1 Introduction

> The [Anganwadi] workers are paid only Rs. 1,000 [$21] a month and their helpers Rs. 500 [$11]. There is no dearness allowance,[1] no paid leave, and they also do not have social security.[2]

Such is the plight of India's Anganwadi workers, a low-caste disadvantaged group of workers that assists poor mothers and children with health and nutrition needs.[3] After working more than eight hours a day, total earned wages keep them well below the international poverty line of $1 per day. Their persistent demands for higher wages, job security, and social security have yet to be met by the Indian government. The key to obtaining these protections, the workers argue, is to be recognized as government employees instead of part-time workers.

India's Anganwadi are not alone. In the current era of globalization[4] disadvantaged groups of workers receive minimal or no protection against market risk. Examples from around the world attest to the near-universal tenuous position of marginal workers. The *Korea Herald* reports that approximately 70 percent of non-standard South Korean workers receive no social insurance, as compared to 1.7 percent for standard workers.[5] Brazilian legislation that provides social insurance and job dismissal protection exempts at least 40 million informal workers, including domestic workers, shoemakers, garment workers, and slum dwellers. These workers have begun clamoring for the same rights to unemployment insurance,

[1] Dearness allowance is a cash payment to employees that takes inflation into account and is part of the total wage cost.
[2] Protestors from the Joint Platform of Action, as quoted in "Recognize Us as Government Staff: Anganwadi Workers," *The Hindu* (Madras), July 26, 2006.
[3] More specifically, workers in "Anganwadi" centers are affiliated with the government's Integrated Child Development Services and play a crucial role in providing childcare to the poor. They tend to the health and pre-school education needs of children up to age six, as well as assisting pregnant women, nursing mothers, and adolescent girls with various aspects of health and nutrition.
[4] "Globalization" is defined in this book as the expanding international economic integration of markets in goods, services, and capital.
[5] "Bipolarization in Labor Market – How to Solve It?" *Korea Herald*, August 27, 2004.

maternity leave, paid holidays, and other benefits long afforded other working Brazilians.[6] Half a world away, thousands of Bangladeshi textile workers have taken to the streets with similar demands. Ugandan textile, leather, garment, and allied workers have recently filed grievances with the International Textile, Garment and Leather Workers Federation (ITGLWF) complaining that the Ugandan government ignores both internationally known workers' rights and the benefits required by Ugandan legislation.[7] In Thailand, the Kasikorn Research Center (KRC) expresses concern that workers in the agricultural sector and those with independent jobs, such as barbers and hawkers, will suffer as economic growth slows, since they have no access to social insurance or job security.[8]

Globalization skeptics react predictably to these scenarios; they respond with the following mantra: globalization hurts the poor. Their reasoning is fairly simple. Less developed countries (LDCs) participate in highly competitive global markets. Governments must cater to domestic and international capital interests by cutting wages and benefits. This could lead to a "race to the bottom" (RTB). According to this hypothesis, a world increasingly free of restrictions on trade and capital flows allows investors to scour the globe in pursuit of the highest rate of returns. Nations that harbor public policies that raise production costs or inhibit sound macroeconomic fundamentals risk lower profit margins and capital flight. Fearing such reprisals, governments are constrained from initiating (or maintaining) policies that guarantee a higher quality of life for their citizens, such as safety nets, environmental standards, and acceptable labor costs and protections. The anticipated result is that domestic politics loses its vigor and the forces of global commerce trump efforts to pursue all other things important to society.

China's growing presence in the global economy raises the stakes in this race to the bottom for developing nations. Greider (2001), a journalist, encapsulates these fears:

> Globalization is entering a fateful new stage, in which the competitive perils intensify for the low-wage developing countries … In the "race to the bottom," China is defining the new bottom. But the killer question asked by critics, myself included, is whether China can fulfill its vast ambitions without smashing the dreams of other striving nations … Too many producers, too few consumers in a global system where too many workers cannot afford to buy the things they make – that's the central contradiction. The destructive qualities and repeated crises are sure to continue, critics would argue, so long as the system advances by this roving

6 "Maids Fight for Wages, Security," *Gazette* (Montreal), April 24, 2000.
7 "Can Ugandans Finally Afford to Smile?" *The Monitor* (Africa News), April 4, 2006.
8 "Unemployment to Rise due to Economic Slowdown in Thailand," *Xinhua General News Service* (China), May 7, 2006.

exploitation of labor and prevents developing countries from pursuing more balanced, albeit more gradual, strategies.

