

MEXICO, LABOR STANDARDS, AND THE GLOBAL ECONOMY

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Just before 10:00 A.M. in early June 2002 motorists approaching the San Francisco Bay Bridge glimpsed a rather remarkable site: four giant white cranes slowly floating under the bridge on their way to a new home in the Port of Oakland. The cranes, bolted onto specially constructed freighters and gleaming in the morning sun, were so massive that even with their booms retracted their towering 220 foot height barely cleared the bridge. What rapt observers and late morning commuters may not have realized, however, is that the engineering marvel they were witnessing was a dramatic symbol of the new global economy. The cranes themselves--the largest and fastest in the world--were not built in Los Angeles, Hamburg, or Tokyo but in Shanghai. Their giant booms will be unloading container ships filled with products stamped, forged, and assembled in highly integrated, international production networks that are redefining the character of global trade.

In this era of globalization, the conditions of work in Mexico--thoughtfully reviewed in the diverse essays in this volume--are increasingly shaped in the context of the global economy. In fact, few countries have been as close to the epicenter of globalization as Mexico over the last decade or face challenges as great in the coming years. Powerful global forces are transforming cities as diverse and distant as Oakland, Shanghai, and Aguascalientes (Castells, 2000) and tying their labor markets together in important new ways. Much of the literature on globalization dwells on the lightning-fast movement of trillions of dollars across borders and analyzes the institutions of the global economy--the

International Monetary Fund (IMF), the World Bank, and the World Trade Organization (WTO) (Friedman, 1999; Stiglitz, 2002). What the literature skims over, however, is the emergence of a new international division of labor--the underpinnings for much deeper economic integration--with far-reaching implications. In this chapter, I explore the texture of transnational production or what might be called "globalization on the ground." I begin with a brief discussion of the debate over globalization, examine the changing character of trade, discuss the emergence of China as a major manufacturing power, explore the nature of foreign direct investment and integrated production networks, and, finally, conclude with the role of labor standards in this new global economy.

This extensive global reconfiguration of production poses a critical choice: will countries such as Mexico become export platforms, combining cheap labor and high technology, or more prosperous and developed economies with broadly shared gains? The answer to this question is obviously complex and hinges on politics and economic policy; it is at the heart of the process of development and the nature of integration into the global economy. I argue that "deep trade" redefines labor markets in core industries on a world-wide scale. Electronics workers in Mexico, Malaysia, and the United States are not only at times producing the same parts but also working for the same company and competing for the same jobs. As a result of this new integration, international labor rights embedded in trade agreements are a modest step in insuring more robust paths of development and more widespread social gains in both developing and developed economies. Rather than hobbling trade or serving as "shadow protectionism," labor rights can serve to create more robust markets and improved labor conditions.

Global Context

What exactly do we mean by globalization? The concept is vague, ambiguous, contentious, but nonetheless critical to understanding the nature of

work today. British social theorists Anthony Giddens and Will Hutton describe globalization as "the interaction of extraordinary technological innovation combined with world-wide reach driven by a global capitalism that gives today's change its particular complexion. It has now a speed, inevitability and force that it has not had before" (2000, vii). Hutton then elaborates a somewhat darker vision calling globalization "a capitalism that is much harder, more mobile, more ruthless and more certain about what it needs to make it tick" (2000, 9). He argues that "its overriding objective is to serve the interests of property owners and shareholders, and it has a firm belief, effectively an ideological one, that all obstacles to its capacity to do that--regulation, controls, trade unions, taxation, public ownership, etc.--are unjustified and should be removed" (Giddens & Hutton, 2000, 10). Keohane and Nye write that "the information revolution is at the heart of economic and social globalization. It has made possible the transnational organization of work and the expansion of markets, thereby facilitating a new international division of labor." They then cite Adam Smith from *The Wealth of Nations* as declaring that "the division of labor is limited by the extent of the market" and, of course, the market now spans the globe (2000, 113). Thomas Friedman, one of the most influential popularizers of the concept, elaborates the emphasis on information technology, stating that "globalization enables each of us, wherever we live, to reach around the world farther, faster, deeper, and cheaper than ever before" (2002, 64). Friedman, like many observers of globalization, argues that the "process is almost entirely driven by technology" (2002, 64). Stiglitz defines the phenomenon as "the closer integration of the countries and peoples of the world which has been brought about by the enormous reduction of costs of transportation and communication, and the breaking down of artificial barriers to the flows of goods, services, capital, knowledge, and (to a lesser extent) people across borders" (2002, 9).

