

Trade and Labor Rights: A Panel Study

Brian Greenhill, Layna Mosley and Aseem Prakash

August 2008

Abstract

This paper tests the hypothesis that a “California Effect” serves to transmit superior labor standards from importing to exporting countries in a manner similar to the transmission of environmental standards. Our dependent variables measure the extent to which collective labor rights are violated, both in law and in practice. Our main independent variable, the bilateral trade context, measures the average respect for labor rights (in terms of either law or practice) among a given country’s (weighted) export destinations. The model is estimated using a panel of 90 developing countries over the period 1986-2002. We find that strong legal protections of collective labor rights in a country’s export destinations predict increases in the exporting country’s labor laws in subsequent years. This California effect finding is, however, weaker in terms of labor rights practices, highlighting the importance of distinguishing between formal legislation and actual implementation of labor rights.

Introduction

This paper examines how trade serves as a mechanism to diffuse norms and practices pertaining to collective labor rights from importing destinations to exporting countries. Drawing on the notion of the “California effect” (Vogel 1995), formulated in the context of environmental issues, we posit that trading partners’ policies can have a powerful impact on a given nation’s respect for labor rights. Indeed, we maintain that the labor practices of a nation’s trading partners, rather than a country’s overall openness to trade, is a key determinant of labor rights outcomes. What matters for labor rights is not how much a country trades but with whom.

In recent years, political scientists have paid considerable attention to the role of international economic and sociological networks in the transnational spread of a range of policies, including social security privatization (Brooks 2009; Weyland 2007); financial liberalization (Chweiroth 2007; Elkins et al 2006; Simmons and Elkins 2004); privatization of state-owned enterprises (Brune et al 2004; Meseguer 2004); and democratic governance (Simmons et al 2008). In this literature, diffusion results from a variety of causal mechanisms, including international economic competition, direct pressure from intergovernmental organizations and learning among policymakers. Our theoretical approach contributes to the broader diffusion literature by focusing on the role of global production networks (or supply chains) as the mechanism for transmitting labor practices from importing to exporting countries. Multinational corporations come under pressure from a variety of directions – such as shareholders, NGOs and consumers – to ensure ethical conduct and practices within their supply chains (Becker and Sklar 1999; Baron, 2003; Spar and La Mure 2003). For many firms, the threat of political action by activist groups in importing countries concerned about buying goods from countries with exploitative labor practices, the ensuing media scrutiny, and the possibility of consumer backlash create strong incentives to pay attention to labor issues abroad. These incentives often exist even when multinational firms employ subcontractors, rather than directly-owned production facilities. For instance, during the last decade, firms in the apparel and footwear industries have faced increasing pressure to disclose their factory locations

and to oversee workers' rights in such locations (Bartley 2005). Moreover, shareholder activism by ethically-focused investment funds as well as large institutional investors such as Calpers encourages firms to adopt codes of corporate social responsibility whose obligations extend to their overseas subsidiaries and suppliers (Bartley 2005; O'Rourke 2003). By establishing explicit corporate policies unilaterally or via their membership in voluntary labor codes, importing firms seek to ensure that their overseas subsidiaries and subcontractors respect labor rights. Furthermore, we expect that multinationals' attention to labor rights within their supply chains will spill over to local firms as well. There is ample evidence that multinational firms often bring their "best practices" to developing nations, and that because of the sizeable externalities multinationals create in host economies, these practices will be adopted throughout the economy (Garcia-Johnson 2000; Moran et al. 2005). At the country level, then, we predict that nations exporting to destinations with higher levels of labor rights will have incentives to ratchet up their labor practices. Consequently, instead of observing a race to the bottom in labor practices, we should find a "trading up" (Vogel 1995). Of course, the direction of change in labor practices (improvement or deterioration) is dependent on labor practices in major export destinations. As such, the implications of the California effect would be less sanguine if countries showing disregard for labor rights absorbed the bulk of world imports. Under such conditions, a "China Effect" instead of a California effect might rule the day. Given, though, that a significant proportion of exports from developing countries are absorbed by developed countries, and that these countries tend to have stronger labor rights protections, the existing trading context appears to create structural incentives for developing countries to improve their respect for collective labor rights.

In addition to establishing the existence of a "California effect" in an area other than environmental practices, our article contributes to the broader debate about the effect of trade on labor rights. Globalization critics assert that trade engenders a race-to-the-bottom; lower labor standards (and, by implication, lower labor costs) provide a competitive advantage to exporting countries. Hence, those nations that want to gain a competitive edge in global export markets have strong incentives to refrain from providing legal protections for workers, or to flout those protections in practice (Collinsworth et al.

1994). These critics predict that economies with high levels of trade openness and export dependence will be associated with inferior labor rights, all else being equal.

On the other hand, globalization optimists suggest that increased levels of trade will lead to positive gains in labor rights. Because trade openness is associated with economic growth and development, and because economic development can then generate political development, openness will ultimately lead to better protection of labor rights. Others would argue that because higher levels of trade are associated with greater opportunities for interaction between states, trade also can serve as a vehicle to transmit superior human rights norms generally, which can ratchet up labor practices specifically. Still others posit that, because foreign direct investors prefer locations with high levels of human capital, all else being equal, and because human capital development is strongly related to the more general protection of human rights, foreign direct investment and human rights form a virtuous circle. Developing countries with better human rights practices attract more global production activity, and nations with more global production activity are more likely to experience longer-term improvements in human rights (see Blanton and Blanton 2007). The globalization optimists therefore predict that, through a variety of mechanisms, higher levels of trade and global production will be associated with superior labor rights.

One could view this debate as simply an empirical one: all else being equal, is a country's level of trade openness associated with better labor rights, worse labor rights, or no real change in labor rights outcomes? Such a view, however, obscures an important flaw in the extant literature – namely, the incorrect causal specification of how trade might impact labor practices. By focusing on a country's aggregate level of trade openness, the existing literature tends to treat all trading relationships (importer-exporter) as the same; only the volume of trade, and not its destination, is taken to matter. But trade relationships are far from homogenous: a given exporter may well face contending pressures and signals from different importing nations. Some trade relationships may place downward pressures on labor rights, while other interchanges can motivate improved labor rights protections. It is not simply *how* integrated into the global trading system a nation is that matters, but *with which countries* it trades. Thus, a textured

analysis of trade which focuses on bilateral trading relationships is required to correctly specify how trade might affect labor rights in exporting countries. Moreover, the level of trade between pairs of countries might in itself be dependent upon existing labor practices, which is an issue we shall return to later in this article.

We therefore highlight the theoretical and empirical importance of treating “trade globalization” in the most appropriate manner. More broadly, political scientists should pay close heed to the role of trading networks in transmitting standards, norms, and practices across countries about issues which traditionally have been considered the province of domestic politics. In doing so, we join the “second image reversed” (Gourevitch 1978) scholars who emphasize the embedded nature of the state and the susceptibility of domestic politics to international influences. While domestic politics and institutions are important determinants of various labor-related practices, they do not operate in isolation from external influences, a point also emphasized in the broader diffusion literature.

In the next section, we present our theoretical argument regarding how the California effect dynamic operates in the case of labor rights. In Section Three, we present our model and introduce our empirical approach. In Section Four, we discuss the main results of our empirical analyses. In the final section, we conclude with suggestions for future research.

The California Effect in Labor Rights

The California effect refers to a process by which economic exchange facilitates an expansion in the scope and stringency of regulatory standards in exporting economies. Rather than engendering regulatory races to the bottom, production for foreign markets with superior standards generates an upwards race in standards. This effect has been particularly apparent with respect to the diffusion of vehicle emissions standards across US states (Vogel 1995).¹ Indeed, Vogel coined the term “California

¹ The ongoing controversy regarding California’s efforts to strengthen its auto emissions laws to respond to global warming, and the automobile industry’s intense opposition, further validates Vogel’s argument.

effect” to describe the way in which states with a strong environmental agenda like California (or Germany in the European context) have been able to facilitate the diffusion of these standards to other jurisdictions. Because California represents a very large share of the US market, manufacturers located outside California – either in other U.S. states or in foreign countries – have been forced to adapt their production processes in order to ensure that their products will meet California’s higher standards. In most cases, given manufacturers’ desires for economies of scale in production, these adaptations have led to improvements in the standards of not only the goods that are destined for the Californian market, but of *all* the goods manufactured by a given plant, and in some cases, across manufacturing plants focused on a given product. As a result, California has transmitted its strict environmental standards to manufacturers located outside California and seeking to tap not only the California market but the larger U.S. market as well.

A similar and closely related effect can be seen with respect to the diffusion of environmental standards within Europe. By the 1980s, Germany’s automobile industry had adapted to the strict emissions standards required for the export of their cars to the US market (specifically, the California market, which accounted for half of Germany’s total auto exports to the US).² In coalition with Germany’s very powerful environmental movement, the auto industry began to lobby vigorously for the adoption of similarly strict standards in Germany and elsewhere in the European Community. Having made the necessary changes to their own production facilities, German car manufacturers did not want to compete with imported automobiles that fell short of these (somewhat costly) standards. Moreover, given

With California constituting 20 percent of the US car market, it would make little economic (or political) sense for automobile manufactures to manufacture low emission cars for California and high emissions cars for other states. By virtue of its market size, California would be able to ratchet up automobile emission standards in the rest of the United States. This could have grave consequences for the automobile industry, which has been dependent on high emission cars and sports utility vehicles for its profitability.

