statement of policy' and opposed incorporating it within the Treaty, which would make it binding. While preferring to endorse rather

than veto, Britain negotiated amendments to prevent any new economic or social rights that would undermine British labour laws, impose new costs on firms, or lessen its competitive advantages (*Financial Times*, 2000; Black, 2000). Britain opposed language on a worker's right to strike and a requirement that employers consult with employees at all levels about matters that concern them. The right to strike remains in national law and practices, which was of particular concern to the Confederation of British Industry (*Financial Times*, 2000). Currently, the Charter represents regional principles rather than binding rights, and it remains to be decided whether and how it should be integrated into the treaties (Commission of the European Communities, 2000).

In sum, the EU does not harmonize regional worker protections and industrial relations, but members do cooperate on minimum and enforceable rules and norms in specific labour market areas from which national departures are acceptable, thereby preserving national autonomy and labour market diversity. Members retain control over implementation, which can include collective bargaining agreements as well as statutory or administrative regulation, to allow flexibility. Many members have thus been able to limit the overall impact of regional rules on domestic standards. Thus, in reality, a significant gap continues to exist between regional standards and their actual implementation in domestic law.

#### *NAFTA and the Agreement on Labour Cooperation*

NAFTA, ratified in 1993, implements free trade between two highly developed economies (the United States and Canada) and one developing economy (Mexico) within 15 years, with no provision for labour mobility. NAFTA was negotiated in two installments: the commercial negotiations (June 1991 to August 1992) and then the supplemental negotiations (February to August 1993). The

agreement contains only one formal clause on regulatory standards, discouraging trading partners from reducing environmental or health and safety rules to attract investment; however, the North American Agreement on Labour Cooperation (NAALC), also ratified in 1993 as part of NAFTA, represents the first labour side-agreement directly linked to a trade treaty. Unlike EU members, who commit to minimum regional standards in specific labour market areas enforceable under a treaty, sovereign trading partners in North America cooperate only to improve oversight and enforcement of domestic labour and employment standards, and to participate in a dispute resolution process as a supplemental part of the agreement.

The US preference for a labour side-agreement emerged in an effort to respond to domestic political pressures. The centrist Clinton administration, with incentives to capture the aggregate economic gains from free trade, also had a political incentive to respond to demands of key constituencies such as labour (as well as environmental and consumer) groups. Thus, the United States pushed for three supplemental accords to NAFTA on labour, the environment, and import surges. Organized labour (AFL-CIO, UAW) preferred regional labour regulations to deal with potential labour cost dumping – collective bargaining (i.e. free association) and health and safety, child labour, and minimum wage rules – with enforcement through domestic courts and if needed, through a regional commission. Business groups (Business Roundtable, Chamber of Commerce, National Association of Manufacturers, and US Council on International Business) preferred only a 'consultative' commission on labour rights and opposed any delegation of investigative and enforcement authority, particularly the power to issue trade sanctions. Organized labour did not capture the regional outcome, as the rent-seeking theories would predict, and the three nations did not harmonize regional standards.

Mexico refused to renegotiate NAFTA, but

fearing its overall defeat in the US Congress, agreed to negotiate a labour side-agreement. Mexico opposed any labour agreement that would erode the benefits of trade and undermine its specific comparative advantage. Its preference was for the three nations to maintain control over their labour standards, so the regional commission would have no authority to issue trade sanctions (Mayer, 1998). Mexican labour groups resisted any change that threatened their monopoly of labour movement representation, and Mexico had incentives to maintain its corporatist system of labour relations (Cameron and Tomlin, 2000). It pushed for a compensation mechanism – a North American Development Fund – to aid with potential adjustments (similar to European structural funds), but the United States opposed any redistributive mechanism (Cameron and Tomlin, 2000). The United States favored a commission with authority to issue sanctions; Mexico preferred no transfer of authority or weak enforcement; and Canada supported a commission for oversight but insisted that it remain under national control. Both Canada and Mexico rejected trade sanctions, supporting monetary sanctions only as a final punitive measure. The United States proposed that complaints go to national administrative offices (NAOs) within each nation rather than to a regional commission. Each partner would decide whether complaints had sufficient merit to require trilateral consultation or dispute resolution (Mayer, 1998).