The issue of inequality has both fueled demonstrations from Seattle to Johannesburg and created a highly charged academic debate. Dollar and Kraay,

two strong proponents of globalization, admit that "our research shows that countries that grow faster or trade more are as likely to see inequality decrease as increase" (Galbraith et al., 2002, 183). The Conference Board, a leading global business organization, maintains that, despite gains, "the dollar gap between gross domestic product (GDP) per capita in the richest versus the poorest economies grew between 1973 and 1997" (McGuckin et al., 2000, 1). Galbraith offers a more critical view: "The patterns strongly suggest that forces of globalization, including high global interest rates, debt crises, and shock liberalizations, are associated with rising inequality in pay structures" (Galbraith et al., 2002, 179). Faux maintains that "In an economy that is growing based on its domestic market, rising wages help everyone because they increase purchasing power and consumer demand--which is the major driver of economic growth in a modern economy." In contrast, Faux continues, "in an economy whose growth depends on foreign markets, rising domestic wages are a problem, because they add to the burden of competing internationally"(2002, 10). He then points out the ways in which anti-labor policies, often promoted by institutions such as the International Monetary Fund, and structural changes in economies reinforce income polarization. Rodrik points out that "Latin America, the region that adopted the globalization agenda with the greatest enthusiasm in the 1990s, has suffered rising inequality, enormous volatility, and economic growth rates significantly below those of the post-World War II decades" (2002).

The Changing Character of Trade

The rapid growth in trade has been a central feature of the new globalization. World merchandise trade soared to U.S. \$6.2 trillion in 2000. Over the last several decades growth in trade (8 percent a year) has outstripped growth in output (6 percent annually)¹ (WTO, 2; UNCTAD, 2002b, V). The ratio of imports plus exports to world GDP approached 30 percent in 2000, up from 20

¹ Global merchandise exports slipped to US \$6 trillion in 2001.

percent at the beginning of the 1990s. This 10-point jump is more than the increase of the two preceding decades combined (WTO, 2002, 1).

Rapidly expanding trade, however, is hardly new (Rothschild, 1999). We can see a similar phenomenon in what the World Bank calls "the first wave of global integration" (2002, 326) in the years leading up to the first world war. Exports almost doubled between 1870 and 1914, reaching 8 percent of world income. Global production also has a long history. The Ford Motor Company, for example, began assembling Model Ts in Mexico in the mid-1920s. What is new today, however, is the role of developing countries in exporting manufactured goods--toys and shirts to be sure but increasingly computers and automobile engines--in world-wide production systems. The original Ford Mexico City plant assembled cars from kits of parts sent from Detroit and the Model Ts were sold in Mexico; now cars are assembled in Mexico from global supply lines and sold throughout the world.

The character of trade has shifted in four fundamental ways. First, transnational corporations are far more central. The United Nations estimates that transnational firms accounted for about one quarter of global GDP in 1999, and currently account for about two-thirds of global trade. Second, manufacturing accounts for a much larger part of developing country exports, 70 percent at the end of the 1990s compared to 20 percent in the early 1980s (UNCTAD, 2002b, 51). Third, developing countries now capture a much higher percentage of global manufacturing exports.² Overall, the combined merchandise exports from China, Hong Kong, and Mexico--\$618 billion--equaled almost 80 percent of US exports by 2001 compared to less than 50 percent a decade earlier. Finally, developing economies are exporting far more sophisticated products. Between 1985-98, high tech exports from developing economies jumped 12-fold. Their shipments of office and telecom equipment, for

² Developing countries' share of global manufacturing exports climbed from 17 percent in 1990 to 27 percent in 2000 (WTO, 2002, exports).

example, now represent a larger share of their exports than either agriculture or mining (WTO, 2002, 4).