According to this logic, the rapid race to the bottom is what hurts disadvantaged groups such as India's Anganwadi, South Korea's non-standard workers, Brazil's domestic laborers, Bangladeshi garment workers, and others. The race to the bottom hypothesis anticipates that international market pressures determine domestic social policy, and that the downward institutional convergence of policies and practices, which precludes adequate welfare protections for the poor, is inevitable.

In light of these concerns, it is surprising that the great bulk of existing scholarly research on the globalization–welfare nexus has focused on the advanced industrialized nations, not the developing world. After all, if the race to the bottom hypothesis is true, citizens of developing countries would be particularly vulnerable, given these countries' intense need for capital and, thereby, far greater susceptibility to global market pressures. And yet we have very little knowledge of if, how, and to what extent these pressures are really affecting poorer countries.[9]

This book provides the first comprehensive study of the interactions between globalization and the race to the bottom, domestic politics, and welfare strategies in the developing world. *The central focus of this book is on the observable implications of international market expansion on LDC welfare state policies*. To what extent are governments in developing countries vulnerable to RTB pressures on welfare state policies? If such pressures exist, what, if anything, can governments do about it? Is globalization simply making it impossible to protect the most disadvantaged citizens from the risks and uncertainties of globalization? Are domestic institutions and politics increasingly irrelevant in the LDCs as institutional convergence (purportedly) commences?

This book challenges the conventional wisdoms surrounding the race to the bottom hypothesis. I argue that, unlike in the advanced industrialized countries, globalization does indeed trigger a race to the bottom in developing countries. The broader implications of this defy traditional expectations, however. Previous analyses of globalization and its consequences have generally failed to examine the impact of the character and content of long-standing LDC domestic institutional arrangements. This book contends that it is not globalization per se that ultimately determines the plight of the poor but, rather, the interplay between globalization and a nation's domestic institutions. More precisely, fragmented

[9] Murillo (2000, 2002) and Brooks (2005) are important exceptions who explore the interaction between international market integration, domestic politics, and social policies in Latin America. They do not, however, focus on the effects of RTB per se.

labor movements, the government–labor relationship, and pre-existing national social policy configurations are structuring responses to the challenges of globalization. The central thesis in this book is that these domestic institutions have long deprived the poor of social protections *and* that these institutions continue to persist in twenty-first-century globalization. In other words, where social institutions have historically failed to protect the very poor in developing countries, the advent of globalization has not altered national institutional dynamics.

In fact, the statistical analyses and case studies presented in this book demonstrate that, though the poor may be most in need of services, the actual consumers of welfare state services in developing nations tend to be somewhat wealthier citizens. Hence, the key paradox is that the RTB pressures hurt mainly the middle classes in developing countries, not the poor.[10] The damage to the middle class is not colossal, however; members of the former fight vigorously to defend the status quo, thus preventing major institutional change and thwarting predictions of convergence towards the "neoliberal bottom."[11] To be absolutely precise, the nature of ongoing welfare retrenchment in LDCs does not represent the race to the actual *bottom*; rather, *the retrenchment reflects the general downward pressure from globalization on middle-class benefits*. Preventing the uniform freefall of social welfare benefits to the bottom are the distinct institutional configurations of each respective nation. These institutions generate systematically different reactions stemming from their prevailing ethos, development legacies, and political constituencies. In fact, defying the predictions of globalization skeptics, none of the existing distribution regimes show signs of advancing towards a welfare state based on neoliberalism *or*, for that matter, the principles of universalism.[12] Even when select welfare regimes adopt, for example, comprehensive social insurance coverage, the exclusion of marginalized groups persists on a de facto basis.

[10] Note that this book is not investigating whether the middle class in developing countries are overall winners or losers with globalization. The focus is on who gets hurt specifically by welfare retrenchment in the current era.

[11] Mishra (1999) presents the conventional view of the "neoliberal bottom." He argues that international organizations such as the World Bank and the International Monetary Fund (IMF) have been selling policies associated with the neoliberal bottom to developing countries by focusing on limiting government expenditures, deregulation, selective social services, and the private provision of welfare. Extensive reliance on means-tested welfare programs (i.e. strict eligibility criteria apply: property or wealth cannot exceed a certain amount) is also commonly associated with the neoliberal bottom.

[12] A welfare state based on the principles of universalism allows every citizen access to welfare services; social welfare schemes involve the entire population and are not limited to a particular income group.

As a result, the current predicament of India's poor Anganwadi workers and similar groups across the globe cannot be blamed simply on the race to the bottom. The distribution regimes in each of these nations never actually provided them with safeguards from market risks, either before or after economic openness policies were adopted. Also impeding any movement towards a universal welfare state is the absence of a cohesive labor movement and, in many LDCs, a government–labor relationship that is supported by clientelism. These domestic institutions or absence thereof collectively hinder substantive pro-poor welfare policies.

