1

Workers in the Global Economy

> Multinational companies have turned back the clock, transferring production to countries with labor conditions that resemble those in the early period of America's own industrialization.
>
> (Collinsworth et al. 1994, p. 9)

In every region of the world, workers often are treated poorly: Some are denied the rights to unionize and strike by their governments, while others are blacklisted from employment if they assert their legally mandated right to organize. Still others work very long hours with no overtime pay, with exposure to noxious chemicals or to sexual harassment by management. For instance, in its 2007 annual survey of trade union rights, the International Trade Union Confederation (ITUC) documents the deaths of 144 trade unionists; nearly 5,000 arrests for union-related activities; and over 8,000 dismissals from employment for reasons related to unionization. These violations of collective labor rights are concentrated in some countries; for instance, Colombia leads the world in trade unionist disappearances and deaths. At the same time, though, the ITUC documents denials of collective labor rights in 138 nations, including both developed and developing countries, and in sectors ranging from bananas and coffee to electronics and pharmaceuticals.[1]

Violations of individual labor rights – working hours, overtime pay, health, and safety – are similarly widespread. A decade ago, reports of abuses in many of Nike's supplier factories received widespread public

[1] The ITUC report is available at http://survey07.ituc-csi.org/getcontinent.php?IDContinent=0andIDLang=EN

attention; these included the underpayment of wages by subcontractors in Indonesia, the use of child labor in the production of soccer balls in Pakistan, and exposure of workers in China and Vietnam to a variety of dangerous chemicals (Locke 2001). Activists routinely document the abuse of agricultural sector workers, such as the widespread use (and abuse) of child workers in Ecuador's banana sector (Human Rights Watch 2002). Additionally, the expansion of China's exports has been accompanied by a growth in reports of abuses in Chinese factories, in sectors ranging from apparel to toys to electronics.

Despite the recent attention of transnational and local human rights activists to the plight of workers around the world, labor rights abuses are not a new phenomenon. In many nations, agricultural production often has employed child labor, and it has involved repressive relationships between land owners and agricultural workers, many of whom are (illegal) migrants with little capacity to assert their rights. Manufacturing has similarly witnessed centuries of abuses. Indeed, the International Labour Organization (ILO), which is at the forefront of efforts to promulgate international standards for the treatment of workers, has itself existed since the early 1920s.

Is economic globalization to blame for the perilous plight of many of the world's workers? Globalization's critics would suggest that this is the case, whereas its proponents would argue that the rising tide of economic integration will lift all boats, including those of workers in low- and middle-income countries. Yet neither globalization's supporters nor its detractors accurately capture the causal links between workers, on the one hand, and the global economy, on the other. The impact of multinational production on labor rights depends on the precise ways in which a country and its firms and citizens participate in the global economy. While production directly owned by multinational corporations (MNCs) should lead to improvements in labor rights, production that takes place in the context of subcontracting relationships will be associated with deteriorations in labor rights.

The central aim of this book, then, is to identify the precise way in which violations of workers' rights are related to recent increases in international economic integration. Many activist campaigns link the globalization of the production process with the mistreatment of workers, as multinational firms and their subcontractors seek to minimize labor costs, and as governments aim to attract foreign businesses via lower standards. However, while it certainly is true that the trends of increased economic integration (trade, foreign direct investment [FDI], and production) and of greater abuses – or, at least, identification and awareness of abuses – of labor rights are correlated, we should exercise caution in assuming that they are causally related. Indeed, proponents of corporate social responsibility argue that multinational firms have material incentives to promote the protection of labor rights, not only in their home countries but also in their various host locations. Given that these firms want to avoid the spotlight (Spar 1999) and the negative effects it can have on shareholder and consumer perceptions, they may be inclined to pressure their affiliates and suppliers to adhere to internationally recognized core labor rights.

Moreover, while the World Trade Organization (WTO) has long resisted addressing issues related to labor rights, governments have begun to include labor rights provisions in bilateral and regional trade agreements. Recent free trade agreements, such as the U.S.-Cambodia Trade Agreement on Textiles and Apparel (1999–2004), the U.S.-Jordan Free Trade Agreement (2000), the Central American Free Trade Agreement (CAFTA-DR, 2005), as well as the proposed U.S.-Colombia Free Trade Agreement, contain a range of explicit labor rights provisions. Certainly, this inclusion is related somewhat to pressures from developed nation labor unions, such as the American Federation of Labor – Congress of Industrial Unions (AFL-CIO) in the United States; labor rights provisions are a means of convincing these groups that free trade agreements will not be (as) harmful to labor-intensive manufacturing industries (Hafner-Burton 2009). At the same time, though, the inclusion of some labor rights provisions suggests that trade-related mechanisms may be effective at monitoring and protecting workers' rights (Greenhill et al. 2009).