In a balance of business and labour demands, the United States proposed that each trading partner commit only to enforcing its existing domestic labour standards. Mexico held firm on partner consultation only on health and safety rules, while the United States and Canada preferred consultation on labour relations, a minimum wage, and child labour. Mexico accepted a US proposal that fines of up to \$20 million could be imposed for failure to enforce labour and employment rules, and trade sanctions could be issued only if a trading partner failed to pay the monetary

fine. Thus, Mexico could claim that trade sanctions would never be imposed for an enforcement violation while the United States could signal to domestic labour groups that the side-agreement included trade sanctions for nonenforcement. The US preference was that minimum wage, child labour, and labour relations be subject to the same enforcement mechanisms as health and safety standards. Mexico preferred fine and sanction authority only for enforcement of health and safety rules; disputes over minimum wage and child labour standards would be referred to an Evaluation Committee of Experts (ECE) for recommendations. Ultimately, Mexico agreed to subject child labour and minimum wage standards to the same dispute resolution process as health and safety rules, and to link its minimum wage to national productivity increases. The United States acceded to Mexico's preference that labour relations be exempt from any dispute resolution process.

The trading partners created a regional body, the Commission for Labour Cooperation (CLC), to promote enforcement of each nation's labour and employment laws (Garvey, 1997). Through the NAALC, the partners would cooperate on seven broad labour market objectives, including improving working conditions and living standards and promoting 11 labour principles to protect, enhance, and enforce workers' basic rights. They agreed to six obligations that define 'effective' enforcement and hold them all accountable through the mechanisms of consultation, evaluation, and dispute resolution. The obligations are nonvoluntary (i.e. the governments cannot choose the areas of law to which they will apply) and enforceable by sanctions in only three specific labour market areas (child labour, health and safety, and minimum wage) (NAALC, 2002). Each partner retained full control to establish or modify its domestic statutory labour and employment standards. Other areas of labour market cooperation would be limited only to consultation and information sharing (Compa, 1993; Pomeroy, 1996).

In sum, NAFTA's sovereign trading partners can lower their labour standards by legislative action because, in contrast to the EU, they did not agree to harmonize and enforce regional standards in specific areas of labour market protection. They agreed to solve labour disputes only through informal coordination and deal with regional conflict through dialogue and consultation, initially at the NAO and later at the ministerial level. Due to divergent national preferences, the labour and employment issues that may be raised at subsequent levels of review are limited in scope and exclude the first three labour principles (freedom of association and protection of the right to organize, the right to bargain collectively, and the right to strike) so as not to interfere with national policy autonomy and comparative advantage and, more important, to prevent free trade opponents from using the process for protectionist purposes. Thus, the trading partners protected comparative advantage and perpetuated national regulatory diversity, agreeing only to better enforce their existing domestic labour and employment standards.

#### *MERCOSUR and the Social-Labour Declaration*

MERCOSUR is the third-largest trading bloc in the world after the EU and NAFTA. MERCOSUR represents the coming together of two projects: one political, defined by the democratic commitment of the participating members, and the other economic, aimed at liberalization and commercial openness among regional members and within the global economy. This association was founded in 1991 with the signature of the Treaty of Asunción by Brazil, Argentina, Uruguay, and Paraguay. MERCOSUR envisioned that a free trade area for labour, services, goods, and capital would be established by 1994, but as of 1995, the region had organized itself as an imperfect customs union in which nations had a common external tariff covering imports

from nonbloc countries, with largely tariff-free trading among themselves. The Common Market of the Southern Cone, a customs union, was established in January 1995; it comprises the four original members and two associate members (Bolivia and Chile), representing over 220 million people. Members agreed to a five-year program to perfect the customs union, standardizing trade-related rules and procedures and moving toward harmonization of economic policy. A Common Market Group (CMG), composed of four permanent members and the ministries of foreign affairs and economics and national central bankers, enacts resolutions intended for incorporation into national law as well. MERCOSUR resembles the EU in its reliance on foundational treaties and protocols for its design and objectives, and institutions and laws to attain those objectives. Decision authority resides with the individual governments rather than an EU-like Commission (Mattli, 1999).