India's Anganwadi workers are fighting for recognition as government employees precisely because government employees are among the core of workers entitled to the most generous welfare protections. Anganwadi workers have been denied access to the much-coveted benefits ever since their positions were created in 1975. Their current demands are thus as valid today as they were several decades ago, before India's turn towards open markets. The quintessential problem now is that, as Keohane and Milner (1996: 256) put it, the "pressure of constraints and the lure of opportunities" associated with globalization make it that much more challenging for their demands to be fulfilled.

1.1 Globalization and the race to the bottom debate: the fundamental concern

A distinct and recent rise in poverty and inequality in many developing countries coincides with the adoption of economic liberalization policies and heightened anxieties about the race to the bottom. The United Nations (UN, 2005) estimates that over 58.7 percent of workers in the developing world still live on less than the $2 a day poverty threshold, and 23.3 percent live in absolute poverty, or less than $1 a day. What is worse is that the numbers of those living in absolute poverty rose during the 1990s in all regions, with the exception of select countries in the Middle East and north Africa, and east Asia (World Bank, 2000b). Studies have shown that income inequality has also increased since the early 1980s (see, for example, Cornia, Addison, and Kiiski, 2004). These statistics reveal a dismal reality for developing nations, a reality that engenders grave disappointment after scores of economists and policy-makers promised a world of boundless prosperity and consumer satisfaction as the result of globalization policies.[13] It is no surprise, then, that high-level international gatherings aimed at promoting global market expansion,

[13] See Guillen (2001) for a discussion on this perspective.

such as the biannual World Bank/IMF meetings, the World Trade Organization (WTO) ministerial meetings, Group of Eight summits, the World Economic Forum, and the Free Trade Area of the Americas (FTAA) summits, have drawn swarms of protestors in recent times. Demonstrators are commonly seen holding placards reflecting their alarm about the race to the bottom: "Globalization hurts the poor."

Some concerns about globalization are warranted. Many scholars have observed a positive correlation between globalization and worsening conditions for the lower strata of society, both in an absolute and a relative sense. Trade and foreign direct investment (FDI) have been found to exacerbate inequality by changing the skill composition of labor demand and thereby fueling the wage gap between skilled and less skilled workers (Hanson and Harrison, 1999; Wood, 1997). In a related point, developing countries that liberalized their capital accounts have been susceptible to financial crises and, in turn, have experienced increases in poverty and inequality (Baldacci, de Mello, and Inchauste, 2002). It is evident, even to the most ardent globalization enthusiasts, that international market integration can have negative consequences on distribution.

The current debates, however, are not about the successful functioning or necessity of markets per se. Scholars and policy-makers across the ideological spectrum have come to accept markets as the preferred mode of resource allocation, and, with this, a truism: markets create both winners and losers.[14] Certainly, developing countries that have steadfastly embraced open markets have seen improvements in economic growth (see Edwards, 1998, and Sachs and Warner, 1995).[15] Growth is not necessarily synonymous with improvements in equity, however. International economic theories, such as the Stolper–Samuelson theorem and the Ricardo–Viner model, help us predict which factors or sectors are likely to gain or lose with globalization. Tensions rise as various interests, such as marginalized groups, skilled and unskilled workers, tradable and non-tradable sectors, mobile and fixed asset holders, private foreign creditors and foreign financial intermediaries, benefit unevenly from international market policies. Globalization pessimists do not want to replace the market system; they simply want governments to do something about the negative consequences it can yield.

[14] A recent survey by international polling firm GlobeScan, analyzed in conjunction with the Program on International Policy Attitudes (PIPA) (2006) of the University of Maryland, revealed a strong global consensus for free enterprise systems and free market economies as "the best system." Citizens of both developed and developing nations were polled, and, on average, 61 percent agreed, while 28 percent disagreed.

[15] For a dissenting view, see Rodrik and Rodriguez (2000), who argue that the link between openness and growth is still an open question.