² See Vogel (1995) p. 95.

the fact that Germany also represented an important import market for cars produced elsewhere in Europe, it too was able to facilitate the adoption of higher environmental standards among car manufacturers located in other European countries (Vogel 1995: Ch. 3). We can therefore see how trade ties enabled the high regulatory standards demanded by one particularly powerful market (the state of California) to be transmitted throughout the rest of the US, and, eventually, to Germany and the rest of Europe.

Scope Conditions

Vogel is careful to point out that this sort of trade-related diffusion of stricter regulatory standards is contingent upon a number of specific domestic and international conditions. Three separate factors account for the diffusion of California's stricter environmental standards throughout the US. First, the very large size of the California automobile market gives the state enormous purchasing power. It is therefore able to make demands of its suppliers that would be unimaginable for smaller, less powerful economies. Second, California's success in spreading specific environmental norms has depended to some extent on its domestic politics. California has a particularly powerful environmental lobby that has been responsible for pushing the state government to adopt high air quality standards in the first place. Another market with a different constellation of political interests and institutions might adopt lower standards, or it may not even address the issue of environmental protection. In such cases, trade-related mechanisms would not result in a ramping up of standards, and could even result in a lowering of standards.

Third, the "California effect" owes its success in part to the fact that California's vehicle emission limits represent a *product* standard, and not a *process* standard. The former refers to the physical features of a good, while the latter relates to the manner in which a good is created. Product standards are easier to monitor, either within the domestic economy or at the border. Moreover, product standards have been deemed legitimate grounds for trade protection by international institutions, such as the World Trade Organization. Product standards therefore can confer a competitive advantage on domestic manufacturers

by making it easier for states to discriminate against foreign-made goods that do not comply with the regulations (Vogel, 1995: 263). On the other hand, process standards are more difficult to assess and are deemed illegitimate by global trade institutions.

The extent to which we should expect a cross-national California effect to operate within the realm of labor rights depends upon whether these three scope conditions are satisfied. With respect to the first condition, the structure of contemporary international trade is such that, on average, countries with higher labor standards absorb the bulk of global exports, especially exports from developing countries. On average, labor laws and practices in developed nations are superior to those in developing countries, creating a clear possibility for a trade-based upgrading of standards.³ Developed nations should have, given their market power, the capacity to encourage improvements in the labor standards of their trading partners, provided they have the political will to do so.

This leads directly to the second condition, the domestic political influence of interest groups in a given issue area. A labor-related California effect requires that labor rights activists in importing states are sufficiently powerful to motivate importing firms to take notice of the practices of their subsidiaries and subcontractors. These interest groups must have the incentive to spend valuable political capital pressuring consumers or corporations to limit imports from states with poor labor practices, or at least to “name and shame” companies that overlook this important issue in their supply chain (Baron 2003; Spar and La Mure 2003). Human and labor rights activists and NGOs have an obvious interest in promoting higher labor standards abroad, but so too do other domestic interest groups (such as labor unions) that seek to protect domestic manufacturing industries from lower-cost imports. We can therefore expect to see coalitions forming around a common interest in restricting imports from countries with poor labor standards, and including diverse actors such as human rights groups, labor groups and even certain

³ The mean labor rights score of the developing countries in our dataset is 26.3 on the Mosley-Uno scale, whereas that of the developed countries is 30.7. The difference between these means is statistically significant at a 99 percent confidence level.

industry representatives.⁴ While these groups might not have the political power to push through import restrictions on goods produced using allegedly poor labor practices, if these groups have sufficient power to influence the market and consumer dynamics, importing firms will be forced to pay attention to labor practices in their supply chains.⁵

The third issue that emerges from Vogel's discussion is the distinction between product and process standards. While the California effect may have been successful in transmitting product standards (such as auto emissions technologies) from one jurisdiction to another, its ability to successfully transmit process standards faces various legal and practical obstacles. The World Trade Organization (WTO) and its predecessor, the General Agreement on Tariffs and Trade (GATT), do not in general permit discrimination against imports based on process standards, except under the particular circumstances outlined in Article XX. The provisions of Article XX permit discrimination against imports produced using prison labor, but they do not otherwise allow member states to discriminate against goods produced using processes that would be considered to violate internationally-recognized core labor rights.

Indeed, the WTO has long refused to address labor rights issues, in part because of the GATT's legal provisions against doing so, and in part because calls for labor rights considerations can serve as a veil for developed country protectionism. Moreover, such discrimination would be very difficult to implement in practice. Applying process standards in the determination of trade policy would require reliable information about production conditions in foreign jurisdictions. Collecting such information would go far beyond the laboratory testing that is used to establish compliance with product standards; indeed, an array of NGOs (including the Fair Labor Association and Social Accountability 8000)

⁴ Compare to the "Baptist-Bootlegger" coalitions described by Vogel (1995).

⁵ A domestic legacy of protecting labor rights, and of political institutions that encourage the protection of such collective rights (as in corporatist states such as Germany and Sweden), also can play a role here (see Hall and Soskice 2001; Huber and Stephens 2001; Mosley 2008).

currently attempts to monitor such conditions, but doing so has been fraught with challenges.⁶ Moreover, these conditions are likely to vary substantially even within a given jurisdiction (e.g., in apparel versus pharmaceutical factories, or in export processing zones versus rural settings).

Yet, despite the obstacles associated with process-based regulatory upgrading, recent empirical work suggests that a California effect sometimes operates in the transmission of process-based standards. Prakash and Potoski's (2006) study of the ISO 14001 environmental management standard finds that levels of ISO 14001 adoption among exporting countries is strongly associated with the levels of adoption found among their export destination countries, even when controlling for a number of domestic and international variables. Furthermore, even without direct consumer pressure, firms might be motivated to pay close attention to process standards and management practices of their supply chains given their commitment to following socially responsible policies (Garcia-Johnson 2000). This suggests that even in the absence of formal laws restricting the procurement of goods from countries with lax process standards, the desire of companies based in the importing countries to show evidence of a "clean" supply chain to their stakeholders can be sufficient to bring about the adoption of similarly high standards among their export partners. The question we explore is whether such process standard based dynamics hold in the realm of labor rights as well.

Recent anecdotal evidence highlights the plausibility of a trade-based upgrading of labor standards. A range of multinational corporations, industry associations, and labor rights activists have encouraged the development and implementation of labor codes of conduct. These codes, based in the private sector, may supplement or substitute for labor laws and labor inspections in host economies. In

⁶ The Fair Labor Association, for instance, aims to select and have its certified monitoring agencies inspect five percent of its members' production locations in any given year. Inspections tend to last for a few days, and their estimated cost is \$5,000 per factory location. Given these costs, and the total number of production facilities employed by the FLA's member companies, a more widespread monitoring process may not be feasible. (Interview with Kenan Institute Asia staff, Bangkok, July 2008).

2003, a World Bank study estimated that 1,000 such codes existed (Smith and Feldman 2003). These codes vary in scope, stringency and emphasis; some focus on health and safety issues; others focus on environmental issues; and still others emphasize payment of minimum or living wages. Many of them, however, take the core labor standards promulgated by the ILO in 1998 as a key starting point. As such, the freedom of association and right to bargain collectively, as well as the elimination of child and forced labor, are central elements. The codes also vary in their provisions for monitoring and enforcement. In recent years, though, the general trend has been toward monitoring via third-party auditors (which could be private firms such as Ernst and Young, or NGOs that work on labor rights issues); increasingly, these auditors are certified or trained by multi-stakeholder initiatives (representing industry as well as activists), such as the Fair Labor Association (Locke 2007).

An important feature of many of these codes is that they apply not only to a firm's directly-owned facilities abroad, but also to a firm's suppliers. This is particularly important in labor-intensive industries such as footwear and apparel, in which nearly all production is done via independently-owned subcontractors. For instance, Nike's list of supplier factories presently includes over 700 locations, in 47 nations, and employing approximately 700,000 workers.⁷ By contrast, Nike has less than 25,000 direct employees.

Nike's behavior vis-à-vis labor rights issues parallels that of many multinationals: in the early-to-mid 1990s, the company came under scrutiny following various allegations of worker abuses at its supplier factories. The company first denied responsibility for these problems (noting that they occurred in suppliers, not in directly-owned factories), but then moved toward engaging its critics. Nike sought to position itself as an industry leader in its attention to labor rights issues (and in corporate social responsibility more generally); its first corporate code of conduct was issued in 1992. All suppliers were required to sign this code and to post it in their factories. This code evolved over time, becoming more specific and creating greater obligations for suppliers. Beginning in 1997, suppliers were subject to various Nike-administered auditing programs, to assess compliance with the code of conduct. The firm

⁷ See <http://nikeresponsibility.com/#workers-factories/main>; accessed August 12, 2008.

also was the first in its industry to disclose its list of supplier factories (Locke 2003; Locke et al 2007). Nike also now requires that factories supplying inputs (i.e. blank T-shirts) to Nike subcontractors be located in countries on the company's list of approved production locations – approximately 50 nations. As such, Nike has attempted to apply its standards of conduct not only to its own subsidiaries, but to its subcontractors, and even to its subcontractors' suppliers.