There are reasons to believe, then, that economic globalization may be either good or bad for labor rights. I seek to identify the conditions under which either is the case, and I posit that the effect of multinational production on workers' rights is a mixed one: Some elements of economic openness bode well for labor rights, while others seem to generate increased violations of workers' union-related rights. Moreover, the effects of economic openness on labor are by no means constant within nations: In some industries, pressures generated by the global economy lead to downward pressure on labor rights. In other sectors, engaging the global economy has allowed workers in developing countries to experience improvements in collective rights as well as in wages and benefits. The short answer, then, is that economic globalization is *somewhat* related to labor rights, but in a much more nuanced way than many policy debates and activist campaigns suggest.

In the remainder of this chapter, I briefly situate the topic of global production and workers' rights in broader discussions of the impact of economic globalization on outcomes in developing nations. I then introduce the book's main theoretical claim: The way in which multinational firms organize their overseas production affects labor rights outcomes. Directly owned production augurs positively for labor rights, while subcontracted, arm's-length production has negative consequences for workers' rights. Given the prevalence of both modes of firm organization, multinational production has both positive and negative consequences for workers in developing nations. I summarize the factors that may mediate the influence of multinational production on workers in developing countries; these include domestic politics and institutions, as well as the economic sector and nature of production of the multinational production in which a given country is involved.

The empirical analyses presented in this book focus on the capacity of workers to act collectively – their legal right as well as their de facto ability to organize, bargain collectively, and strike. These rights are correlated with, but analytically distinct from, broader measures of human rights, which also include considerations of civil and political rights (i.e., Abouharb and Cingranelli 2008). Moreover, collective labor rights are distinct from individual working conditions, as I discuss in Chapter 4. The former (sometimes referred to as "core standards") are correlated with individual conditions (sometimes labeled "cash standards"), such as wage levels, payment of overtime wages, and occupational health and safety. Individual conditions, however, are beyond the scope of this book. I do assume, though, that there is a positive – albeit not perfect – correlation between collective labor rights and improvements in wages and working conditions (e.g., Aidt and Tzannaos 2002; Blanchflower and Bryson 2003; Flanagan 2006; Huber and Stephens 2001). Moreover, given that approximately one-quarter of the world's nonagricultural workers are members of labor unions (Visser 2003) – and that still more workers are covered by collective agreements – the potential for workers to act collectively is central to current debates regarding the impact of economic globalization on domestic outcomes.

I. THE DIVERSITY OF GLOBAL PRODUCTION

Much popular literature continues to treat globalization as a monolithic process, one that encompasses trade as well as finance, and one in which nearly all national economies are involved. Arguments describing a flat world suggest that factor-price equalization has reached, or is about to reach, its endpoint (i.e., Friedman 2005): That is, global economic markets are almost perfectly integrated, generating a very different set of competitive dynamics within the global economy.

Academic analysts repeatedly note that a homogenous view of globalization is inaccurate, along at least two dimensions. First, despite general global trends toward economic liberalization, government trade and financial policies continue to vary markedly across countries. Countries that are open to trade are not necessarily as open to finance, and vice versa (Garrett 2000). Additionally, some governments restrict flows of foreign direct investment into particular industries, whereas others welcome direct investment of all stripes. Some governments maintain high barriers to some types of imports, while allowing relatively unfettered access to others. These differences often reflect varying domestic interest groups and domestic political institutions. That is, the competitive pressures emanating from the global economy interact with country-specific factors to generate national policies regarding economic openness (i.e., Plümper et al. 2009). In sum, scholars who treat economic openness – or specific facets of economic openness – as a dependent variable suggest that there remains substantial variation to explain, and that such variation has domestic as well as international roots (Rodrik 2007; Simmons et al. 2008).

Second, in terms of the impact of international economic forces on national policy outcomes, the precise pattern of a country's involvement in the global economy – for instance, the extent to which it is open to trade *and* to finance, or the extent to which it relies on short-term versus long-term capital inflows – determines the impact of economic integration on national policy outcomes. Recent work in this area has pointed to the heterogeneity of economic integration at a relatively macro-level – that is, trade versus finance, or portfolio capital flows versus foreign direct investment versus remittances.