The original treaty did not directly address labour rights issues. Brazil, the most advanced economy, and Uruguay, did advocate a Social Charter of Fundamental Rights, and trade unions from the four countries, organized as the Southern Cone Central Labour Coordination, demanded to have negotiations opened to worker organizations. The unions, grouped together in the Coordinadora de las Centrales Sindicales del MERCOSUR (Coordination of Central Unions of MERCOSUR), pushed for a binding charter to enforce compliance with core labour standards. At a 1994 meeting, a delegation of labour representatives from MERCOSUR countries submitted a document to the presidents calling on the governments to 'promote the participation of workers in MERCOSUR', keeping in mind the 'welfare of the population and social justice' (MERCOSUR, 2002). Employer groups remained resistant to any harmonization of standards. The conference's final declaration took note of the relevance of free circulation and protection of workers and coordination of the four countries' labour legislation but did not reach any conclusions on these distributional issues.

In response to further pressures from labour groups, the member nations created a tripartite 1992 MERCOSUR Working Group on Labour Relations, Employment and Security. While the 1994 Protocol of Ouro Preto established a permanent institutional structure for MERCOSUR, the member countries rejected the inclusion of a social charter after failing to come to agreement on its specific provisions. However, under the auspices of the accord, several working groups were established to address labour-related issues, and an Economic and Social Consultative Forum was created in 1994 (operational in 1996). It provided a context for NGOs, business, and labour interests to discuss issues including labour rights, but its recommendations had no binding authority on the MERCOSUR member countries, which did not have any official representation in the group.

In 1998, however, the presidents of the four MERCOSUR countries, in response to continued pressure from the labour movement, issued the Social-Labour Declaration, which led to the creation of the Social-Labour Commission. The declaration discusses core labour standards and other labour issues, including migrant workers' rights, and obliges the signatories to respect the enunciated labour standards and enforce their own labour laws. It contains no enforcement mechanism, however. The Commission comprises government, labour, and business representatives, and has the ability to make recommendations and to report on issues related to the fulfillment of the declaration. The tripartite Social-Labour Commission promotes implementation but has no sanction authority (OECD, 2000). While the Declaration does not provide for regional labour standards, members did commit to promoting principles through national legislation and practice as well as through collective agreement and conventions. The Declaration's 25 articles are grouped into three broad categories dealing with individual rights, collective rights of employers and workers (i.e. freedom of association, collective bargaining, strikes), and

procedures addressing implementation and follow-up.

At the Twenty-third Meeting of the Common Market Council of MERCOSUR in 2002, the presidents of Bolivia and Chile signed the Charter of Buenos Aires on Social Commitment in MERCOSUR, a fundamental agreement among the six countries to cooperate and to strengthen the social dimension of MERCOSUR through individual and joint efforts to combat poverty and other social ills affecting the region, with a particular focus on the most vulnerable sectors of society. Referring to the principles and rights contained in the Social-Labour Declaration of MERCOSUR, the Charter calls for immediate steps to implement its provisions, particularly those relating to the ultimate objective of eradicating poverty and all forms of discrimination. In this respect, member nations instructed the Political Consultation and Coordination Forum of MERCOSUR to monitor the guidelines and actions contained in the Charter, and called for the creation of an institutional basis for meetings of authorities responsible for social development. In sum, members at first agreed to 'respect' a minimum level of worker rights, mainly those that emerged from the 1998 ILO Declaration of Fundamental Rights, and now there is a significant recent effort to move toward more labour cooperation and to confront the social dimension of deeper integration.

#### *ASEAN and Labour cooperation*

ASEAN nations agreed in 1992 to implement a free trade area (AFTA) by 2007 (Lawrence, 1996). East Asian nations originally formed ASEAN as a political association in the 1960s, with relatively few programs designed to promote intra-ASEAN trade. With the exception of Singapore, the economies of the nations are very similar: there is no regional 'leader', little scope for mutually beneficial exchange, and only weak demand for deeper integration. By 1999, ASEAN encompassed all

ten countries of Southeast Asia by admitting Cambodia (Brunei Darussalam was admitted in 1984, Vietnam in 1995, and Laos and Myanmar in 1997). The members have been unwilling to transfer any authority to regional institutions: there are no central monitoring or third-party enforcement mechanisms (Mattli, 1999). Although all the countries are export oriented, they have small shares of their trade with one another.

