

# Improving labor standards in developing countries economics essay



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“ The modern multinational corporation (MNC) is an economic, political, environmental, and cultural force that is unavoidable in today’s globalised world” (Chandler and Mazlish, 2005: 19). Today’s global economy and politics are greatly influenced by the forces of globalization[1]. In this context, Multinational Corporations (MNCs) phenomenal growth since 1980s has witnessed an impact on every sphere of modern life; such as automobiles, commercial aircraft, Information Technology, consumer products, food and beverages which makes its role significant in this ‘ global epoch’ (Chandler and Mazlish, 2005: 2). With the liberalisation of international trade and free flow of capital, large numbers of developing countries have espoused into international trade arrangements; which have significantly shaped the global patterns of trade and international division of labour (Zammit, Forthcoming). In this context, MNCs are global firms that manage production, revenues, and investment beyond its borders along with a pool of international human resource.

With the advent of globalization era, the question of establishing minimum labour standards for developing countries has raised multifaceted issues, such as economic, political and moral which to date remains contentious[2]. For past two decades attempts have been made by the United States, along with other advanced country governments, and the International Confederation of Free trade Unions (ICFTU), to establish multilateral rules in the World Trade Organisation (WTO) to enforce higher labour standards globally. These standards were being placed to take strict trade measures against countries deemed unable to maintain core labour standards. (Singh and Zammit: 2004). However, this initiative did not materialize as developing

countries opposed this idea and marred this talk by veiled protectionist strategies.

In this context, this paper focuses on the emergence of ' global business revolution' since 1980s and the manner in which it affects labour standards in developing countries. The paper has two central aims, first to assess the key issues in this ongoing debate on labour standards in the literature, and second to analyse the ability of big businesses to improve labour standards in the labour intensive export-oriented work force in the context of global value chains based in developing countries. In doing so this paper will analyse work conditions of workers employed at the bottom of value chains in developing countries.

This paper structures' around five elements: i) an overview of the international labour standards, this section will explore the controversy around core labour standards and its significance from the perspective of big business' ability to improve them; ii) Economic development and labour standards, this section will discuss nature and pattern of international trade and investment and its effects on wages, employment; iii) the paper then examines the evolution of global production networks and value chains, in doing so the paper will look at the impact of global production on working conditions in the informal sector focussing on apparel and footwear industry in Pakistan, as these industries are labour intensive; iv) the effect of developing country trade on labour market conditions in the North; v) a brief look at the potential role of International Labour Organisation (ILO), host governments, Non-government organisations NGOs, World Trade

Organisation (WTO) and Trade Unions to improve labour standards by partnering with global big business.

This paper argues that ....

## **International Labour Standards: The On Going Debate**

This section focuses on divergent views of developed and developing countries on global trade and labour standards. The battle between advocates of a global labour standards and opponents of the standards is based on economic and political conflicts between developed and developing countries. In order to assess the ability of MNCs to improve labour standards in developing countries, it is essential to be clear about what is meant by labour standards and understand why they are highly contentious.

The contested labour standards are embodied in ILO 1998 Declaration of Fundamental Principles and Rights at Work, as the benchmark to measure labour standards. Of these standards, i) freedom of association and right to collective bargaining; ii) freedom from forced labour; iii) the abolition of child labour and iv) the elimination of discrimination in the workplace are considered to be core labour standards (CLS). These standards were collectively accepted by the member nation states to uphold them (Singh and Zammit, 2004). However, this has not been the case. These core labour standards are viewed by many NGOs as basic human rights. The core standards are also known as “ social clauses” on the basis of humanitarian grounds. However, Singh and Zammit argue, by categorizing core labour standards as human rights will prevent any further debate to take place on finding a favorable way to enforce them in developing countries (Singh and

Zammit, 2003: 10). The Declaration clearly states that “ We reject the use of labour standards for protectionist purposes, and agree that the comparative advantage of countries, particularly low-wage developing countries, must in no way be put into question” (WTO, 1996). However, there is distinction between core labour standards and other labour standards, which also factors into ‘ social clause’ and usually embodies labour standards such as minimum wages, limitation of work hours, and occupational health and safety. The role of other labour standards cannot be underestimated in the light of core standards as they play a significant role to analyse the influence of MNCs on standards. Thus, “ labour standards can be understood as social regulations” that are “ designed to address fairness, health and safety”, and simultaneously economic in nature to regulate wages and control movements in the market (Mehmet 1999: 90).