The goal of governments, then, has been to manage these distributional conflicts to ensure social stability and domestic peace. Polanyi (1944) long ago stressed that social stability depends on the coordination of redistribution with market exchange. A long line of scholars since then have noted the vital importance of maintaining welfare states alongside global market integration. The occasion for welfare state policies in LDCs is particularly acute in the present era. Early twenty-first-century globalization is unique in the way that market expansion has involved the developing world. As Garrett (2000: 942) indicates, "Large-scale portfolio lending to banks in developing countries for purposes other than raw material extraction, two-way manufacturing trade between the north and the south, and complex multinational production regimes were simply unheard of a century ago." The inference here is that, as LDCs have become more and more integrated in global markets, welfare state development has become the key means to a "fair" distribution of wealth and social stability. Take, for instance, Chilean President Michele Bachelet's statement during a recent visit to the United States:

> The logic of the market does not resolve all problems … as I see it, you need strong and powerful social policies by the state to resolve the problems of income and equality of opportunity.[16]

Herein lies the root of anxieties about current globalization. A sizable body of scholarship in the 1980s and 1990s maintained that governments could no longer manage distributional conflicts via social welfare policies. If international market expansion leads to a race to the bottom and erodes the welfare state, the implication is that government autonomy and domestic policies are being sacrificed at the altar of international markets and laissez-faire. Governments simply cannot act contrary to market forces and protect the poor as deemed necessary, given limited policy-making flexibility. The RTB model thus makes the teleological inference that competition to attract mobile factors of production leads governments to deregulate competitively until, eventually, welfare policies throughout the world would converge on the "lowest common denominator." In short, RTB scholars scrutinize the loss of state sovereignty concomitant with globalization. Ohmae's (1995: 11–12) oft-cited work summarizes it best:

> [N]ation-states have *already* lost their role as meaningful units of participation in the global economy of today's borderless world … Reflexive twinges of sovereignty make the desired economic success impossible, because the global economy

[16] Larry Rohter, "Visit to US Isn't a First for Chile's First Female President," *New York Times*, June 8, 2006, Section A, Late edition.

punishes twinging countries by diverting investment and information elsewhere … [A]s the downward ratcheting logic of electoral politics has placed a death grip on their economies, they become – first and foremost – remarkably inefficient engines of wealth distribution … the nation state is increasingly a nostalgic fiction.

Such doomsday scenarios and fast-growing anti-globalization movements drew more and more academics into the discussion. Turning to sophisticated methodological tools, positivist approaches, and systematic data collection and analysis, scholars began to dissect critically the links between global market expansion and the welfare state. If the evidence reveals that welfare states are withstanding the forces of globalization, then national governments are still the core actors and domestic politics remain vibrant. If the findings reveal otherwise, however, Ohmae's predictions ring true.

The majority of investigations to date have focused on the political economies of the advanced capitalist countries. Within the last few years a distinct and well-respected group of scholars in international political economy (IPE) and comparative political economy (CPE) have successfully challenged the race to the bottom hypothesis in the nations of the Organisation for Economic Co-operation and Development (OECD) (e.g. Bearce, 2007; Iversen, 2005; Basinger and Hallerberg, 2004; Mosley, 2003; Pierson, 2001, 1994; Huber and Stephens, 2001; Swank, 2001; Hall and Soskice, 2001; Garrett, 1998).[17] The common finding is that, in the OECD countries, a race to the bottom is not leading to cross-country harmonization of policies and practices at the lowest regulatory standard, or institutional *convergence*. Rather, domestic politics and institutions mediate the pressures of globalization, and national *divergence* prevails. Thus, by the new millennium, a new consensus has emerged among scholars in political science and economics that fears of a race to the bottom and waning welfare states have been overblown; national differences, particularly with respect to welfare (or distribution) regimes, remain more or less intact. The important message for the globalization pessimists is that the poor in OECD countries need not fear that social protections will decrease simply because of globalization.[18]

Despite these robust findings, anxieties about a race to the bottom persist among activists, journalists, and academics outside the political

[17] See chapter 2 for a discussion of the small number of scholars who challenge this hypothesis.

[18] Many argue that the critical pressures for change in OECD welfare states come from forces other than economic integration, such as demographics (Garrett, 1998), deindustrialization (Iversen and Cusack, 2001; Iverson, 2001), the post-industrial shift to low-productivity-improving jobs, and the welfare state's maturation (Pierson, 2001, 1996).

science field and North America.[19] The apparent disconnect between the select group of scholars who dismiss these fears and the rest of the world is striking. One important reason for this ongoing "dialogue of the deaf" is that existing empirical investigations of the globalization–welfare nexus have excluded the great majority of countries – i.e. the developing world. It is constructive to underscore that this (relatively) new consensus has been achieved absent parallel analyses in LDCs. We are, heretofore, left with little knowledge of how (and if) "domestic politics" still matters in developing nations and whether these states can similarly defy RTB pressures in welfare policies.

