

Global big business is
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force for improving
labor standards in d...



Global big business is the most powerful force for improving labor standards in developing countries.

Discuss. In their insatiable hunt for increased profits, large corporations have developed an increasingly global presence. This presence exists to facilitate both the import and export of goods and reflects the fact that for many companies, potential customers are no longer restricted to the domestic market. Advancements in communications and logistics have rendered geographical distance between markets a relatively straightforward problem to overcome.

This is demonstrated all over the world by the automobile industry. It is these advancements that have enabled big businesses, particularly those who manufacture tangible goods such as apparel and electronics, to shift certain operations to countries where labour costs less. Although there is evidence to suggest that average productivity of workers in the global manufacturing industry increases with the cost of labour, (Rodrik, 1997) it is a reality that low-skilled workers in a developing country can produce identical products to low skilled workers in high-income countries at a fraction of the cost, even after transportation costs have been accounted for. However, intense international debate surrounds the use of ‘cheap’ labour forces in developing countries, as currently no extensive fixed international labour laws exist to ensure workers benefit from similar protection of rights that workers in developed countries do. Critics claim that this leaves workers in developing countries vulnerable to exploitation by the ‘manic logic of capitalism’ (Hu-Dehart, 2002), a logic that suggests that profits exceed human rights in importance. Potentially this situation exists because, as <https://assignbuster.com/global-big-business-is-the-most-powerful-force-for-improving-labor-standards-in-developing-countries-discuss-flashcard/>

George Ross considers, ' capital has expanded internationally, whereas labour standards have not.

This causes the problem' (2000). If this is true, it suggests that big businesses are either satisfied with domestic labour laws in the developing countries in which they operate, or that they are more concerned with generating profits than with how ethically those profits are made. The prioritizing of profit over people would lead to a situation where ensuring humane working standards was of secondary importance to ensuring that the labour produced more profitable results than competing companies to maintain competitive advantage. It would coincide with Richard B.

Bilder's opinion that TNCs ' do a great deal to foster economic integration, but relatively little to offset the negative effects of integration of workers' (2006). If forced implementation of labour standards was predicted to diminish a company's profits, either the standards would have to fall or the company may look to another country for its outsourcing requirements.

Daniel W. Drezner suggests that this problem exerts intense pressure on developing countries and causes ' a Darwinian struggle for capital where all other values, including workers' rights, are sacrificed upon the altar of global commerce' (Drezner, 2000). Unfortunately, there are examples of this observation being true. In 1998 the International Labour Organization, (ILO) set out core ' basic rights that workers are entitled to everywhere as fundamental, inalienable and indivisible human rights' (Dearden, 2003).

These are: •Freedom of association and the right to collective bargaining.

•The elimination of all forms of forced or compulsory labour. •The abolition

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of the most hazardous forms of child labour. •The elimination of discrimination in respect of employment and occupation. However, these basic 'rights' as endorsed by the 175 members of the ILO, including China and India, are not at all legally binding and are so rudimentary that they do not protect workers from exposure to dangerous or inhumane working conditions.

It can be assumed, therefore, that either countries' own national laws are trusted by transnational corporations (TNCs) to sufficiently protect against such conditions, such as in industrialized nations, or that the possibility of poor labour standards is accepted. In May 1993 a fire decimated the Kader toy factory in Bangkok, killing 188 workers and injuring a further 469. Many fatalities were blamed on the fact that the fire exits had been locked shut to prevent the workers stealing toys. This also accounted for many injuries, as workers were forced to jump from the building to escape the blaze. This fire would not have been as devastating had Western labour standards been enforced, such as those set out in the Regulatory Reform (Fire Safety) Order, where provision of adequate escape routes is mandatory. Dangerous labour conditions in manufacturing environments throughout the developing world are still prolific.

A report in 2003 on globalization and China's labour standards concluded that in some Chinese factories 'a startlingly high incidence of severed limbs and fingers has been recorded. In Shenzhen City alone there were over 10,000 certified cases among a migrant population of 3-4 million' (Chan, 2003). These examples identify a lack of health and safety standards that would not be acceptable in developed countries, even though factories such as these <https://assignbuster.com/global-big-business-is-the-most-powerful-force-for-improving-labor-standards-in-developing-countries-discuss-flashcard/>

produce goods for Western consumption. International laws do not require similar working conditions across trading nations, even though the principles behind the laws that enforce Western working conditions are for the benefit of human workers, not simply human workers in one part of the world as opposed to another. As Drusilla K Brown observes, in this case considering the issue of child labour, ' It is morally meaningless to prohibit the domestic production of goods by our own children... simply to import goods produced by illiterate children in a neighboring country' (Brown, 2001. p105).