A central dimension of this export surge is the ability to site advanced production in developing economies. "High-technology activities previously out of reach of developing countries can now be placed there," according to the *World Investment Report*, "because labour-intensive processes within those activities can be economically separated and managed over long distances" (UNCTAD, 2001, xviii). In previous work, I have shown the ability of transnational firms to achieve world-class productivity and quality in developing economies (Shaiken and Herzenberg, 1987; Shaiken, 1990; Shaiken, 1994; Shaiken, 2001). Here I provide broader documentation of this process and explore new ways in which these production processes are tied together. Transnational firms, for example, pioneer new forms of work organization in developing economies and then implement them in high-wage locations, underscoring how tightly knit these production networks have become.

In Mexico, as in many developing economies, globalization is especially advanced in the automobile industry. Mexico's exports of auto products topped \$30 billion in 2000, approaching half of the \$68 billion of auto exports the U.S. recorded that year (WTO, 140). Under the North American Free Trade Agreement (NAFTA), U.S. and Mexican auto production has become highly integrated with 90 percent of Mexico's auto exports destined for the U.S. Mexico is the third largest source of cars and the largest source of auto parts, easily surpassing both Japan and Canada. Mexico exported \$2.4 billion of auto engines to the US in 2001, making it the third largest engine supplier.

Key to understanding the new international division of labor is the fact that Mexico and other developing economies are able to export at high levels of productivity and quality. It is this phenomenon that translates low wages into low unit costs at world-class standards. "Mexico's auto assembly plants now are equal to those in the rest of North America in quality and labor productivity and

sometimes better," Corbett et al stated (2001). Data from J.D. Power and Associates initial quality survey for the 1998 and 1999 model years include virtually all models produced in Mexico and sold in the U.S. market. Overall, quality on models produced in both countries were comparable for the two years, based on the number of defects per hundred vehicles after three months of service. Sufficient data was available to compare 10 models produced in both countries in 1999 and quality was higher in six cases in Mexican plants. Increasingly, Mexican factories are viewed at corporate headquarters as North American plants that happen to be located in Mexico and as full participants in a global production chain.

Among developing countries, these stellar quality results are not limited to Mexican auto plants. The star factory among European auto makers in 2002 was the BMW plant in Rosslyn, South Africa, on the outskirts of Pretoria, which builds the popular BMW 3 series. The plant scored 85 defects per 100 autos, placing it second in the world after a Toyota plant in Japan (Zaun, 2002, A1). As a result of these kinds of results, Honda plans to begin shipping cars from Thailand to Japan late in 2002, a first for a Japanese car manufacturer. Honda's chief executive told the *Wall Street Journal*, that adding plants in developing countries "will dramatically increase our competitiveness" (Zaun, 2002, A1). Ford plans to build small sport utility vehicles in a new plant in northeastern Brazil and export them to the U.S. market in 2004. "It's our lowest-cost plant in the world," Ford president Nick Scheele boasted to securities analysts in early 2002 (Zaun, 2002, A8).

Some critics charge that this surge of high tech production in developing countries is misleading because it is centered in "the low-skill, low-value-added assembly states of global production chains generally organized by [transnational firms]" (UNCTAD, 2002b, 53). While it is certainly true that little research and development takes place in the Mexican auto industry, the assembly of finished vehicles and the manufacture of engines are among the

most complex and demanding of manufacturing processes. Even labor-intensive processes involve sophisticated, capital-intensive elements. An auto assembly plant in Mexico, for example, employs hundreds of workers on the line and may also utilize dozens of robots and state-of-the-art computer systems.