Although, liberalisation of free trade has offered both challenges and opportunities to countries based in South; Elliott and Freeman note, that many developing countries are committed and inclined to improve core and other labour standards. Many of the developing countries have laws to maintain ‘ decent labour conditions’ (Elliott and Freeman, 2003: 11). However, due to weak economic structures and lack of resources and inability to enforce labour codes, hampers the improvement of standards in developing countries. Hence, debate over labour standards is ongoing, the question is what are the ideal standards and what is the best way to incorporate them (Singh and Zammit, 2004: 3). It is proposed, that as labour standards help balance the interests of workers and capital within countries

and within the global economic system; workers through collective unions should take upon themselves to enforce these standards.

[Connect] Singh and Zammit argues that since core labour convention do not include minimum wage, therefore, implementation of core standards will have no impact on wage levels and other labour costs and therefore, developing countries should adopt this standard.

## **II Nature and Pattern of International Trade and Investment: Effect of developing country trade on labour market conditions in the North**

There is complex relationship between the labour standards and economic development.

The International trade expansion has brought labour markets of developed countries in close contact with those of developing countries[3]. This economic relationship has reaped great benefits such as enhancing the development in the developing countries through the transfer of knowledge and foreign direct investment (FDI) from the North. On the other hand, developed countries in the North has benefited from this trade relationship by seeing rising standards of living. However, Wood notes, that this relationship has affected the unskilled labours of North, by decreasing wages and making them redundant (Wood, 2004: 1). The 1947 preamble of the original General Agreement on Tariffs and Trade (GATT) stated: “ Relations among countries in the field of trade and economic endeavour should be conducted with the view of raising standards of living and ensuring full employment” (cited in Harvey et al, 2000: 4; Chan, and Ross. 2003: 1012).

This aspect of globalization has an impact on workers from both South and the North. For example, developed countries are concerned that trade with low-wage countries which is not synonymous for low labour standards countries are responsible for increasing wage inequality and loss of employment opportunities in developed countries.

Nolan argues that the “ global business revolution” has “ changed the nature of the capitalist firm, the pattern of competition and the way in which economic production is organizing in much of the global economy” (Nolan, 2006: 1). This evolution of global business has generated competition at global level, which compels firms in similar industries to merge their resources in order to achieve economies of scale and gain competitive advantages of firms. Thus, these mergers and acquisitions make MNCs powerful entity to play a dominant role in the global production and trade. (Connect with next para)

The regulations of the new global production system and trade have been redefined under the guidance of multinational corporations and their subsidiaries, developing ‘ system integrators’ in global value chains. The global retailers employ new technologies and methods acquired through mergers to exert pressure on firms in supply chain. These system integrators possess unequal bargaining power in value chains, as they put pressures in the retail sector, for consolidation to their first tier suppliers for ‘ right price’ and ‘ right time’, who further pass the pressures to bottom of the supply chain which is usually labor intensive and outsourced to developing countries to access cheap labour. Thus, creating ‘ cascade effect’ to obtain economies of scale. Nolan argues this “ ‘ cascade effect’ will have profound implications” <https://assignbuster.com/improving-labor-standards-in-developing-countries-economics-essay-essay-samples/>

for southern countries firms “ in catching up” at the global level, that may create entry barriers into global business (2006, 155).

From developing countries’ perspectives, entry into value chain plays a crucial entry point for their local corporations to have access to “ the global commodity chains of core firms” located in developed countries (Nolan, 2006: 3). Thus, less developed countries’ firms admission is not solely managed by the trade policies but also by the tactful decisions of the parent firms in the value chains. Although MNCs play a significant role in developing countries by investing in different industries and providing employment opportunities with their economic and industrial power, the developed countries’ governments have exploited the ‘ weak bargaining position’ of developing countries to create more avenues for big business (Madeley, 2008: 17). How Labour standards and practices Therefore, “ MNCs are not simply economic entities but part of complex interplay of factors”, that has both positive and negative effects on social, cultural environment of the host countries (Chandler and Mazlish, 2005: 3-4).