This statement is correct, yet an estimated 8. 4 million children are ' trapped in the worst form of child labour' (Save the Children, 2008) in developing countries. Treatment of children such as this would be illegal and publicly unacceptable in the US or UK. This suggests a deliberate strategic overlooking of labour standards in developing countries by TNCs.

The desire for increased profits is prevalent in multinational corporations and therefore it is hard for big businesses to resist any cost-saving measures or justify further expenditure without good cause, likely to enhance profits.

Often improving labour standards in developing countries is not considered a good enough cause to warrant a fall in margins. The opinion of Professor Peter Odhiambo, head of Kenya's National Tobacco Free Initiative Committee, is that ' Multinationals are lethal, unethical and corrupting... They think they can arm-twist third World governments with threats of labour unrest and loss of revenues' (Christian Aid, 2005). The ability to influence, or ' arm twist' governments indeed defines ' big business' and it is this influence that leads to criticism of an unstoppable ' race to the bottom'.

This race, ironically, is to ensure investment in the country and presumably therefore increases in living standards. However, if it does exist, the runners in the race to the bottom seem to hold as their mantra the supposition that any investment is better than none. Drezner supplies the following commentary on how foreign investment is perceived: ' Unfettered globalization triggers and unavoidable race to the bottom in labour and environmental standards around the world. The reduction of restrictions on trade and cross border investment frees corporations to scour the globe for the country or region where they can earn the highest return. ' (Drezner, 2000.

p64) Professor Odhiambo's criticism of the pursuit of multinationals would suggest that the ' highest returns' are achieved without thought of the consequences for the workers providing the very produce that is traded. This is because they are low skilled and therefore replaceable, so there is no commercial sense in a measured approach to their well-being. Where there is non-existent or unspecific international labour law, companies are left responsible for their own actions. Contradictory to this, however, Jack Straw commented in 2001, ' We must do what we can to encourage corporate responsibility. But we cannot leave companies to regulate themselves globally, any more than we can do in our own national economies'. It is not the trade that big business provides that angers Prof Odhiambo, as without any transnational trade neither he nor the tobacco farmers he represents would have their jobs.

However the pressure on companies, in this case British American Tobacco, applied by the nature of the capitalist economy that they operate in to <https://assignbuster.com/global-big-business-is-the-most-powerful-force-for-improving-labor-standards-in-developing-countries-discuss-flashcard/>

maximize profits, combined with the temptation of exploitation that comes with a lack of standardized regulation has resulted in failure to implement domestic labour standards in the factories and fields of their suppliers. In the cases of Kenyan tobacco farmers, this leads to chemical poisoning resulting from lack of protective clothing (Christian Aid, 2002). Chan argues that 'the decentralization and de-regulation in wage-setting under China's economic reforms has enable local governments to turn a blind eye to labour exploitations' (Chan, 2003). This de-regulation was initially implemented to attract TNC investment, but has caused regression in labour standards. The 'race to the bottom' is at present a concern for academics and activists considering low skilled work in developing countries, but it is affecting low-skilled workers all around the world, including in Europe and the US.

The reason that this race currently only affects low skilled workers is because presently there is only an abundance of this type of labour.

Globalization brings with it education and training, this is one perceived benefits of TNC operations in developing countries. If multinationals are as ruthless as Prof Odhiambo suggests, they will not hesitate to appoint managers or directors in low-income countries should their skills match the multinationals' needs. Hypothetically, should this transfer of skills continue, there would be no need for European or American headquarters, whole corporations could move to developing countries and profit solely on export and sale to developed countries, consequently pricing competitors out of the market. This process would, in turn, industrialize the developing countries, creating more demand for the products previously only being exported and growing the business further.

This has been seen, in microcosm, in the outsourcing of entire call centres to India, where labour standards are comparatively good. Yet, should this happen, it can be supposed that labour standards would increase in that country, wages would rise and the race would begin again in other, non-industrialized countries. Should this continue, it could be hypothesized that big business could, country by country, industrialize the world by exploiting free trade. Industrialized nations tend to have higher labour standards and more stringent laws governing such standards than developing countries.