Within global production chains, developing economies have become an important site to experiment with new forms of work organization. In 1913 mass production came into its own with the introduction of the moving assembly line in the massive Ford Highland Park plant near the center of Detroit; four decades later lean production began to emerge in Toyota plants in Japan, and now modular assembly is being pioneered in new Volkswagen, Ford, and General Motors factories in Brazil. Auto makers are introducing both modularization--workers assemble groups of parts into modules which are then bolted onto the final vehicle--and a much heavier reliance on suppliers. The first plant to try these approaches was the Volkswagen truck facility in Resende. Only 100 or so of the initial 1,100 person work force worked for VW with all the others employed by suppliers although their work stations were in the VW plant itself. General Motor's Blue Macaw project in the southern state of Rio Grande do Sul developed a variant on the "modular supplier" approach which was then watered down somewhat--in the face of strong initial UAW opposition in the U.S.--and transferred to GM factories throughout the world, including a new plant in Lansing, Michigan.

China

While Brazil and Mexico have both pioneered central dimensions of global production, the most important transformation currently underway is the emergence of China as a powerful, high tech exporter. The share of manufactures in merchandise exports for China has more than doubled from 42 percent in 1968-70 to 88 percent in 1998-00 as its overall exports have taken-off. China's trade has been scoring double-digit growth rates over the last decade,

twice the world average (UNCTAD, 2002b, 141), and seemingly overnight China has become the fifth largest merchandise exporter in the world, just ahead of Canada (WTO, 2002). Some observers feel that China could even overtake Japan as more Japanese firms shift their operations to China (Quinlan, 2002, 125). In a recent survey, 20 percent of Japanese transnationals indicated plans to shift production to China (UNCTAD, 2002b, 154). "We are watching China with great interest, also as a threat," Hiroshi Okuda, the chairman of Toyota commented (Inoue, 2002). China's exports represent almost 4 percent of the world total--more than doubling its share over the last decade--and by all accounts the process is in its early stages. The structure of export industries in China has also changed dramatically. Foreign funded enterprises jumped from less than 2 percent of exports in 1986 to almost half in 2000 (UNCTAD, 2002b, 155).

China combines three key production advantages. First, it offers an enormous, untapped domestic market. Investment in the domestic market is attractive on its own and spurs a hub of manufacturing suppliers and subcontractors with world-class potential. Second, wage rates are a third of Mexico's and 5 percent of those in the U.S. A vast surplus labor force and repressive government policies virtually guarantee low wages for years to come. Finally, China has a critical mass of educated workers and engineers.

The mix of exports is becoming decidedly more sophisticated. "When advantages such as cheap labor and a large internal market are present in a host nation, U.S. companies are all too willing to exploit these endowments," Joseph P. Quinlan, a Senior Global Economist at Morgan Stanley, argued in *Foreign Affairs*. "The once-simple integration strategies of firms, centered on the processing or assembling of manufactured goods, will become more complex as value-added manufacturing functions are increasingly transferred to Chinese affiliates," Quinlan continues. "The latter will become more specialized as they are brought into the global production networks of the parents. As a result, the quality of affiliate production will rise and become more internationally

competitive" (Quinlan, 2002, 122). Already telecommunications equipment and computers account for 25 percent of total exports (UNCTAD, 2002b, 141).

The auto industry, as elsewhere, plays a leading role. All five of the leading Japanese car companies have announced extensive new plans for China (Brooke, 2002, W1). The domestic car market is expected to almost double to 1.3 million in 2005 and some analysts project that China's market could be as large as Japan's by 2010. "China today is our No. 1 geographic priority in terms of market development," Carlos Ghosn, the president of Nissan Motor, said in June in Beijing. "Over the next 5 to 10 years, China will have the highest growth in all our markets" (Brooke, 2002, W1). In July 2002, Honda announced plans to build a major export plant and a month later, Toyota announced a \$2.5 billion investment capable of producing 400,000 vehicles a year by 2010, half of Toyota's current output in North America (Bradsher, 2002, W1). Not to be outdone, Ford announced within weeks that it plans to source more than \$10 billion of parts from China by mid-decade.

Investments in advanced manufacturing are hardly limited to the auto industry. "China is becoming a manufacturing superpower," according to Kenneth Courtis, Goldman, Sachs & Co's vice-chairman for Asia. "...the momentum seems unstoppable" (Garten, 2002, 20). 400 of the Fortune 500 firms have already poured money into more than 2000 projects in China (UNCTAD, 2001, 26). The Chinese government is working overtime on all levels to attract this investment. Shenzhen's provincial government has offered \$5 billion to advance its integrated-circuit industry.