Other firms in the industry have followed Nike's example. In 1997, for instance, Adidas announced its supplier code of conduct; a few years later, it also began to disclose a list of its supplier factories. Not surprisingly, there has been a long-running debate about the effectiveness of Nike's monitoring programs, as well as about the impact of corporate codes of conduct in general (Bartley 2005; O'Rourke 2003). But there also is evidence that, while many problems in supplier factories and exporting nations remain, Nike's efforts have sometimes produced increased respect for various individual and collective labor rights, particularly in countries where government respect for rule of law also exists (Locke et al. 2007). Similar patterns – in which US- and European-based multinationals use corporate codes of conduct to influence conditions in exporting nations – also have occurred in a variety of other industries, including carpets (where NGO Rugmark has worked with suppliers and retailers to limit child labor), soccer balls, and collegiately-licensed apparel.

In addition to changes in exporting-country behavior that are promoted by private codes of conduct, some governments of importing jurisdictions have begun to link labor rights with market access. While the formalization of such linkages, via bilateral and regional trade agreements, has been a fairly recent development, it builds on a longer-standing concern with production processes in exporting nations. In the United States, the linkage between market access and labor rights can be dated to the 1984 Generalized System of Preferences (GSP) Renewal Act. This Act, amending the Trade Act of 1974, included a labor rights clause. Developing nations' eligibility for GSP status (a non-reciprocal set of trade concessions, offered by individual developed nations to developing countries) was to be based on, among other criteria, "whether a country was taking steps to afford internationally recognized workers' rights." These rights were specified to include the freedom of association and the right to organize, as well as

individual working conditions (Compa and Vogt 2001). From 1984 to 2000, the US International Trade Commission conducted approximately 100 labor-related reviews of GSP status, involving 42 nations. During this time, thirteen countries had their GSP preferences suspended, while an additional seventeen were placed on a “temporary extension with continuing review” list. While GSP-linked trade comprises only a small percentage of U.S. trade, some maintain that such reviews and suspensions have ripple effects: they can signal to other importing-nation governments, as well as to MNCs and activists, that a given country has difficulty with labor rights (Compa and Vogt 2001).

More recently, US government attention to labor rights issues has manifested itself via the inclusion of a labor side agreement in NAFTA. In addition, the US-Jordan Free Trade Agreement (2000), the Central American Free Trade Agreement (CAFTA-DR, 2005), as well as the proposed US-Colombia Free Trade Agreement, also contain a range of explicit labor rights provisions. Perhaps most explicitly, the US-Cambodia Trade Agreement on Textiles and Apparel (1999-2004) offered Cambodia additional textile export access to the US market, in return for a guarantee that Cambodia’s national labor laws would be enforced. Oversight was conducted by ILO monitors, in conjunction with the Cambodian garment manufacturers’ association, various NGOs, and US buyers of Cambodian apparel.

Cambodia, which depended on textiles and apparel for eighty percent of its export earnings, used this agreement to attempt to create a niche as a “sweatshop-free” location (Chiu 2007). While compliance with Cambodia’s relatively stringent labor code was not absolute, studies suggest a high level of provision of collective rights as well as individual working conditions (Abrami 2003; Chiu 2007). The program enticed several U.S.-based buyers to increase their imports from Cambodia (FLA 2005). Cambodian firms that wanted to sell to US buyers realized that they had to respect workers’ rights; and Cambodian workers realized that their firms would be monitored by various external agencies. Again, then, a domestically-based preference for labor rights in the import destination (in this case, promoted by US labor unions as well as labor rights activists, and supported by Congress and the executive) led to tangible improvements in labor rights in an exporting nation.

Labor Laws and Labor Practices

In considering labor rights outcomes in exporting nations, we address two elements of workers' rights: their legal provision and their practical implementation. While recent studies tend to treat the legal and the practical elements within a single dimension (i.e. Mosley and Uno 2007; Neumayer and de Soysa 2005), we highlight the value of distinguishing the two. Indeed, in empirical terms, many countries that have strong legal protections for collective labor rights exhibit repeated violations of such rights in practice. Problems of compliance with laws are rife, particularly in nations that lack a well-established rule of law or the domestic regulatory capacity to oversee enforcement. Indeed, this domestic lack of regulatory capacity has been one justification for the development of private sector-based codes of conduct and monitoring systems (Bartley 2005). Additionally, in theoretical terms, it is important to distinguish between a government's attention to labor legislation and its practical implementation of such rules.

In terms of the California effect, the issue is whether pressures emanating from importing countries bring about changes in an exporting country's on-the-ground respect for collective labor rights, or whether they merely encourage exporting countries to legislate tougher labor laws that they either cannot or will not enforce. In other words, does the California effect extend to tangible improvements in labor rights in exporting countries, or does it simply encourage symbolic politics, where governments pass laws enshrining core labor rights, but fail to enforce them?

On the one hand, one could argue that the difficulties involved in monitoring labor rights in foreign jurisdictions make it unlikely that tougher labor standards will actually be implemented in practice. This relates to the issue of product versus process standards discussed above. The fact that labor practices constitute as process standard, as opposed to a product standard, makes monitoring compliance much more difficult. In the case of the environmental standards that form the basis of the "California effect", regulators in California can easily determine whether or not imported vehicles comply with the state's strict emissions standards. But consumers and firms located in the importing countries face information asymmetries about labor practices in exporting countries. They are therefore likely to

find it difficult to verify claims about good or bad labor practices in exporting countries. Arguably, subsidiaries and contractors located abroad, and under pressure to control labor costs, will recognize their information advantages, and therefore exploit the information asymmetry. While exporting countries might enact new laws to humor pressure groups in importing countries, they will have few incentives to actually enforce them.

On the other hand, consumers and NGOs based in the importing countries are likely to recognize their information disadvantages. Because only the exporting countries have the power to actually make improvements in their labor standards, they might demand that the firms provide evidence that they are indeed respecting labor rights. By shifting the burden of proof to exporters, labor activists could succeed in forcing the exporting firms to compensate the consumers for their information disadvantages.

Consequently, multinational subsidiaries and subcontractors in exporting nations will face pressure from actors higher up in their supply chain to demonstrate their compliance with national labor laws – and, where such laws are lacking, to offer evidence of practices that go beyond domestic legal requirements. This process has operated in several industries such as apparel, forestry, carpets, and coffee, where lead firms have required their suppliers to be certified as meeting international standards. Furthermore, ISO 14001 is a case in point whereby exporters and other firms in the supply chains are called upon to demonstrate superior environmental practices (Prakash and Potoski 2006). In the case of labor standards, the pressure from importing jurisdictions to improve labor practices falls on exporting firms as well as their governments, which are keen to encourage exports.⁸

⁸ One could argue that ethical exporters might have incentives to pressure their domestic governments and trade associations to improve labor standards. After all, poor labor practices of one apparel exporter can generate negative reputational externalities for all apparel exporters. Indeed, the proliferation of codes of conduct sponsored by trade associations is partly to minimize such reputational externalities. Moreover, respect for labor rights could provide a means for some suppliers and exporting nations to distinguish themselves in global markets. The Cambodian government, with the backing of the domestic

Nevertheless, the actual practice of manufacturers in exporting countries might be less likely to change than the formal laws and regulations governing these practices. Presumably, the governments of exporting states that come under pressure – from the ILO, importing governments, or MNCs – to improve their labor practices will seek the easier and more visible route of enacting new labor laws rather than actually changing their labor practices in a way that might impose sizeable political and economic costs. And, from the point of view of intergovernmental organizations, providing technical assistance to improve national labor legislation is much cheaper than providing assistance to ensure compliance in practice. Furthermore, the legal elements of collective labor rights are, in some ways, closer to product than to process standards: activists and MNCs need look only at the content of the legislation, rather than its implementation in supplier factories, to determine compliance. Given these dynamics, we expect the California effect to be much stronger in the context of labor laws than labor practices.

Data and Empirical Model

We model the relationship between each country's collective labor rights outcomes and those of its trading partners using country-year data for 90 developing countries over the period 1986-2002. Countries from Africa, Latin America, the Caribbean, Asia and the Middle East are included in our sample; we exclude the transition economies of Central and Eastern Europe, as well as those from the former Soviet Union. Omitted country-years from the developing regions are those for which data on one or more independent variables are not available. We focus on developing countries because they tend to have inferior levels of collective labor rights protection relative to developed countries, and because the factors affecting the development of labor practices in these countries might be different from those of the developed countries, as well as from those in the post-Communist world (see Mosley and Uno 2007).

garment manufacturers' association as well as the ILO, pursued such a strategy in the late 1990s and early 2000s, culminating in its 1999 textile trade agreement with the United States (Abrami 2003).