Indeed, a substantial body of literature in comparative political economy during the last two decades has considered the causal connections between global capital markets and national government policy choices (e.g., Mosley 2003). While early studies in this vein considered the impact of financial globalization writ large, or focused on the reactions of one type of investment to government policies, more recent scholarship has identified differences among types of investors. For instance, Mosley and Singer (2008) compare the response to various political and economic factors of equity market valuations, on one hand, and government bond interest rates, on the other. For a sample of thirty-seven developed and emerging-market economies, they find that many of the political and economic factors deemed highly salient to bond investors are not associated with stock market valuations, and vice versa. Similarly, Ahlquist (2006) compares the reaction of foreign direct investors, on the one hand, and portfolio market investors, on the other, to changes in government policy outcomes in the developing world. Again, he finds marked differences across investors. Portfolio (stock and bond) investors are sensitive to past government behavior, such as fiscal and monetary policy outcomes. Foreign direct investment flows, though, do not seem to react to macroeconomic policies; rather, they are sensitive to political institutions, with a revealed preference for more democratic governance mechanisms.[2]

While these studies advance our knowledge by theorizing about heterogeneity within international capital markets, they do not go far enough in disaggregating the concept and consequences of economic openness. This book further disentangles one element of the contemporary global economy – multinational production, in which thousands of firms operate in multiple national markets, producing goods in multiple locations; trading inputs and finished products among affiliates and subcontractors; and selling finished products to consumers in an array of national markets.

Scholars of international political economy have treated multinational production as a type of capital flow that is distinct from shorter-term portfolio investment (bank lending, corporate and government bonds, and equities). Foreign direct investment refers to longer-term cross-border investment, which provides the investor (a multinational firm) with a management interest in an enterprise (an affiliate) and direct control over its production activities. Direct investment is distinguished from portfolio investment by its longer time horizon and by its direct control of assets. Various scholars have envisioned both negative and positive consequences of direct investment for developing countries generally and for workers in developing nations specifically. The negative accounts focus on the relative power of investors vis-à-vis governments, particularly governments of capital-poor (developing) nations. Some observers maintain that multinational firms are likely to respond to greater demands from workers in developing nations (i.e., to unionization efforts, as in Silver

[2] Other studies that disaggregate international capital markets include Bernhard and Leblang (2006); Maxfield (1997); Santiso (2003); Shambaugh (2005).

2003) by threatening to relocate, or actually relocating, production to other developing countries. Another set of studies, however, notes the generally positive consequences of FDI for economic growth and technology transfer. These analyses suggest that direct investment's effects on workers generally will be positive (i.e., Bhagwati 2004; Brown et al. 2004; Flanagan 2006).

Yet, on each side of this divide, there exists a tendency to treat multinational corporations as an undifferentiated set of actors – to assume, for instance, that no matter how a firm or a sector organizes its global production, the implications for workers, the environment, or economic growth will be similar. However, just as various component elements of economic globalization affect social policy, tax policy, and fiscal policy differently, variation in the organization of global production has important consequences for labor rights (also see Gallagher 2005; Hafner-Burton 2005a). The main distinction I draw with respect to global production is that between directly owned production (accomplished via foreign direct investment from one country to another) and arm's length production (accomplished via subcontracting relationships and generating flows of goods across national borders, but not resulting in flows of direct investment).

This variation in firm organization and ownership structure has implications for labor rights: MNC-owned global production affects labor rights in a positive fashion, whereas subcontracted production is associated with less respect for workers' rights. In other words, the "mode of entry" employed by multinational corporations has important – and under-theorized – consequences for workers' rights and working conditions. Scholars of management and industrial organization have explored the causes of firms' modes of entry decisions (see Chapter 3), but political economists have paid scant attention to the implications of this choice for national policies. Empirically, this framework predicts that, as "racing to the top" accounts suggest, directly owned multinational production – captured empirically by cross-border flows of foreign direct investment – will have a positive effect on collective labor rights. However, at the same time, arm's-length production (offshoring or subcontracting, operationalized as trade openness) will tend to affect collective labor rights negatively. In the remainder of this chapter, I situate my approach in the broader literature that explores the effect of economic openness on national policy outcomes. I then summarize my claims in greater detail and conclude with an overview of *Labor Rights and Multinational Production*.

II. Races to the Bottom and Climbs to the Top

A wide recent literature in comparative and international political economy investigates the linkages between the global economy, on the one hand, and policy outcomes in developing nations, on the other. This research generally focuses on the extent to which, and the ways in which, openness to global trade and finance influences policy choices in developing nations. The starting assumption is that developing nations are, by virtue of their relative lack of capital, their desire for economic growth, and their relative lack of voice in intergovernmental economic institutions, quite prone to the influence of global economic forces. While advanced democracies may, under some circumstances, be able to resist pressures emanating from the global economy (Scruggs and Lange 2002), low- and middle-income nations will not have this luxury (Mosley 2003; Rudra 2008; Wibbels 2006).