Less developed countries have not been entirely absent from the academic literature on globalization and the race to the bottom.[20] Studies exploring the race to the bottom in environmental standards (e.g. Chau and Kanbur, 2006; Porter, 1999), labor standards and protections (e.g. Mosley and Uno, 2007; Haouas and Yagoubi, 2004; Harrison and Hanson, 1999; Beyer, Rojas, and Vergara, 1999; Wood, 1997; Singh and Zammit, 2004; Chan and Ross, 2003; Mehmet and Tavakoli, 2003), total government spending (e.g. Rodrik, 1997a, 1998; Garrett, 2000), and, more recently, government welfare spending (e.g. Wibbels, 2006; Avelino, Brown, and Hunter, 2005; Kaufman and Segura-Ubiergo, 2001) include some developing countries. The problem is that these analyses have important limitations. First, many are largely based on conjecture and fail to present empirical data to increase confidence in their arguments. Second, studies that do conduct empirical tests are limited in the range of countries covered.[21] The tendency is to focus on single countries or regions, concentrating mostly on select countries in Latin America or east Asia. More recently, Haggard and Kaufman (forthcoming) have done a thorough analysis on welfare policies in these regions, and added the eastern European countries to the mix. The studies by Rodrik (1997a, 1998) and Garrett (2000) are also exceptions, but their measure of "total government spending" (or Rodrik's "total government consumption") is all-inclusive and does not capture the specific variables that protect

[19] The majority of these assertions have not involved an empirical test of RTB propositions. Examples of well-known journalists advocating the RTB thesis are Friedman (2000) and Greider (1998). Examples of major international contributors to the anti-globalization movement from the perspective of RTB are Canadian journalist Klein (2002) and Indian activist Shiva (2005). For examples of prominent RTB scholars outside the United States, see the works of Sakamoto (1994) and Cox (1996). Parenthetically, in the United States and outside the discipline of political science, sociologists appear to be more divided about RTB than IPE or CPE: see, for example, Guillen (2001) versus Ross (2004).

[20] Here I am referring to the literature in which globalization is taken as more or less exogenous, and the analysis focuses on RTB pressures on (fiscal) policy.

[21] The study by Mosley and Uno (2007) is an exception.

citizens from the risks and uncertainties of globalization. Finally, all the studies would benefit from a more detailed explanation of causal mechanisms. The linkages between globalization and LDC social policies and the processes by which the race to the bottom impresses (or not) changes in social welfare strategies have yet to be unraveled.

It is important to emphasize that a focus on welfare schemes is only one vantage point from which to assess RTB dynamics. Other policy domains are relevant, but researching them is less feasible. Exploring the race to the bottom with respect to LDC environmental standards is problematic because, although legal constraints exist, enforcement is and was extremely ineffective, even long before globalization pressures hit.[22] Popular discussions about the race to the bottom in labor costs and standards are also commonplace. This variable is included in the second part of the book as a form of welfare policy; focusing specifically on this variable is impossible, however, because time-series cross-national data are extremely sparse.[23] Finally, tax competition has been a common way to assess (and reject) race to the bottom effects in OECD nations. According to RTB hypotheses, countries will abandon capital income taxation and rely on labor and consumption taxes (Zodrow, 2003; Rodrik, 1997a). Here again, little systematic data on tax incentive policies for capital is publicly available.[24] This book incorporates the effects of tax competition in an indirect way. Since spending is commonly a function of taxes, if globalization is associated with declining social outlays then the effects of increased tax competition can be implied.[25]

The overall paucity of empirical scholarship on globalization's effects in less developed countries is not entirely surprising. First, the race to the bottom is often thought to be more relevant for the advanced industrialized countries. This is because, from the perspective of citizens in the OECD countries, developing world standards represent the "bottom" that is luring corporations away. What is not so well recognized, however,

[22] See Porter (1999) for a more complete discussion on this issue.
[23] See Richards and Sacko (2001) for a recent analysis using existing empirical data. See also Mosley and Uno (2007).
[24] Common incentives are value added tax, social security tax, corporate income tax, property tax, licensing fees, import duties, and sales tax. See Li (2006) for the most recent analysis on this subject. In addition, although evasion is a problem in all countries, in LDCs there exists a plethora of non-transparent ways that taxes can be reduced (Alm, Bahl, and Murray 1991).
[25] As Rodrik (1997a: 6) argues, "The increasing mobility of capital has rendered an important segment of the tax base footloose, leaving governments with the unappetizing option of increasing tax rates disproportionately on labor income. Yet the need for social insurance for the vast majority of the population that remains internationally immobile has not diminished." See also Wibbels and Arce (2003).