Throughout the 1986-2002 period, developing countries had a significantly lower average labor rights score than did the developed countries.⁹ If the race to the bottom argument holds, we can expect developed countries to begin to mimic the labor standards of developing countries, especially as economic globalization intensifies. If, however, the California effect holds, we would expect to see developing countries mimicking the labor standards of developed countries. Specifically, developing nations' labor rights outcomes should converge with those of their export partners, for better or worse.

As discussed above, our assessment of the California effect hypothesis treats separately the *de jure* and *de facto* aspects of a country's level of respect for collective labor rights. The first measure, *Labor Laws*, gives an indication of the extent to which laws have been put in place to safeguard collective labor rights. The second measure, *Labor Practices*, provides an indication of the actual number of violations of those rights observed within each country in each year. Both of these variables are derived from an aggregate measure of collective labor rights developed by Mosley and Uno (2007). Importantly, this measure captures the extent to which restrictions are placed on workers' freedom of association and collective bargaining – so-called “collective” labor rights, defined as one of the key elements of internationally-accepted core labor standards. Our measure does not attempt to measure respect for “individual” labor rights, such as minimum wages, overtime hours, working conditions and freedom from gender discrimination.

Following Kucera (2002), Mosley and Uno generated these data by conducting a detailed content analysis of reports on labor standards produced by three separate sources: 1) the US State Department's annual *Country Reports on Human Rights Practices*, 2) the International Labor Organization's Committee of Experts on the Applications of Conventions and Recommendations (CEACR) and the Committee on Freedom of Association (CFA) reports, and 3) the International Confederation of Free Trade Unions'

⁹ The estimated difference in labor rights scores on the Mosley-Uno scale between a typical developed country and a typical developing country is 4.4 units (with a 95% confidence interval ranging from 3.9 to 4.9 units).

[now part of the International Trade Union Confederation] *Annual Survey of Violations of Trade Union Rights*.

Kucera's (2002) template records thirty-seven types of violations of labor rights, in six categories: freedom of association and collective bargaining-related liberties; the right to establish and join worker and union organizations; other union activities; the right to bargain collectively; the right to strike; and rights in export processing zones. In each of these broad categories, specific violations include the absence of legal rights, limitations on legal rights, and the violations of legal rights by government agents or employers. The coding scheme assigns a weighting to each type of violation, with more serious violations (e.g. general prohibitions on unions) weighted more heavily than others (e.g. a requirement of previous authorization in order for a union to join a confederation of unions). A full list of these categories and weightings is provided in Appendix 1. Each country-year in the dataset is assigned a score of either zero (no violations) or one (one or more violations) for each of the 37 categories of labor rights violations. For their analyses, Mosley and Uno (2007) add together the scores in each of these weighted categories, deriving an aggregate measure of collective labor rights violations for each country-year. Possible scores on the aggregate labor standards indicator, then, range from zero to 76.5. In practice, however, no country exhibits violations in every category of labor rights, and maximum scores are in the mid-30s.

The separate *Labor Laws* and *Labor Practices* variables were created by disaggregating this 37-point measure into its separate law and practice components. Typical "law" components of the scale include measures such as whether or not certain industrial sectors are allowed to impose limits on the right of workers to join unions or to strike (Items 16 and 34),¹⁰ or whether workers need government approval in order to engage in collective bargaining in the first place (Item 25). On the other hand, representative "practice" components of the scale include whether acts of violence are reported to have

¹⁰ The legal elements are categories 6, 8, 13, 14, 15, 16, 18, 19, 20, 21, 22, 24, 25, 26, 29, 30, 32, 33, 34, 35 and 37.

been carried out against union leaders (Items 1 and 2), or whether some firms make employment conditional upon non-membership in a union (Item 9).¹¹ By disaggregating the overall labor rights scale in this way, our *Labor Laws* variable can take on values that range from 0 to 28.5, while the *Labor Practices* variable ranges from 0 to 27.5.¹² As with Mosley and Uno's overall measure of labor rights, each category of violations is weighted in order to account for its severity (see Appendix 1).¹³ We have reversed the scale of both the *Labor Laws* and *Labour Practices* variables so that higher values represent greater levels of respect for collective labor rights.

¹¹ Violations of labor rights in practice are found in categories 1, 2, 3, 4, 5, 7, 9, 10, 11, 12, 17, 23, 27, 28, 31, and 36. (See Appendix 1)

¹² The *Labor Laws* and *Labor Practice* variables are only weakly correlated with each other ($\rho=0.27$). Their correlation coefficients with the overall *Labor Rights* variable are 0.84 and 0.72, respectively.

¹³ Note, however, that the weightings have little effect. For instance, for the overall labor rights scores, the correlation between the weighted scores and an index of unweighted scores (where each category of violations is given a weight of "1") is .89 for the global sample of countries and .87 for developing nations.

Our key independent variables, measuring labor rights among export destinations, are weighted averages of the *Labor Laws* and *Labor Practices* found among a country's export partners. We label these variables *Bilateral Trade Context: Laws* and *Bilateral Trade Context: Practices*, respectively. These variables are constructed by taking the average *Labor Laws* or *Labor Practices* scores of each country's export destinations, and weighting these by the volume of goods exported to each of these destination countries in that particular year. Countries that export goods primarily to destinations with, for example, high scores on the *Labor Practices* variable will have high values on the *Bilateral Trade Context: Practices* variable, whereas those that send most of their exports to countries with poor labor rights performance will have lower scores on that particular variable. These variables capture the notion that it is the specific nature of a country's trade relationships, rather than its overall level of trade openness, that will provide the trade-related causal mechanism for the transmission of labor rights.

Data on export volumes at the dyadic level were obtained from the IMF's *Direction of Trade Statistics* database. The calculation of this measure can be represented as follows:

$$\mathbf{Bilateral\ Trade\ Context}_i = \sum_1^j \mathbf{Labour\ Rights}_j \times \frac{\mathbf{Exports}_{ij}}{\mathbf{Total\ Exports}_i}$$

where $\mathbf{Bilateral\ Trade\ Context}_i$ refers to the relevant bilateral trade context variable (either *Law* or *Practices*), $\mathbf{Exports}_{ij}$ represents the volume of exports sent from country i to country j , $\mathbf{Labour\ Rights}_j$ refers to the relevant labor rights score (i.e., *Labor Laws* or *Labor Practices*) for the destination country j , and $\mathbf{Total\ Exports}_i$ represents the total volume of goods exported from country i to all of its destinations. The *Bilateral Trade Context* thereby computes the weighted average labor rights score of each exporter's destination countries, where the individual weights are assigned according to the proportion of total exports sent to that country. If a California effect does indeed operate with respect to labor standards, we should expect to find a positive relationship between each exporting country's *Bilateral Trade Context* and its labor rights score in subsequent years. A sample of data illustrating typical values of *Labor Laws*

and *Bilateral Trade Context: Laws* for several of the countries included in our dataset is shown in Table 1.

[Insert Table 1 here]

In addition to our measures of *Bilateral Trade Context*, our model also controls for two potentially important indicators of overall economic integration, each of which may influence labor rights in a “race to the bottom” or “climb to the top” dynamic.¹⁴ *Total Trade* calculates each country’s total imports plus total exports as a percentage of its GDP. This provides a measure of each country’s overall dependence on trade, and it represents the most frequently used metric of openness in extant literature.¹⁵ Including this measure allows us to test directly whether it is overall trade or the trade context that is more important in the determination of a country’s labor rights outcomes.

The second measure, *FDI Inflows*, reports the amounts of new foreign direct investment received each year expressed as a percentage of the country’s GDP. Data for both of these variables were obtained from the World Bank’s *World Development Indicators*.¹⁶ While Mosley and Uno (2007) report a negative relationship between overall levels of trade and labor rights, suggesting that increased dependence on trade causes countries to lower their labor standards in order for their exports to remain

¹⁴ A table of summary statistics for all variables is provided in Appendix 2.

¹⁵ We also tried replacing *Total Trade* with a measure of each country’s total exports as a percentage of its GDP. However, this does not lead to any notable changes in the statistical significance of our key independent variable in any of the three models. Data on export dependence were obtained from the World Bank’s *World Development Indicators*.

¹⁶ Including a measure of total inward FDI stock – representing a country’s accumulated direct investment, rather than its investment in a given year – either alongside or in place of the *FDI Inflows* variable did not result in a significant change in the effect of our key independent variables, *Bilateral Trade Context: Law* and *Bilateral Trade Context: Practices*.

competitive in the global economy, Neumayer and de Soysa (2006) find the opposite. The relationship between FDI and labor rights appears to be less contested: higher levels of inward FDI appear to be associated with improvements in labor standards. Possible causal mechanisms include the transmission of better labor standards from the parent company, or the ability of investing companies to pressure the host government into improving general levels of respect for the rule of law (see Mosley and Uno, 2007: 925-926 and references therein). This measure assesses the specific effect of directly-owned foreign production (versus all production for export, by foreign- or locally-owned firms) on labor rights outcomes.