From this general orientation, analysts take divergent views regarding the strength and scope of globalization-induced pressures. Some, for instance, point out that the pressures from global capital markets to keep fiscal deficits small, coupled with the exposure of developing nations to exogenous shocks, renders their governments much less able to smooth consumption. Several studies find empirical support for this claim, as trade openness is linked with declines in social spending (i.e., Kaufman and Segura-Ubiero 2001). Rudra (2002) argues that, in contrast with labor in the developed world, workers in developing nations have been less able to prevent the dismantling of the welfare state in the face of economic openness. Where there is a large surplus of labor, and where the labor force is more unskilled than skilled, economic openness appears to be associated with downward pressure on social spending. Building on this work, Wibbels (2006) points out that governments of developing countries are likely to cut social spending when it is most needed – as recession occurs. His empirical analyses, focused on Latin America, support the general notion of pro-cyclical budget deficits; he also finds that public spending on human capital – rather than on social security – is most likely to be cut in a downturn.

Others maintain that, while the global economy has effects on policy outcomes in developing countries, these effects are less consequential than one might imagine. In her analysis of social policy, for instance, Rudra (2008) reports that economic integration tends to result in lower social spending. However, as she notes, social spending in developing nations tends to benefit the upper classes; as a result, the pressures on social policy that result from globalization should not be expected to render poverty or income inequality any *more* severe (also see Avelino et al. 2005).

Still others argue that, despite – or even because of – the pressures emanating from the global economy, domestic politics and institutions play a key role in determining policy outcomes in developing countries. One variant of this literature argues that because the global economy exposes individuals to greater income volatility, and because individuals demand protection from such volatility, more open economies tend to have larger public sectors. Rodrik (1998), for instance, reports a positive and significant correlation between an economy's exposure to international trade and the size of its government. Adserà and Boix (2002) add a layer of nuance to this argument, positing that regime type influences the response of governments to externally induced volatility. Democratic regimes in the developing world are likely to increase public spending as trade openness grows, while authoritarian governments have no domestic political need to do so.[3] If developing democracies maintain competitive export sectors, then they can use the proceeds from international trade to fund greater social protection. Turning specifically to education and social security policy, Avelino et al. (2005) report that financial openness does not appear to limit social spending in Latin America; that democracy is associated with greater levels of social spending; and that increasing trade openness tends to bring about increased spending on education and social security. In short, the pressures emanating from the global economy either are insignificant or they push in an upward direction. Moreover, even at similar levels of exposure to trade and financial openness, countries vary in their public policy outcomes. Brooks (2005), for instance, finds that the occurrence and extent of social security privatization in developing and transition countries is due not only to international pressures, but also to existing social security commitments and to political competition domestically.

Many conceive of this broader literature as a test of the "race to the bottom" claim, grounded in the imperatives of cross-national competition and economic efficiency. Extant research in political science finds little strong support for such a claim (i.e., Spar and Yoffie 1999); indeed, it has taken on the role as a favorite straw man of empirically based work on globalization and national policies. One possible lesson

[3] On the validity of the link between externally induced volatility and trade openness, see Kim (2007).

to draw from such studies is that the international economy simply plays little role, positive or negative, in the determination of policy outcomes. Indeed, this study (Chapters 5 and 7, in particular) suggests that domestic politics and institutions continue to play an important role, so that outcomes in developing countries reflect a mix of internal and external factors. Some of the variation in the extent to which workers are able to form unions certainly is explained by the type of political regime in office, by the nature of production (agricultural versus manufacturing versus services), and by the country's relative level of economic development. Indeed, domestic variables are particularly important in the area of labor rights practices – that is, in determining whether or not governments successfully implement and firms routinely comply with various labor laws. I discuss this argument in more detail in Chapter 3.

At the same time, however, another possible – and a more plausible – lesson from the extant literature is that the terms of the debate have been too stark: It is not a question of whether economic globalization has negative or positive consequences for workers in developing nations. Rather, it is an issue of "under what conditions." Therefore, I take the view that international factors *are* important influences on labor rights in developing nations,[4] but that their impact is varied and contingent. In addition to the nature and extent of multinational production, other important international influences on labor rights include demands from transnational advocacy groups and competitive pressures from other nations in a country's (geographic or income) peer groups.

In considering these external influences on labor rights, an important starting point is to disaggregate economic globalization. Too often, in both the popular press and in academic analyses, "globalization" is used as an all-encompassing term, referring to trade, short-term capital, and long-term direct investment. Yet there are many reasons to believe that each of these factors could have different effects on country-level outcomes. If some elements of globalization have positive effects, while others have negative effects, studies that use overall measures of economic openness may well report "no effects," when this is not the case. Given that countries are integrated differently into the global economy, it is important to consider each type of integration as distinct.

[4] Similarly, Abouharb and Cingranelli 2007 argue that more attention to the international dimensions of human (and labor) rights outcomes is necessary.