Schooling is particularly important in global production networks. High-tech companies that located in Mexico found that strong educational institutions and educated workers were central to their success and clearly guided where they located their plants. Managers perceived a strong basic education--somewhere between 6 and 12 years--as critical for production assemblers and skilled repair workers. Post-secondary technical school and university degrees

were preferred for factory managers and design and development work. Given China's vast population and investment in education, the country has a critical mass of workers who both have shrinking domestic alternatives and are more than ready to engage with the global economy. China produced over 1 million university graduates annually in the mid-1990s, the latest data available, and engineers and scientists accounted for more than one third (UNCTAD, 2002b, 167). In addition, China has 200 technicians per million inhabitants which is less than Korea (318) but dwarfs Malaysia (32), itself a high-tech success story, and Thailand (30). The United Nations concludes that "China has the potential to leapfrog the industrialization process rather than continuing to rely on absorbing the surplus labour in relatively low value-added, labour-intensive manufactures" (UNCTAD, 2002, 167).

Integrated production networks

Two closely related developments underscore the increasingly integrated nature of global production: foreign direct investment (FDI) and intra-firm trade among transnational firms. The role of international production in the global economy is clearly on the rise, according to the *World Investment Report* (UNCTAD, 2001, 121). Foreign direct investment inflows reached a whopping \$1.3 trillion in 2000 (UNCTAD, 2001, 9). Admittedly three quarters of this investment moves from developed economies to other developed economies, reflecting the fact that FDI includes not only new investment but also merger and acquisition activity which overwhelmingly takes place in industrialized countries. Flows to developing economies accounted for \$240 billion in 2000 (UNCTAD, 2001, xiii). This investment tends to be highly concentrated. Only ten developing economies accounted for 80 percent of the total FDI in the developing world in 1999 (Burke, 2001). North-east Asia represented a hot-spot for this investment with inflows for Hong Kong, Taiwan, Korea and China

reaching \$80 billion in 2000 (UNCTAD, 2001, 23). FDI in China alone shot up by 1/3 in 2001 compared to the previous year, and contractual foreign investment which tracks future projects rose 48 percent (UNCTAD, 2002b, 154). An annual survey of senior executives of the world's largest firms conducted by AT Kearney, the consulting firm, reported that for the first time China edged out the US as the most desirable site for foreign direct investment (Giles, 2002).

Transnational corporations shape the patterns of global trade, and currently are involved as buyer, seller or both in about two-thirds of that trade (UNCTAD, 2001, 56). Half of this trade—that is one third of all global trade—is intra-firm (UNCTAD, 2001, 56). In other words, an important share of global trade is manufacturing and assembling products in world-wide production networks. In 2001 trade by transnational firms with their subsidiaries accounted for \$526 billion or almost half of US imports, and \$223 billion or over 30 percent of U.S. exports (United States Department of Commerce News, 2002, 1). Related party trade with Mexico represented almost 68 percent of Mexican exports to the U.S.

Within these highly integrated networks, ferocious pressures exist to cut costs, often provoking the threat or the actual movement of production to lower-wage areas. These pressures are especially evident in union organizing campaigns in the U.S. as Bronfenbrenner has indicated. Employers threatened to shutter workplaces in close to 30 percent of all National Labor Relations Board (NLRB) organizing campaigns and actually carried out the threat in 5 percent of the cases in which the union was victorious (Bronfenbrenner, 1997). By the late 1990s, with U.S. manufacturing hemorrhaging jobs, the threat rate had jumped to 70 percent in manufacturing and the actual plant closing rate was 12 percent (Bronfenbrenner, 2001). Clearly, the high threat rate is capable of exerting a major chilling effect both in organizing campaigns and in the collective bargaining process itself. Canada is hardly immune from the phenomenon. Navistar threatened its Canadian union in the summer of 2002 with closing the

Chatham operation and moving production to Mexico unless it received \$14 million in concessions. The company did not obtain all it wanted and only committed to keeping the plant open for another year (Kelly, 2002).