We also account for the possibility that participation in certain types of trade agreements might influence labor standards in developing countries. As discussed above, preferential Trade Agreements (PTAs) that govern trading relationships between major trading blocs like the European Union or the United States and many developing countries often contain a clause emphasizing the parties' commitment to protecting human rights and/or labor rights. Over time, the inclusion of labor-related provisions in PTAs has increased. A recent study of the impact of PTAs on countries' levels of respect for physical integrity rights found that PTAs that incorporate human rights conditions can, in fact, lead to improvements in physical integrity rights, but only when the relevant human rights clauses have the potential to be effectively enforced (Hafner-Burton 2005).

Following Hafner-Burton (2005), we construct two dummy variables that indicate whether each country belonged to a PTA that has either "hard" or "soft" human rights conditions attached. The variable *Hard PTA* is coded as '1' for each country-year in which the country belongs to at least one PTA that appears to make the trading relationship contingent upon the maintenance of a high level of respect for human rights. It is designed to indicate whether the state is subject to a set of enforceable human rights conditions. The variable *Soft PTA*, which indicates whether a state belongs to PTAs with unenforceable conditions – is coded as '1' for each year in which the country belongs to at least one PTA that makes reference to human rights in the text of the treaty, but does not appear to make the trading

relationship conditional upon a minimal human rights standard being upheld. These variables were coded based upon a content analysis of the PTA treaties available online from the World Trade Organization.¹⁷

Our models also include a number of controls for domestic-level determinants of labor standards. The *Democracy* variable reports the Polity2 democracy score for each country-year. This variable is the combined autocracy/democracy measure from the Polity IV database, which takes on values between -10 and +10, representing the most autocratic and the most democratic countries respectively. Previous studies have found democracy to be positively associated with collective labor rights (Mosley and Uno 2007; Neumayer and de Soysa 2006), as well as with improved human rights practices more generally. This is consistent with the idea that more democratic countries can better protect the bargaining rights and rights to free association that constitute collective labor rights. We also include a measure of national income to take account of the ways in which differing levels of economic development might affect labor standards. This measure, *GDP per capita*, is the log of the GDP per capita measure available from the *World Development Indicators* database.

In addition, we introduce a dummy variable to control for the presence of civil war. Human rights violations tend to increase dramatically when governments face serious security threats (Poe et al. 1999; Hafner-Burton and Tsutsui 2005; Hafner-Burton and Tsutsui 2007). Data on the occurrence of civil wars were obtained from the UCDP/PRIO Armed Conflict Database.¹⁸ The original four-point scale measuring civil war intensity has been re-coded to create a dummy variable where a value of ‘1’ indicates the presence of a civil war of an “intermediate” or higher level of intensity. Our model also includes a measure of the log of population size, which has previously been found to show a strongly and statistically significant negative relationship with human rights practices (Poe et al. 1999; Richards et al. 2001). Presumably, countries with larger populations will have a higher overall number of reported

¹⁷ The various PTA treaties were downloaded from

http://www.wto.org/english/tratop_e/region_e/region_e.htm (July-August 2007).

¹⁸ Data were obtained from <http://www.prio.no/cwp/ArmedConflict/>. August 23, 2005.

human rights violations, all else being equal. Population data were obtained from the *World Development Indicators* database.

Results

We report the results of our analyses, using OLS regression with a random effects model, in Tables 2 and 3.¹⁹ We calculate robust standard errors, clustered by country. Because changes in the labor standards of exporting countries can be expected to occur over an extended period of time, we estimate the models using a one year time lag for all independent variables. To assess the possibility of varying lag effects, we also re-estimate the models with two and three year lags between the independent and dependent variables. Our model includes a lagged dependent variable for theoretical and empirical reasons. We expect labor standards in previous years to influence labor practices in subsequent years. Further, the inclusion of lagged dependent variable mitigates the problem of serial correlation.

[Insert Table 2 about here]

Labor Laws

Table 2 reports the results for the *Labor Laws* dependent variable. These results suggest that our key independent variable, *Bilateral Trade Context: Laws*, has a positive and highly statistically significant relationship with collective labor rights in all three models. Moreover, the effect of this variable becomes almost 50% larger when the time lag between the independent and dependent variables is increased from one to three years. The positive relationship indicates that high labor standards found among a country's

¹⁹ The country fixed effects model is not reported, given the sticky nature of the population variable.

export destinations are associated with improvements in the labor laws of the exporting country in subsequent years. This provides support for the view that a California effect operates with respect to labor standards: countries that export goods to destinations with higher labor standards will, over time, come to adopt similarly high standards.

We can estimate the substantive size of this effect by comparing the predicted *Labor Laws* scores of two prototypical countries that differ only in the size of the *Bilateral Trade Context* variable. For example, when we increase the value of *Bilateral Trade Context: Laws* from its 25th percentile value of 19.75 to its 75th percentile value of 27 while holding the values of all other variables constant, the expected value of *Labor Laws* will, after a period of three years, increase by 2.1 units. Given that the *Labor Laws* variable has a standard deviation of only 5.7 units, the effect of this change in *Bilateral Trade Context* is substantively significant. The importance of the *Bilateral Trade Context* also becomes apparent in Figure 1. The upper left-hand panel provides an estimate of the extent to which changes over the observed range of values of *Bilateral Trade Context: Laws* affects the predicted *Labor Laws* score of a hypothetical country that has median values for all the covariates included in the 3-year lagged model.

[Insert Figure 1 about here]

In contrast to our results for *Bilateral Trade Context*, the estimated effects of our measures of each country's overall dependence on trade (*Total Trade*) and FDI (*FDI Inflows*) are not statistically significant at the 95% confidence level. The lower panels of Figure 1 also show that the effect of *Total Trade* on our two dependent variables is relatively small in relation to the estimated effect of the *Bilateral Trade Context* variables. The apparent inconsistency of these measures lends further weight to the argument that aggregate measures of economic globalization such as total trade and total FDI ought to be disaggregated for the purposes of assessing the impact of economic integration on labor rights.

Membership in PTAs with “hard” human rights conditions appears to be associated with higher standards of labor laws. There exists a positive and statistically significant relationship between the

dummy variable indicating whether the state belongs to one or more “hard” PTAs and *Labor Laws* in subsequent periods. (The p-values for the 1-, 2- and 3-year lagged variables are 0.030, 0.017 and 0.064, respectively). However, we do not see any statistically significant relationship between membership in PTAs with “soft” human rights conditions and *Labor Laws* in subsequent periods. These results are broadly consistent with Hafner-Burton’s (2005) study of the relationship between PTA membership and physical integrity rights.

GDP per capita appears to have a negative relationship to collective labor rights that is highly statistically significant. This result is consistent with that of Mosley and Uno (2007), suggesting that among the sample of developing countries, those that are richer – and presumably more heavily industrialized – are also the ones that are more likely to generate reports of violations of collective labor rights (but see Neumayer and deSosya 2006). The *Democracy* variable appears to have a positive relationship to *Labor Rights* in the first model, although this effect is not statistically significant after 2 and 3-year lags. The *Population* variable shows a significant negative relationship to collective labor rights, perhaps suggesting that a greater number of labor rights violations are likely to be reported in larger, more populous countries. Meanwhile, the dummy variable for the presence of a civil war suggests no statistically significant relationship to collective labor rights.

Labor Practices

When these models are estimated using *Labor Practices* as the dependent variable instead of *Labor Laws*, the effect of *Bilateral Trade Context* appears to be much weaker. The estimated effect is positive in all three models, but is only statistically significant at the 0.05 level after a 3-year lag. (The p-values for the 1-, 2- and 3-year lags are 0.188, 0.173 and 0.035 respectively). An illustration of the substantive significance of this finding is shown in the upper right-hand panel of Figure 1 above.

[Insert Table 3 about here]

The effects of the other independent variables are broadly similar, with the two most notable exceptions being the two PTA variables. Here we find no statistically significant relationship between membership in “hard” PTAs and *Labor Practices*, whereas membership in “soft” PTAs shows a negative relationship to *Labor Practices* that is statistically significant in the first model. One possible interpretation of this seemingly counter-intuitive result is that membership in PTAs with enforceable human rights conditions has no statistically discernible effect on countries’ labor rights standards, whereas membership in PTAs with unenforceable human rights conditions merely provides a convenient way for abusive regimes to give the appearance of caring about human rights. In other words, the negative relationship between *Soft PTA* membership and labor rights could be the result of a selection effect whereby states with poor human rights records are more likely to choose to bind themselves to a human rights treaty that is ultimately unenforceable (see Hathaway 2002; Hafner-Burton and Tsutsui 2005; Vreeland 2008).²⁰ Strategic and misleading signaling via such cheap talk is an interesting area of enquiry for future research.