Indeed Mike Moore, formerly of the WTO stated: ' Countries that have embraced openness and freedom have increased the real income of their workers, which in turn has raised labour standards and reduced poverty. Countries that remain closed, remain poorer, undeveloped, cut off from the world of rights and freedoms' (Moore, 1999). If this is true and big businesses continue to expand globally at their current rate, they could indeed be the most powerful force in improving labour standards. Marx admitted ' If productive capital increases, then demand for labour, the price of labour and consequently the rate of wages rise also. ' However, Moore's theory, according to Saadia Toor, is ' patently false' (2001). Toor considers the increase in mortality and inequality in Eastern Europe and Central Asia evidence that big business is not the cure for low labour standards that Moore purports.

However, Forbes Magazine estimates that wages in India, where the majority of business service outsourcing is located, are rising by 10% per year. As Marx continued, ' The most favourable condition for the worker is the growth of capital' (Marx & Engels, [1848], 2002). There is, therefore, little doubt that <https://assignbuster.com/global-big-business-is-the-most-powerful-force-for-improving-labor-standards-in-developing-countries-discuss-flashcard/>

big businesses have some power to improve labour standards, as they can choose to pay workers in developing countries above average wages, which, according to Drezner, they do in order to recruit better workers (2000). This is becoming increasingly necessary, as Forbes comments that the search for personnel capable of working in outsourcing companies in India is intense.

It states that a skilled IT engineer could easily move between companies to find the best paid job. Increasingly, big businesses will have to factor staff retention into their outsourcing policies, suggesting that outsourced labour in developing countries is not all easily replaceable. As it is an abundance of low-skilled workers that keeps wages and labour standards low, working conditions and pay will have to rise for at least some staff as big businesses begin to outsource more complex issues to developing countries to maintain competitive advantage. In this respect, companies have the power to demand more from staff in developing countries, who in turn will have the right to demand more back, thus raising labour standards.

However, this does not in itself make global big business the most powerful force in raising labour standards in developing countries. Pay is not mentioned in the ILO's core working rights and neither does London-based pressure group War on Want consider wages in their ultimate measure of labour standards. In a personal interview with War on Want's Director of International Programmes Guillermo Rogel, Mr Rogel explained that the two factors that are considered by War on Want to be most central to fair labour standards are the right to form or join a trade union and evidence of adherence to a domestic labour law. While a minimum wage may be a factor of this domestic law, it is the fact that domestic law exists as an indicator of <https://assignbuster.com/global-big-business-is-the-most-powerful-force-for-improving-labor-standards-in-developing-countries-discuss-flashcard/>

consideration of the welfare of workers that is felt to be most significant.

Many activists call for worldwide laws governing labour standards and this is an issue that has plagued the ILO since its inception. In some instances countries have welcomed labour laws and agreed to the enforcement of them.

Cambodia, for example has a 'bilateral agreement' with the USA. This agreement links labour standards to trade and is constantly monitored by the ILO (Chan, 2003). In an attempt to monitor supplier activity, audits are carried out by companies such as Tesco's at their suppliers' factories. Rogel is critical of this type of 'one off' auditing. He insisted that the audits are prepared for and conditions are made to look better than they really are, while staff are monitored and are too scared to speak out.

One worker interviewed by War on Want said 'When there's going to be an audit, everything's prepared perfectly in advance so the company will get its certification' (2007). Rogel identified Colombian flower farms, the second biggest global exporters of flowers after Holland, as having particularly low labour standards. War on Want's 'Growing Pains' report suggests that flower growers suffer conditions such as having no safe drinking water while working 15 hour days. The report examines the effect of voluntary codes of conduct such as the International Code of Conduct for the Production of Flower Cutters (ICC): 'Since problems in the flower industry first came to light more than a decade ago, many standards and codes of conduct have been created in an effort to address these appalling working conditions and environmental impacts. However, these voluntary standards are failing to protect workers adequately, for reasons such as an absence of unions to

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ensure the flower companies comply with requirements, a lack of independent auditing and confusion over which standards to adhere to.