The drive for low wages in the global marketplace is no longer only a North-South issue but increasingly a competition among low-wage economies (Ross & Chan, 2002). Ross and Chan argue that "this competition--particularly in labor-intensive commodities--is not so much North versus South but South versus South" (2002). Hyundai, for example, plans to establish a global production base for a new minicar in India. "We intend to shift the production base of Santro from South Korea in the last quarter of 2003 and base Hyundai Motor group's exports from India," B V R Subbu, the president of Hyundai's Indian subsidiary stated.

China's role in a global labor market is particularly critical. Eighty percent of the Fortune 500 companies have already invested in China and many are currently upping their investment at breakneck speed. This means that workers in the global factories of these companies will be directly competing with Chinese workers for the location of future production and, more to the point, jobs. While this sort of competition is fierce in any case, there is an added immediacy and pressure within the same firm. Taiwan which has emerged as a powerhouse in the global personal computer industry has begun shifting production to China in a major way. In 2001 Taiwan-based firms produced over 50 percent of all laptops and 25 percent of desktop PCs and an even larger percentage of many peripheral products such as monitors. As U.S. firms squeeze their Taiwanese suppliers on cost, the suppliers are shifting production to other sites. "The obvious candidate is China, with its vast, cheap and increasingly educated labor pool. Add to that the low cost of power, water and easy financing by solicitous local governments, and Taiwanese companies say the cost of doing business in China is a fraction of that at home," according to the *New York Times*. Indicative of China's pull, Compal Electronics, Taiwan's second

largest laptop manufacturer, plans to move all its production to the mainland by 2004 (Landler, 2002).

China poses an especially tough challenge for Mexico. "In Latin America, Mexico is likely to face more competition from Chinese exports than other economies in view of the relatively higher share of manufactures in its exports," according to *the UN Trade and Development Report* (UNCTAD, 2002b, 162). In particular, both China and Mexico are heavily dependent on the U.S. market for their exports. China, however, has significantly lower wages than Mexico although its unit labor costs currently also trail Mexico, though not necessarily for long.

While the long term threat is clear, the short-term impact of moving production from Mexico to China is more ambiguous. Mexican maquiladoras had lost almost 300,000 jobs between October 2000 and the first quarter of 2002 (CIEMEX-WEFA, 2002). The U.S. downturn and a strong peso contributed to the erosion of a significant number of these jobs, but the role of China is open to some dispute.³ CIEMEX WEFA, the economics research and consulting firm, assigns 60 percent of the job loss to the U.S. downturn and placed much of the rest of the blame on domestic issues such as an unresponsive government (2002, 1). Maquiladora managers are far more eager to point to China. Rolando Gonzalez, president of Mexico's maquiladora association, estimates that as many as three quarters of the 277 Baja California plants that have closed over the last three years have moved to China (Calbreath & Lindquist, 2002, H1). Alejandro Bustamante, who manages three Plantronics maquiladoras in Tijuana, competes for contracts with plants the firm runs in China. "They're always lower on the cost of labor...a half to one-third lower," he reports. "It's a refrain that's being heard throughout Mexico these days, as factories face intense competition from low-cost manufacturing centers in China," the *San Diego Union-Tribune* comments. "Just as American factory workers once complained about losing their jobs to low-paid

workers in Mexico, Mexicans now worry about losing their jobs to Asia, and for good reason" (Calbreath & Lindquist, 2002, H1). Geography still matters but low labor costs tend to shrink geographical distances. "As a general rule of thumb, anything smaller than a breadbox is going to come from Asia since it's not too expensive to ship it across the Pacific," according to Jean-Paul de Kervor, a Tijuana real estate specialist (Calbreath & Lindquist, 2002, H1). "Anything bigger than a breadbox, such as TV sets or furniture, will probably continue to be made in Tijuana." The size of the China-Mexico labor cost gap, however, enlarges the size of the hypothetical breadbox, according to de Kervor.