Taken together, the results for the *Labor Laws* and *Labor Practices* models suggest that a California effect does indeed operate with respect to the transmission of labor standards. While it creates incentives for exporting states to adopt tougher labor laws immediately, these laws affect ground-level outcomes only after a lag. This is consistent with a mechanism of norm diffusion in which supply-chain pressure leads exporting governments to pass legislation improving labor rights, but it takes some time before these laws can be effectively implemented on the factory floor. The statistically significant relationship between *Bilateral Trade Context: Practices* and *Labor Practices* after a 3-year lag suggests that the pressure on exporters to demonstrate compliance with labor regulations is eventually strong enough to bring about real changes in behavior. This finding also is consistent with many multinationals’

²⁰ When the *Hard PTA* and *Soft PTA* variables are collapsed into a single dummy variable representing membership in *either* type of PTA, its relationship to *Labor Rights* appears to be negative in all three models, but only statistically significant ($p < 0.05$) in the first.

reactions to reports of labor rights violations in their facilities: they initially pressure host governments to make (legislative) changes; once it becomes evident that legislative changes are only part of the solution, firms often engage in more careful monitoring of their facilities and training of their local managers. Symbolic politics gets translated into concrete outcomes, albeit after a lag.

What is also important to consider is the relative importance of the *Bilateral Trade Context* and *Total Trade* terms. As the four panels in Figure 1 show, changes over the range of values of *Bilateral Trade Context* found among the countries in our dataset are associated with much larger changes in the *Labor Laws* or *Labor Practices* variables than the equivalent changes in *Total Trade*. This suggests that the makeup of a country's trading partners matters much more than the overall volume of trade when it comes to assessing the substantive effects of trade on labor rights.

One could argue that trade salience influences labor laws and practices in exporting countries only when the importing destinations signal exporters to do so. In other words, by its self, high trade salience will not influence labor laws and practices of a given country (as we find in our analyses). Alongside, trade dependent countries will need to be nudged by their export destinations to pay attention to labor rights and practices. If so, the model needs to include a multiplicative term to capture the possible interaction between *Bilateral Trade Context* and a country's overall dependence on exports (or total trade). In such a specification, however, we find that the interaction term is not statistically significant.²¹ This provides us additional confidence that what matters for the state of labor rights and practices of an exporting country is to whom it exports and the labor laws/practices in these destinations rather than how much it exports.

An important alternative explanation for the positive relationship between *Bilateral Trade Context* and *Labor Rights* might be that countries' levels of trade with one another are to some extent

²¹ The only exception was the 2-year lagged model for the *Labor Laws* dependent variable. In this case the interaction between *Bilateral Trade Context: Laws* and *Exports* (or *Total Trade*) was positive and significant at the 0.05 level.

conditional on existing levels of respect for labor rights. While governments might not be able to restrict imports, importing firms might simply refuse to purchase goods from countries with particularly poor labor standards, as might be likely to occur when the exporting country makes widespread use of child labor in its manufacturing facilities (as in the case of German importers of Pakistani carpets). In this case, we would expect to see a positive relationship between *Bilateral Trade Context* and *Labor Rights* because of a selection effect: countries with high labor standards would only import goods from other countries with high labor standards, and countries with poor labor standards would be able to export to countries with similarly low standards.

This possibility of reverse causality, however, does not present a serious problem for the interpretation of our results. First, in all models we find that the strength of the relationship between *Bilateral Trade Context* and *Labor Rights* grows (both in terms of substantive size and statistical significance) as the time lag between the independent and dependent variables increases. Changes in the average labor standards found among each country's export partners can therefore be seen to precede changes in the labor standards of our country of interest. Second, our models include variables to control for one of the most important institutional arrangements whereby states attempt to discriminate against importers based upon their human rights practices – namely, their involvement in PTAs with human rights conditions attached. These two considerations suggest that our observed relationship is much more likely to be driven by a process of trade-induced changes in labor standards than by some sort of selection effect.

Conclusions

Domestic policy outcomes often are susceptible to international economic influences. However, the forces of global economic integration affect labor rights in developing countries in ways that are more nuanced than the proponents or opponents of globalization tend to suggest. Our article provides quantitative evidence to show that labor standards in developing countries are influenced by the labor standards of their exporting destinations. Instead of exporters pushing down labor standards of the

importing countries as the race to the bottom literature suggests, importers can influence – positively or negatively – the collective labor laws and practices of trade partners. Trade can therefore be considered to provide a conduit for the diffusion of norms and practices regarding labor standards in much the same way that it can be thought to facilitate the diffusion of certain environmental standards.

The finding that a California effect holds with respect to collective labor rights has important theoretical and practical implications. Theoretically, it provides further support for the argument that the California effect is not restricted to regulations governing product standards, but that it can also lead to changes in process standards like those governing collective labor rights. It also suggests that in the short run, the California effect is more successful at diffusing laws from importing countries to their exporter partners than it is at changing the actual behavior of firms (or governments) in exporting countries. To a certain extent this is not surprising, given the frequently observed disconnect between formal law and actual behavior in many different realms of the social world. However, what this does suggest is that while the California effect provides an explanation for how product standards can diffuse from importing countries to exporting countries based on market forces alone, its ability to transmit process standards from one country to another also depends upon the capacity and will of governments in the exporting countries to enforce these standards. Additionally, ongoing compliance with process standards depends upon the extent to which information about the exporting countries' and firms' level of compliance with the standards can be effectively relayed back to stakeholders in the importing countries, and, of course, on the extent to which consumers and stakeholders in these countries care about overseas labor standards.

From a practical point of view, our article suggests ways in which international trading relationships can be managed in order to bring about positive change in the labor standards of an exporting country. Provided that developing countries export most of their goods to countries with higher labor standards than their own, we can expect their own labor standards to develop in a more positive direction than would otherwise occur if these countries limited their exposure to global markets. This suggests that labor rights activists ought to reconsider some of their arguments for opposing greater levels of economic integration. It is important to remember, though, that the California effect does not imply

that higher levels of trade will automatically lead to the diffusion of higher labor standards. Instead, higher levels of trade will only lead to a ratcheting-up of labor standards provided that activist groups in the major importing countries are successful in maintaining a high level of popular support for the idea of labor rights, and that manufacturers are continually held accountable for their level of compliance with labor laws.

Our analyses also suggest some potential trade-related issues that might arise in the future. First, along with examining “how much” and “with whom” issues in exploring the link between trade and labor rights, future work needs to focus on the “trade in what” issue. Arguably, firms’ incentives to adopt superior practices are contingent on their position in the international supply chain. As Gereffi and Korzeniewicz (1994) point out, buyer-driven and supplier-driven commodity chains have different logics, and arguably show different susceptibilities to activist or shareholder pressures. Multinationals selling branded and luxury products might have greater incentives to protect their brands by demonstrating superior practices. Moreover, firms in sectors that employ highly-skilled workers may have greater concerns about retaining such workers, and therefore about treating them well, than firms in labor-intensive industries, where labor cost (rather than labor quality) is a central issue. Thus, future research needs to disaggregate trade to examine the extent to which the California effect operates in different types of product categories – garments versus automobiles versus pharmaceuticals, for instance.

Second, with the global rise of China and India, which tend to have labor practices that are inferior to those in the developed countries, might a “China Effect” dominate or neutralize a California effect? After all, the power of trading relationships to transmit superior labor standards to exporting countries is contingent on the prevalence of these standards in importing countries. If China and India begin to absorb an increasing share of global exports or become increasingly involved in intermediate parts of global supply chains, the structural context of trade is likely to change. In this changed context, we might find that an average developing country faces less pressure from its trading partners to ratchet up its labor practices. On the other hand, if China and India were to improve their labor practices over the

years (at least in relation to other developing countries), we might see an increased momentum behind trade-induced improvements in labor rights.

References

- Abrami, Regina M. 2003. "Worker Rights and Global Trade: The U.S.-Cambodia Bilateral Textile Trade Agreement." *Harvard Business School Case* 703-034.
- Baron, David. 2003. "Private Politics." *Journal of Economics and Management Strategy* 12: 31-66.
- Bartley, Tim. 2005. "Corporate Accountability and the Privatization of Labor Standards: Struggles over Codes of Conduct in the Apparel Industry." *Research in Political Sociology* 12: 211-244.
- Becker, David G., and Richard L. Sklar eds. 1999. *Postimperialism and World Politics*. Westport, CT: Praeger Publishers.
- Blanton, Shannon Lindsey and Robert G. Blanton. 2007. "What Attracts Foreign Investors? An Examination of Human Rights and Foreign Direct Investment." *Journal of Politics* 69 (1): 143-155.
- Brooks, Sarah M. 2009. *Social Protection and the Market in Latin America*. Cambridge: Cambridge University Press (forthcoming).
- Brune, Nancy, Geoffrey Garrett and Bruce Kogut. 2004. "The International Monetary Fund and the Global Spread of Privatization." *IMF Staff Papers* 51(3): 195-219.
- Chiu, Catherine C. H. 2007. "Workplace Practices in Hong Kong-Invested Garment Factories in Cambodia." *Journal of Contemporary Asia* 37 (4): 431-448.
- Chweiroth, Jeffrey. 2007. Neoliberal Economists and Capital Account Liberalization in Emerging Markets. *International Organization* 61 (2): 443-463.
- Collinsworth, Terry, J., William Goold, and Pharis J. Harvey. 1994. "Labor and Free Trade." *Foreign Affairs* 77(1): 8-13.
- Compa, Lance and Jeffrey S. Vogt. 2001. "The Generalized System of Preferences: A 20-Year Review." *Comparative Law and Policy Journal* 22 (2/3): 199-238.
- Elkins, Zachary, Andrew T. Guzman and Beth A. Simmons. 2006. "Competing for Capital: The Diffusion of Bilateral Investment Treaties, 1960-2000." *International Organization* 60(4): 811-846.