Despite limited intra-ASEAN trade, members did agree to cooperate on 'labour affairs' with the 1976 Declaration of the ASEAN Concord (ASEAN, 2002). The Declaration promised cooperation in economic and social development, with particular emphasis on the promotion of social justice and on the improvement of the living standards of the people in ASEAN, and coordination was to be undertaken 'with emphasis on the well-being of the low-income group and of the rural population, through the expansion of opportunities for productive employment with fair remuneration' (ASEAN, 2002). The First ASEAN Labour Ministers' Meeting (1975) considered areas of collaboration in the fields of labour and manpower within ASEAN countries. These included periodic or regular exchange of expertise in labour administration and seminars in specialized areas, such as industrial safety, manpower training, manpower planning, and labour relations by tapping the resources of multilateral and non-governmental institutions. In a Special ASEAN Labour Ministers' Meeting (1976), the members adopted a Seven-point Programme of Action to implement the ASEAN Heads of Government mandates on the social development needs of the region in labour and human resources development. They approved the machinery and mechanism for continued ASEAN cooperation and decided to institutionalize the biennial ASEAN Labour Ministers' Meeting and elevate the Ad Hoc Committee on Labour to a Permanent Committee. ASEAN Labour Ministers met in 1977, and biannually between 1980 and 1998. There have been ongoing ASEAN

cooperative projects in the field of labour: the ASEAN Training and Information Center for Improvement of Working Conditions and Environment/ASEAN Occupational Safety and Health Network (ASEAN-OSHNET) and the Promotion of Self-employment and Development in the Informal Sector (ASEAN, 2002).

At the sixth ASEAN Summit, held in December 1998, the ASEAN leaders recognized that the region's financial crisis had a social dimension, and that the poor and vulnerable were the most affected. Between 1999 and 2001, the ministers met annually. At the twelfth ASEAN Labour Ministers' Meeting (1998), members expressed concern that the Asian economic crisis had 'adversely affected the labour and employment situation in the ASEAN region' (ASEAN, 2002). At the 1999 ASEAN Labour Ministers' Meeting, members agreed to a preparation of a Work Programme in order to share best practices in developing social protection and social security systems; promote tripartite cooperation through increased consultation between social partners and strengthen tripartite institutions and mediation/consultation mechanisms; and enhance the capacity to design active labour market policies and retraining (ASEAN, 2002). This cooperation would address the impact of globalization and trade liberalization on labour and employment, particularly by enhancing the quality of ASEAN's manpower; strengthening capacity to better manage the impact of economic downturns on labour and employment; and safeguarding the well-being of workers.

At the ASEAN+3 Summit (Brunei Darussalam, Cambodia, China, Indonesia, Japan, Korea, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam), members acknowledged, with the 1999 Joint Statement on East Asia Cooperation, the importance of 'social and human resources development for the sustained growth of East Asia by alleviating economic and social disparities within and between nations' (ASEAN, 2002). With the

rapid integration of ASEAN in the Free Trade Area (AFTA), the Investment Area (AIA), and the Framework Agreement on Services (AFA), members agreed to develop a technical assistance program for Cambodia, Laos, Myanmar, and Vietnam (CLMV) to help these nations to integrate into ASEAN. Similar to structural funds in the EU, 'technical assistance' could be interpreted as an effort to deal with regional disparities and encourage economic growth as well as social progress without resorting to any form of regional harmonization.

At the 2001 ASEAN Labour Meetings, the members, fearful that the low labour cost comparative advantage they enjoyed was being eroded by new economies, stressed the need for greater coordination on human capital issues. In response to the deepening shift from a production-based economy to a knowledge-based economy, they agreed to cooperate on challenges facing the labour force and to take strategic actions to ensure that the region's labour force remains competitive. Again at the 2002 ASEAN Labour Meetings, the members welcomed the formulation of a Work Plan to realize closer regional integration as called for by the Initiative for ASEAN Integration (IAI), including eight priority projects under the ASEAN Labour Ministers' Work Programme and the Technical Assistance Programme for the CLMV countries to facilitate a smooth integration of Cambodia, Laos, Myanmar and Vietnam into the regional labour market, in line with the 2001 Ha Noi Declaration on Narrowing the Development Gap for Closer ASEAN Integration (ASEAN, 2002). For the most part, due to the small amount of intra-regional trade, ASEAN cooperation is limited only to sharing information and coordinating 'active' labour market policy, such as human capital investment, in order to develop a productive, competent, and competitive regional workforce.