Labor standards

The global movement of production--say from the United States to Mexico or from Mexico to China or from China to Vietnam--is not governed by the invisible hand of the market but rather by conscious corporate decisions. Transnational executives weigh many factors in the decision as to where to site production: access to markets, political relations with host governments, incentives to build a plant, the tax structure, the overall labor climate, the need to achieve targeted quality and productivity and the overall strategy of the firm, among others. Within this matrix low labor costs remain a central consideration when it is possible to achieve high productivity and quality. To the extent that few labor rights or even outright repression translate into low unit costs, firms have the option of circumventing higher standards and reaping bottom-line rewards. Those companies that choose not to follow this route are under fierce pressure from those who do. Workers in high-wage countries and workers in low-wage countries may have many deep differences but they also have a common interest: seeking a high road to competitiveness and insuring that they share in the benefits that result. Moreover, as we have seen, the competition on

wages is increasingly among workers in low-wage countries and workers in lower-wage countries.

The emerging structure of international production adds another dimension to wage setting: a relatively small group of transnational corporations operate highly integrated global production networks. These networks achieve world-class results in linked plants scattered across the globe where trade consists of parts stamped in one country, machined in a second, and assembled in a third. Downward wage pressures in one country are transmitted through the same firm to workers and unions in other countries, often as these workers bid for the same jobs. The result can be sluggish or even declining wages, severe burdens on collective bargaining, and a contributing factor to income polarization.

The institutions governing global trade provide scant recognition of these pressures facing workers on the ground and even fewer remedies. As a result, the international labor standard that exists today winds up being the status-quo—or worse. Indeed, the formula to become more globally competitive has become to make labor market conditions more "flexible"—a code word for far fewer worker protections. This path severs the link between improved competitiveness and worker well-being. By contrast, corporations and governments view the status-quo as too weak—not too strong—when it comes to investment protections. According to *the World Investment Report* “between 1991 and 2000, a total of 1,185 regulatory changes were introduced in national FDI regimes, of which 1,121 (95 percent) were in the direction of creating a more favorable environment for FDI” (UNCTAD, 2001, xviii).

A key paradox of the global economy today is that the conditions of work in far-flung global production networks are governed by nationally-based labor relations systems (Cleveland, 2002). The challenge is how to insure basic worker rights in this context, particularly given the powerful pressures to gut these rights. Broad consensus has emerged that the *International Labor Organization's*

(ILO) four core labor standards—freedom of association, nondiscrimination, and the prohibitions against forced and child labor—define a set of fundamental human rights in the workplace that transcend levels of development. As Joseph Stiglitz put it, "Today, there is growing recognition that the objectives of development go beyond simply an increase in GDP: we are concerned with promoting democratic, equitable, sustainable development." He then adds that "if that is our objective, then it is natural that we should pay particular attention to the issue of how the plight of workers changes in the course of development" (Stiglitz, 2000, 1). The final Declaration at the Singapore Ministerial meeting of the *World Trade Organization* (WTO) seemed to echo these sentiments by stating that "we renew our commitment to the observance of internationally recognized core labour standards" (Leary, 2002, 15). Least anyone get the idea, however, that the WTO itself might actually be thinking about dealing with these standards, the statement immediately emphasizes that "the *International Labour Organisation* (ILO) is the competent body to set and deal with these standards, and we affirm our support for its work in promoting them." The statement then continues "we reject the use of labour standards for protectionist purposes, and agree that the comparative advantage of countries, particularly low-wage countries, must in no way be put into question" (Leary, 2002). The ILO is the preferred site because it lacks any enforcement powers.

Are labor standards, in fact, protectionist? The charge has been repeated so often that it has achieved legitimacy by force of repetition. The charge, however, is nonetheless misleading and unfair. As economist Richard Freeman put it "most advocates of standards want what they say they want: to guarantee as far as possible certain basic rights to workers around the world" (Leary, 2002). That said, aren't labor standards subject to manipulation and what amounts to "shadow" protectionism? Absolutely, but so is virtually any global trade rule. Without question some protectionists hide behind worker rights but that does not mean that worker rights are protectionist or would be used that way in

practice. It is possible to have an internationalist vision, support expanded trade, and be in favor of broader worker protections.