- Fair Labor Association (FLA). 2005. *2005 Annual Public Report*. Washington: Fair Labor Association.
- Garcia-Johnson, Ronie. 2000. *Exporting Environmentalism: U.S. Multinational Chemical Corporations in Brazil and Mexico*. Cambridge: MIT Press.
- Gereffi, Gary and Miguel Korzeniewicz, eds. 1994. *Commodity Chains and Global Capitalism*. Westport, CT: Praeger.
- Hafner-Burton, Emilie M. 2005. "Trading Human Rights: How Preferential Trade Agreements Influence Government Repression." *International Organization* 59: 593-629.
- Hafner-Burton, Emilie M. and Kiyoteru Tsutsui. 2007. "Justice Lost! The Failure of Human Rights Law to Matter Where Needed Most." *Journal of Peace Research* 44 (4): 407-425.
- Hafner-Burton, Emilie M. and Kiyoteru Tsutsui. 2005. "Human Rights in a Globalizing World: The Paradox of Empty Promises." *American Journal of Sociology*, 110 (5): 1373-1411.
- Hall, Peter A., and David Soskice, eds. 2001. *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. New York, NY: Oxford University Press.
- Hathaway, Oona A. 2002. "Do Human Rights Treaties Make a Difference?" *The Yale Law Journal* 118 (8): 1935-2042.
- Huber, Evelyne, and John D. Stephens. 2001. *Development and Crisis of the Welfare State: Parties and Policies in Global Markets*. Chicago, IL: The University of Chicago Press.
- Kucera, David. 2002. Core Labor Standards and Foreign Direct Investment. *International Labour Review*, 141: 31-69.
- Locke, Richard M. 2003. The Promise and Perils of Globalization: The Case of Nike. In Richard Schmalenese and Thomas A. Kochan, eds. *Management: Inventing and Delivering its Future*. Cambridge: MIT Press.
- Locke, Richard M., Fei Qin and Alberto Brause. 2007. "Does Monitoring Improve Labor Standards? Lessons from Nike." *Industrial and Labor Relations Review* 61(1): 3-31.
- Meseguer, Covadonga. 2004. "What Role for Learning? The Diffusion of Privatization in Industrial and Latin American Countries." *Journal of Public Policy* 24 (3): 229-325.

- Moran, Theodore, Edward M. Graham, and Magnus Blomstrom, eds. 2005. *Does Foreign Direct Investment Promote Development?* Washington, DC: Institute for International Economics.
- Mosley, Layna. 2008. "Workers' Rights in Open Economies: Global Production and Domestic Institutions in the Developing World." *Comparative Political Studies* 41: 674-714.
- Mosley, Layna and Saika Uno. 2007. "Racing to the Bottom or Climbing to the Top? Economic Globalization and Collective Labor Rights." *Comparative Political Studies*, 40 (8): 923-948.
- Neumayer, Eric and Indra de Soysa. 2006. "Globalization and the Right to Free Association and Collective Bargaining: An Empirical Analysis." *World Development*, 34 (1): 31-49.
- O'Rourke, Dara. 2003. "Outsourcing Regulation: Analyzing Non-Governmental Systems of Labor Standards and Monitoring." *Policy Studies Journal* 31:1-29.
- Poe, Stephen C., Neal Tate and Linda Camp Keith. 1999. "Repression of the Human Right to Personal Integrity Revisited: A Global Cross-National Study Covering the Years 1976-1993." *International Studies Quarterly* 43 (2): 291-313.
- Prakash, Aseem and Matthew Potoski. 2006. "Racing to the Bottom?: Globalization, Environmental Governance, and ISO 14001." *American Journal of Political Science*, 50(2): 347-361.
- Richards, David L., Ronald D. Gelleny and David H. Sacko. 2001. "Money with a Mean Streak? Foreign Economic Penetration and Government Respect for Human Rights in Developing Countries." *International Studies Quarterly*, 45: 219-239.
- Simmons, Beth A., Frank Dobbin and Geoffrey Garrett. Eds. 2008. *The Global Diffusion of Markets and Democracy*. Cambridge: Cambridge University Press.
- Simmons, Beth A. and Zachary Elkins. 2004. "The Globalization of Liberalization: Policy Diffusion in the International Economy." *American Political Science Review* 98 (1): 171-189.
- Smith, Gare and Dan Feldman. 2003. *Company Codes of Conduct and International Standards: an Analytical Comparison, Part I of II*. Washington: World Bank Group.
- Spar, Debora and L. T. LaMure. 2003. "The Power of Activism." *California Management Review*. 45(3): 78-101.

Vogel, David. 1995. *Trading Up: Consumer and Environmental Regulation in a Global Economy*.

Cambridge, MA: Harvard University Press.

Vreeland, James Raymond. 2008. "Political Institutions and Human Rights: Why Dictatorships enter into the United Nations Convention Against Torture." *International Organization* 62 (1): 65-101.

Weyland, Kurt. 2007. *Bounded Rationality and Policy Diffusion: Social Sector Reform in Latin America*.

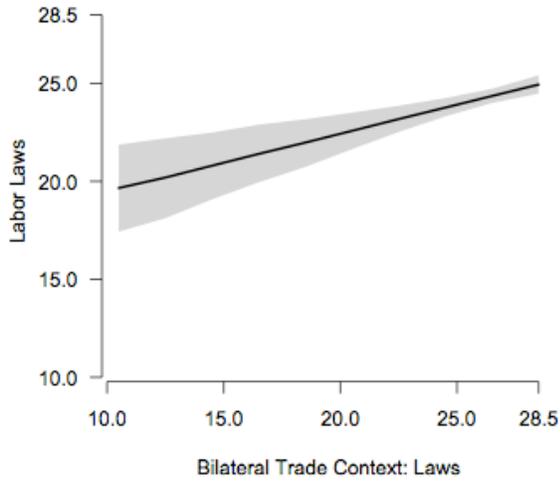
Princeton: Princeton University Press.

Table 1. Illustrative data on the values of the *Labor Laws* and *Bilateral Trade Context: Laws* variables for a randomly-selected sample of seven developing countries in the year 2002.

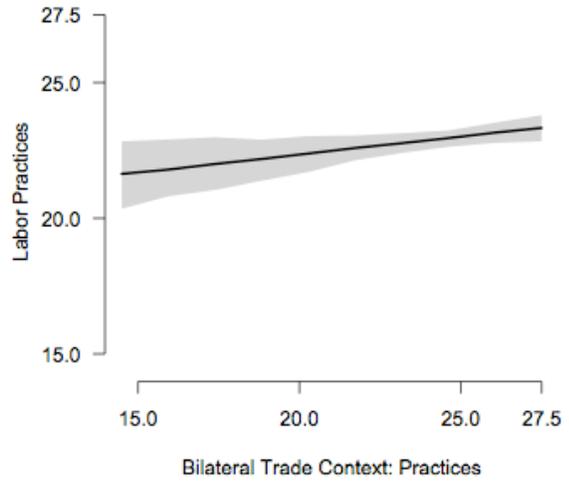
Country	<i>Labor Laws</i>	<i>Bilateral Trade Context: Laws</i>	Top Three Export Destinations (with percentage of total exports shown in parentheses)
Egypt	12.50	23.10	USA (21%), Italy (16%), UK (10%)
Honduras	17.50	22.70	USA (50%), El Salvador (12%), Guatemala (7%)
Mauritius	18.50	25.60	UK (30%), France (22%), USA (20%)
Trinidad and Tobago	22.50	24.00	USA (50%), Jamaica (8%), Barbados (5%)
Congo, Democratic Republic	10.25	27.40	Belgium (68%), USA (14%), Finland (5%)
Thailand	21.00	22.00	USA (20%), Japan (15%), Singapore (8%)
Turkey	12.75	24.20	Germany (18%), USA (10%), UK (9%)

Figure 1. The upper left-hand panel shows the effect that changes in *Bilateral Trade Context: Laws* has on the expected values of *Labor Laws* for a hypothetical country where the values of all other variables are held constant at their median levels. The shaded area represents the 95% confidence intervals around the estimates. The upper right-hand panel does the same for *Bilateral Trade Context: Practices*. Note that the x-axis in both graphs represents the range of values of *Bilateral Trade Context* found in the dataset. The lower two panels, by contrast, show how changes over the range of observed values of *Total Trade* are associated with changes in the levels of each of the dependent variables.