(2007) The ultimate problem is international laws would be impossible to properly police and voluntary codes are too lax, making them easy to avoid. Additionally, international labour laws would encroach upon the fundamental rights of countries to make their own decisions. Ross argues that, in response to a 1996 campaign to enforce an international minimal social clause regarding the ILO's core social rights there was 'ferocious opposition from developing countries (that) argued the proposal would deprive them of legitimate comparative market advantages' (2000). Essentially, standardization limits flexibility and flexibility of labour standards is many developing countries' unique selling point.

'Asian governments,' according to Hu-DeHart, 'loudly and unabashedly advertise their abundance of young women... all too eager to work for transnational capital at low wages and no benefits' (2002). Ross considers that in some Asian countries 'Child labour, sweat shops and oppressive domestic outwork proliferate' (2000). This proliferation may dismay anti-globalization campaigners, but these labour standards could be considered merely part of the process of change. During the industrial revolution in this country it was not uncommon for children to work 19-hour days for little or no pay. Although the Factory Act of 1833 banned children under 9 from working and limited working hours for children up to the age of 18, according to Clark Nardinelli, writing in *The Journal of Economic History*, 'rising real income and technological change were the main causes of the decline of

child labour' (1980). Realistically, the economy of the country needs to improve before child labour and other low labour standards will be abolished.

Poverty,' Mike Moore stated, ' is the main cause of unacceptable working conditions... And the answer to poverty is more trade and business, not less. ' Raising labour standards is a gradual process that needs the commitment of big business, which means big business needs and incentive. Just as during the industrial revolution, this incentive will be progress and, vitally, profits. Voluntary laws are simply not universally adhered to because profits suffer. If profits were positively correlated to labour standards, the big business would certainly be the most powerful force in raising labour standards in developing countries.

Achieving transformation of labour standards requires changes in cultural attitudes from big businesses and domestic governments to prioritize the welfare of their own people. Currently in China, for example, minimum wage should be no lower than 40% of the average wage for any particular area. In Guangzhou and Shenzhen, the first cities that were legally allowed to approach foreign big businesses for investment, the minimum wage to average wage percentage is the lowest in the country. While this may reflect the prosperity of the rest of China, this is unlikely, as it is estimated that 200 million people across China live in poverty.

Instead, this is likely to be partially due to the ' hukou' system and the effect it has on the movement of migrants, a governmentally and culturally ingrained fact of Chinese working life. Migrants cannot work without the correct papers, which can cost a month's wage to buy. Companies in

industrial cities loan migrants money to buy these papers and then withhold some of their pay or the papers themselves, making it very hard for the migrant to move jobs should conditions become unbearable. As migrants will often travel alone and be housed on-site by the company they work for, the risk of poor labour standards is high.

The system is lucrative for local authorities as the migrants pay local taxes, but are not covered by local welfare benefits such as health care. As the official workers' union is government controlled, it has no autonomous power to challenge systems such as ' hukou'. This could be considered to be evidence of a deliberate attempt to keep wages down and remain attractive to TNC investment. However, a 1998 ILO report found no evidence that countries with a strong trade-union presence suffered any loss of TNC investment in their Export Processing Zones, suggesting that the Chinese government uses policy on labour standards to restrict the power of unions for their own political reasons. It is unsurprising, considering the apparent lack of concern for the welfare of its own citizens, that Chan commented, ' In the race to the bottom, China is defining the bottom.

(2003) Priority in China currently lies with economic development and the Chinese working classes suffer poor working conditions because of this. British sports apparel manufacturer Reebok manufactures 51% of its footwear in China. While the company has been accused in the past of utilizing sweatshops, it claims to have abolished this process and founded the Fair Factories Clearinghouse, a non-profit organization dedicated to improving working conditions across the apparel industry. Associated Wire

Press reported one Reebok procurement executive as saying, ' Who enforces Chinese labour law? Nobody.

If it were enforced China would be a much better place to work for millions of people, but it is ignored more than any other country I work in' (AP, 2002). If Reebok were truly committed to seeing poor labour standards abolished and their employee's statement is true, it is questionable why, as a company worth \$8 billion, they are still operating in China and contributing to an economic system that their own staff admit is exploitative. The ILO has little chance of implementing tangible worldwide labour standard improvement if major big businesses like Reebok take no notice of core requirements like the right to collective bargaining. The ILO, then, seems almost powerless compared to big business in terms of influencing labour standards in developing countries as, like all voluntary codes and recommendations, it can simply be ignored. In a capitalist economy what cannot be ignored are the opinions of the customer, as they will ultimately make a decision to buy a company's products or services or not. Thanks to the free market customers have choice, and the choice to choose one company over another is power.