### **Conclusion: collective regional responses to labour cost dumping**

This article concludes that all nations within a common regional economic area have economic incentives to protect their comparative advantage and to reap the gains from trade, but also political motivations to respond to the real and perceived distributional concerns associated with deeper integration. The conflicts between high labour standard and low labour standard nations, and the regional responses in the EU, NAFTA, MERCOSUR, and ASEAN all follow a similar pattern, with almost all the more advanced economies pressing for some regional harmonization that would constrain developing countries to moderate their competitive advantages rooted in lower labour standards. Given this cleavage, various compromises have been struck, which basically confirmed national sovereign control of industrial relations and labour market protections but also amounted to a slow, incremental convergence toward common minimum regional labour standards and principles. There is a variety of regional labour market cooperation, ranging from formal to informal. As Hay (2000) argues, insofar as economic and political pressures and mechanisms 'select for' certain models over others, it is the processes of regional integration rather than global integration that have proved – and remain likely to prove – most significant. Regional institution building may also serve to establish a selection mechanism that may militate against certain models over others. For example, given the effective veto power of EU member states on policy details relating to aspects of the regional integration process such as labour market regulation and social policy, the upward harmonization originally predicted might have yielded to downward integration to a lowest-common-denominator level. In simple terms, the institutional capacity of individual member nations to respond to common pressures associated with economic integration is significantly affected, if

not attenuated, by the existence of regional decision rules and institutions.

Despite their similarities, the regions have responded differently to the potential effects of labour cost dumping. The EU, the most integrated area, cooperated by harmonizing regional minimum standards on specific labour market issues while allowing collective bargaining and pay determination to remain nationally specific. Within NAFTA, trading partners responded not by harmonizing regional employment and labour standards but by providing for oversight and enforcement of existing domestic standards. MERCOSUR nations agreed to promote 'core' labour principles according to national legislation and practice as well as collective agreements and conventions, and have taken further steps toward a 'social commitment', while the ASEAN nations agreed only to share information and exchange best practices, largely on human capital issues.

With divergent national preferences, underlying heterogeneities in domestic labour costs and standards, and decision rules that prevent higher standard nations from unilaterally imposing their standards on other countries, the common outcome has been compromises on minimum standards, norms, or principles or better enforcement and monitoring of existing standards. Across these regional cases, the result has been minimum uniformity on rules and principles in the context of national diversity: national political systems continue to determine the nature of labour market protections and standards. Despite increased integration, nations indeed appear to maintain distinct labour standards if 'they' are willing to bear the costs. This has become an attractive regional model for labour market cooperation because it enables governments to respond to domestic political demands without suppressing initiatives toward greater economic openness. These 'social dimensions' and 'labour agreements' enable groups of governments to maximize the benefits of greater economic openness and minimize the political risks of deeper integration.

Because of increased competition from low-wage regions, governments of many advanced economies, in particular, face many adjustments (Agell, 1999). As a consequence, many domestic labour groups and political parties fear that sooner or later their governments will have to move toward greater labour market flexibility, relax strict job security laws, abolish the minimum wage, and implement measures that restrict the influence of unions. However, because of greater uncertainty due to globalization, there is also increasing evidence that voters might be perfectly willing to pay a higher price for a given labour market or social protection. Economists and political scientists of comparative political economy and policy have long suggested that the vulnerability of an open economy provides governments with strong incentives to mitigate economic risks. Increased economic openness may actually lead to increased institutional involvement at the domestic level, thus increasing the demand for labour market as well as social protections at the very time that it increases the costs of providing them.

Differences in living standards and real wages between developed and developing nations, which provide much of the aggregate gain from integration, have generated political demands and popular backlash against potential labour cost dumping. The large discrepancies in labour standards within regional blocs can undermine the legitimacy of free trade and make it harder to maintain domestic political consensus on trade policy in advanced economies. As the real or perceived level of economic risk that workers face has risen, political demands have increased, and economic openness has actually led regions to respond with new agreements or commitments on rules and norms that govern working conditions and industrial relations. Domestic politics might allow the benefits from trade and factor mobility to be fully achieved only if nations within regions at different stages of economic development confront the distributional implications.

Cooperation on labour may be essential if governments plan to retain and gain political support for deeper regional and international economic integration.

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