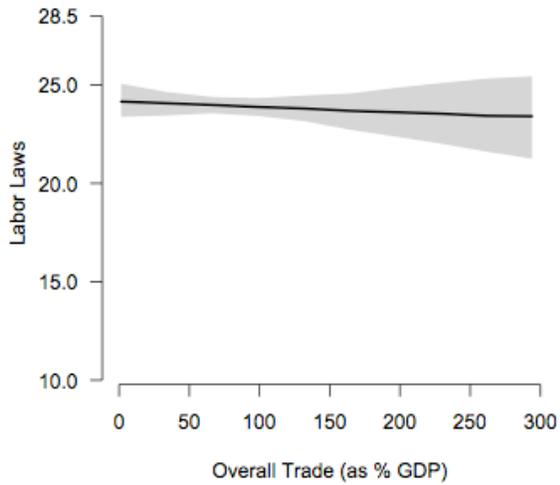
Relationship between Bilateral Trade Context and Labor Laws



Relationship between Bilateral Trade Context and Labor Practices



Relationship between Total Trade and Labor Laws



Relationship between Total Trade and Labor Practices

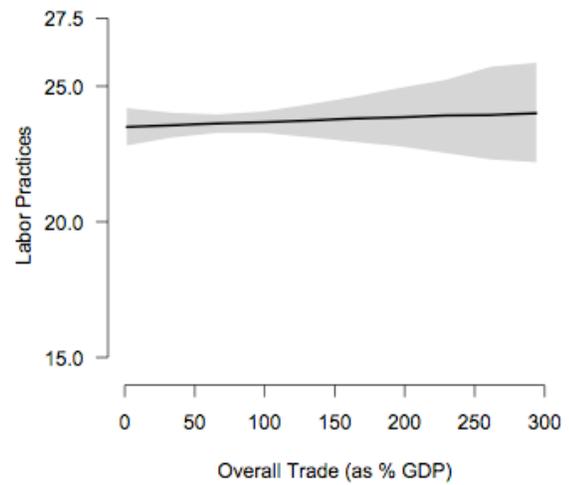


Table 2. Effects of regressing *Labor Laws* on *Bilateral Trade Context: Law*, after the independent variables had been lagged by either 1, 2 or 3 years. Robust standard errors are shown in parentheses. Significance levels are indicated as follows: * p<0.05, ** p<0.01, *** p<0.001.

	1-year lag	2-year lag	3-year lag
Bilateral Trade Context: Law	0.200** (0.064)	0.242*** (0.054)	0.294*** (0.074)
Total Trade	-0.006 (0.004)	-0.006 (0.005)	-0.003 (0.005)
FDI Inflows	0.003 (0.026)	0.031 (0.035)	0.025 (0.025)
Hard PTA	0.862* (0.397)	0.940* (0.393)	0.818 (0.442)
Soft PTA	-0.291 (0.195)	-0.161 (0.222)	-0.145 (0.195)
GDP per capita	-0.477** (0.164)	-0.439** (0.162)	-0.471* (0.184)
Democracy	0.038* (0.019)	0.021 (0.018)	0.020 (0.020)
Population	-0.382*** (0.086)	-0.391*** (0.096)	-0.355** (0.104)
Civil War	0.100 (0.218)	-0.001 (0.228)	-0.125 (0.232)
Lagged Dependent Variable	0.641*** (0.030)	0.629*** (0.032)	0.617*** (0.036)
Constant	13.192*** (2.362)	12.143*** (2.499)	10.577*** (2.780)
<i>N</i>	1424	1338	1252

Table 3. Effects of regressing *Labor Practices* on *Bilateral Trade Context: Practices*, after the independent variables had been lagged by either 1, 2 or 3 years. Robust standard errors are shown in parentheses. Significance levels are indicated as follows: * p<0.05, ** p<0.01, *** p<0.001.

	1-year lag	2-year lag	3-year lag
Bilateral Trade Context: Practices	0.075 (0.057)	0.073 (0.054)	0.133* (0.063)
Total Trade	0.004 (0.004)	0.003 (0.004)	0.002 (0.004)
FDI Inflows	-0.053* (0.025)	-0.0002 (0.021)	0.015 (0.026)
Hard PTA	0.082 (0.478)	0.115 (0.719)	0.290 (0.807)
Soft PTA	-0.738** (0.275)	-0.390 (0.250)	-0.450 (0.266)
GDP per capita	-0.658*** (0.157)	-0.544*** (0.147)	-0.517** (0.166)
Democracy	-0.009 (0.020)	-0.008 (0.018)	-0.006 (0.021)
Population	-0.483*** (0.112)	-0.413*** (0.107)	-0.447*** (0.188)
Civil War	0.070 (0.311)	-0.263 (0.289)	-0.521 (0.339)
Lagged Dependent Variable	0.549*** (0.027)	0.597*** (0.026)	0.580*** (0.029)
Constant	20.419*** (2.594)	17.282*** (2.700)	16.629*** (3.368)
<i>N</i>	1424	1338	1252

Appendix 1. Labor Standards Coding Template.

From Kucera (2002). Coding notes from Mosley and Uno (2007) are added in italics.

Category	Description	Weight (if observed)
Freedom of association/collective bargaining related liberties		
1	Murder or disappearance of union members or organizers	2
2	Other violence against union members or organizers	2
3	Arrest, detention, imprisonment, or forced exile for union membership or activities	2
4	Interference with union rights of assembly, demonstration, free opinion, free expression	2
5	Seizure or destruction of union premises or property	2
Right to establish and join union and worker organizations		
6	General Prohibitions	10
7	General absence resulting from socio-economic breakdown	10
8	Previous authorization requirements. <i>Does not include requirements that unions register with governments, unless these requirements are deemed onerous by the ILO.</i>	1.5
9	Employment conditional on non-membership in union	1.5
10	Dismissal or suspension for union membership or activities. <i>Includes dismissal for strike activities.</i>	1.5
11	Interference of employers (attempts to dominate unions)	1.5
12	Dissolution or suspension of union by administrative authority	2
13	Only workers' committees and labor councils permitted	2
14	Only state-sponsored or other single unions permitted. <i>Includes allowing only one union per industry or sector.</i>	1.5
15	Exclusion of tradable/industrial sectors from union membership	2
16	Exclusion of other sectors or workers from union membership. <i>Includes exclusion of public sector workers from union membership. Excluding "essential services" is acceptable, provided the definition of "essential services" is not excessively broad (i.e., following ILO guidelines, limitations on armed forces' union membership are acceptable).</i>	2
17	Other specific de facto problems or acts of prohibition	1.5
18	(No) Right to establish and join federations or confederations of unions	1.5
19	Previous authorization requirements regarding above row	1

Category	Description	Weight (if observed)
Other union activities		
20	(No) Right to elect representatives in full freedom. <i>Includes requirement that union leaders must work full time in a given industry.</i>	1.5
21	(No) Right to establish constitutions and rules	1.5
22	General prohibition of union/federation participation in political activities. <i>Includes limits on union contributions to political parties.</i>	1.5
23	(No) Union control of finances. <i>Includes situations in which unions receive a substantial portion of financing from government sources, or rules that unions may not receive financial contributions from abroad or from certain groups.</i>	1.5
Right to collectively bargain		
24	General prohibitions	10
25	Prior approval by authorities of collective agreements	1.5
26	Compulsory binding arbitration. <i>Includes systems in which compulsory binding arbitration is necessary before a (legal) strike may be called.</i>	1.5
27	Intervention of authorities. <i>Includes unilateral setting of wages by authorities.</i>	1.5
28	Scope of collective bargaining restricted by non-state employers	1.5
29	Exclusion of tradable/industrial sectors from right to collectively bargain	1.75
30	Exclusion of other sectors or workers from right to collectively bargain. <i>Includes the exclusion of civil servants or all public sector workers. Excluding "essential services" is acceptable, provided the definition of "essential services" is not excessively broad.</i>	1.75
31	Other specific de facto problems or acts of prohibition. <i>Includes "no legal right" to bargain collectively (but no legal prohibition on doing so).</i>	1.5
Right to strike		
32	General prohibitions	2
33	Previous authorization required by authorities. <i>Includes requirement for official approval prior to strike. A requirement to notify officials prior to a strike is not coded as a violation.</i>	1.5
34	Exclusion of tradable/industrial sectors from right to strike	1.5
35	Exclusion of other sectors or workers from right to strike. <i>Includes the exclusion of civil servants or all public sector workers. Excluding "essential services" is acceptable, provided the definition of "essential services" is not excessively broad.</i>	1.5
36	Other specific de facto problems or acts of prohibition	1.5
Export processing zones		

Category	Description	Weight (if observed)
37	Restricted rights in EPZs. <i>Includes export processing zones, free trade zones, and/or special economic zones.</i>	2

Appendix 2. Summary Statistics.

Variable	Mean	Standard Deviation	Minimum	Maximum
Labor Laws	22.85	5.66	0.00	28.50
Labor Practices	22.46	4.47	0.00	27.50
Bilateral Trade Context: Laws	24.67	2.27	10.42	28.43
Bilateral Trade Context: Practices	23.26	2.08	14.48	27.44
FDI Inflows	2.75	7.00	-82.87	145.21
Total Trade	77.46	44.33	1.53	294.65
GDP per capita	7.90	0.96	5.83	10.21
Population	15.22	2.16	9.55	20.97
Democracy	-0.40	6.81	-10.00	10.00
Civil War	0.21	0.41	0.00	1.00
Hard PTA	0.02	0.15	0.00	1.00
Soft PTA	0.16	0.37	0.00	1.00