This is why big businesses value their reputations so highly and why intangible assets such as goodwill and brands can add millions to the valuation of a company. Consumer empathy with workers in developing countries does not completely supercede customers' desire to purchase goods that they want at a competitive price, as demonstrated by the success of Primark. However, bad press and bad public opinion surrounding a

company can ruin a company's reputation and lead to vast drops in profit.

Big businesses are aware of this.

The fact that 'multinational firms are well aware of the growing link between public opinion and profits, customers care about the conditions under which their products were manufactured' (Drezner, 2000) means multinationals are held accountable for their treatment of workers in developing countries.

While this may lead to the opinion that manufacturing under poor conditions is only as risky as the risk of getting caught, increased press interest in poor labour standards means this risk is a growing threat, which TNCs are combating with Corporate Social Responsibility (CSR) policies. Modern CSR was first recognized just prior Rio de Janeiro's 1992 Earth Summit. Here, Stephan Schmidheiny initiated The World Business Council for Sustainable Development (WBCSD), which has partnerships with companies such as Coca Cola and Dow Chemical and organizations such as Greenpeace and the World Bank. Christian Aid observes: "Corporate enthusiasm for CSR is not driven by a desire to improve the lot of the communities in which companies work.

Rather, companies are concerned with their own reputations, with the potential damage of public campaigns directed against them and overwhelmingly with the desire and the imperative to secure ever greater profits' (2004). WBCSD promotes member-lead research into projects such as sustainable manufacturing and the fair treatment of workers in developing countries and while this research may be a defensive PR manoeuvre, pressure from consumers quickly began to take effect. In 1997

PepsiCo withdrew from the Union of Myanmar, following Levis Strauss's <https://assignbuster.com/global-big-business-is-the-most-powerful-force-for-improving-labor-standards-in-developing-countries-discuss-flashcard/>

example and citing humanitarian issues as its main catalyst for change. The withdrawal was completed even though Myanmar was one of the few territories in the world where Pepsi enjoyed greater success than rival Coca Cola.

They did not explicitly oppose the political regime, but their actions were clear. In 2004 in the New York Times, Pepsi's spokeswoman Elaine Franklin had attacked Coca Cola's comments on the political situation in Myanmar, insisting that ' it is pretty arrogant of any company to decide to make its own foreign policy. ' However, this is a suitable summary of what big businesses do need to do to positively affect public opinion. In contrast to ignoring suppliers' poor labour standards, corporations should actively engage with them to achieve change, which will be driven by public opinion and will become competitively advantageous as their reputation rises. Hu-DeHart insists that it is ultimately large retailers who set the price of labour (2002) and therefore it is these retailers that need to be socially responsible and socially accountable through transparency of process, from raw material acquisition to point of sale in order to win the favour of an increasingly socially-conscious and skeptical public. Mark Moody, the former chairman of Shell advised that ' If companies behave improperly they can be got at through the international court of public opinion' (Christian Aid, 2004).

This statement highlights the lack of any real international legal process that can be used to challenge sub-standard labour standards. It also credits international public opinion with a strong sense of justice, compassion and the power to act where crimes have been committed. He recognizes that public opinion does not constitute mere shallow threats, but that a sentence <https://assignbuster.com/global-big-business-is-the-most-powerful-force-for-improving-labor-standards-in-developing-countries-discuss-flashcard/>

handed down from consumers of mistrust of objectives or feelings of guilt by association with a particular company or brand can destroy a company's reputation, possibly culminating its disappearance. Toor predicts that, ' So long as you let the relation of wage-labour to capital exist, there will always be a class which will exploit and a class which will be exploited' (2001). This relation will undoubtedly continue to exist and exploitation for financial gain will never be completely eradicated from business in a capitalist free-market. However, the most powerful force in this market is the consumer and companies flourish or fall by their reputations and brand image.

Consumers, therefore, are the most powerful force in improving labour standards in developing countries, but until consumers care more about the source of their products than the price, big business will always find ways to drive down costs by any means possible. References and Bibliography.

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