The argument that labor standards necessarily erode the advantage of less developed economies is also suspect. Consider the first core right—freedom of association. This right is particularly fundamental because it is the foundation for independent unions and a free collective bargaining system. It lays the basis for translating democratic processes to the world of work. This right and the other three core rights are not tied to levels of development nor do they unfairly penalize poor countries. They allow the decision to be made on the ways in which a country competes in a broader, more participatory way. They, in effect, channel competitiveness to the high road. As Stiglitz puts it, "inclusive democratic processes involving unions and other popular organizations make it more likely that [workers] legitimate concerns will be addressed" (Stiglitz, 2000, 19). He makes this argument more specific by pointing out that "there is some chance that some of the disastrous economic decisions that were made in responding to the East Asian economic crisis would not have occurred had workers had a voice (let alone a voice commensurate with their stake in the outcome) in the decision making" (Stiglitz, 2000, 19).

In practice, lower wages would remain a source of competitive advantage for developing countries even with strong labor standards in place. Many factors influence wage setting from the overall productivity of the economy to the number of people seeking work. Labor rights insure that those who are most directly affected—the workers involved—have some say in the wage setting process. Workers will not want to price themselves out of a job but also will want to ensure that they share in productivity gains and can reach for a decent life. Moreover, international labor standards require all countries to play by the same rules, minimizing the fierce pressures that allow productivity to rise while living conditions fall. Higher wages don't necessarily harm competitiveness;

they can create a more stable and motivated workforce and enhance competitiveness.

Rather than throttling trade or penalizing low-wage countries, labor standards lay the basis for a healthier global economy and more robust trade. Labor standards offer three benefits: first, as we have seen, effective standards extend democratic processes to the world of work. Those who are most directly affected by economic change have a stronger voice in the direction of that change. Second, by laying the basis for a more effective collective bargaining system, standards move towards a more demand-driven growth. If workers can share in productivity growth, consumers and new markets are created, not throttled. This link has been the path to economic growth and the entry of workers into the middle class in industrial economies. Finally, by laying the basis for independent unions, standards add another mechanism to address the corroding income polarization that afflicts so many societies. This mechanism could reap important benefits in advanced industrial economies, creating new pressures to address the shortcomings of their own national labor relations systems.

While there may be a growing consensus on the value of these rights in the abstract, there is fierce division concerning enforcing these rights in practice, particularly regarding trade sanctions. Yet, sanctions represent the only effective route to ensure that standards are enforced. Trade penalties cut to the chase: they create powerful incentives to move towards the high road and in the direction of upward harmonization for the conditions of work on a global scale. The countries and the firms that face penalties are those that violate accepted norms, not those seeking better conditions who, in fact, are penalized by the incentives present under the status quo. Ironically, the ability to impose sanctions when necessary in a direct and transparent way may insure that sanctions rarely if ever actually have to be imposed.

Despite the surge of manufacturing exports from developing countries, these economies as a group have been shortchanged in receiving the benefits of this trade. "While the share of developing countries in world manufacturing exports, including those of rapidly growing high-tech products, has been expanding rapidly," the United Nations Conference on Trade and Development (UNCTAD) reported, "the income earned from such activities by these countries does not appear to share in this dynamism" (UNCTAD, 2002a, 1). The report finds that developing countries' "share in value added is determined by the cost of the least scarce resource and weakest factor, unskilled labor; and with control over strategic productive assets even tighter under these arrangements, gains can be highly skewed in favour of the TNC "(UNCTAD, 2002a, 3). Moreover, the report concludes "that middle-income Latin America and Asian economies are among the most vulnerable to these trends in the trading system" (UNCTAD, 2002a, 4).

The real issue for many countries in the global economy may be development gone wrong. Standards alone are hardly the solution to this fundamental problem of the global economy. In fact, to work effectively in the long term, they must be embedded in broader institutions and arrangements that foster development and global growth. International core labor rights are all too modest a step. That said, they provide a minimum level of protection to workers and unions that is important and a powerful symbol of democratic values and the direction in which globalization ought to go. The entire society benefits--workers, firms, and governments--through the healthier growth that can ensue. Standards themselves represent little more than a first step but a step long overdue.

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