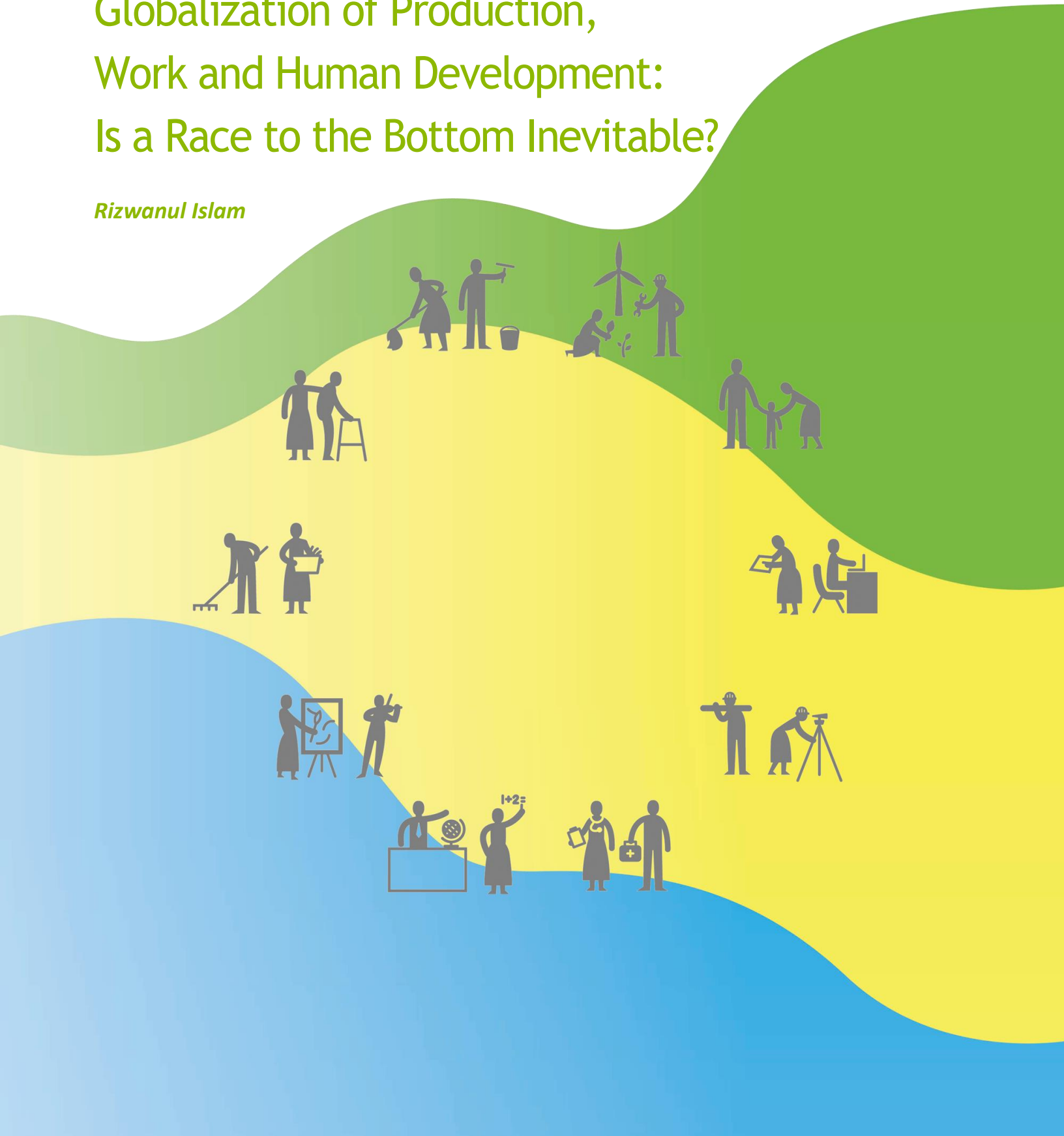


Globalization of Production, Work and Human Development: Is a Race to the Bottom Inevitable?

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Introduction

Economic globalization involves trade, capital flows and the movement of labour, and an important element in that process is the globalization of production. With the gradual dismantling of trade barriers, and capital flows becoming easier, globalization of production has flourished. It is no longer necessary to produce goods in one location. Even though a product may bear the mark of being produced in a particular country, its components may come from different locations. Particularly for high-tech products, research and development (R&D) is usually carried out in developed countries, components are made in different countries depending on their competencies, and the final assembly takes place in another country. This approach is also used for labour-intensive goods such as garments, shoes, etc.

Globalization of production has influenced the world of work in ways not seen before.¹ While some impacts have been positive from the point of view of workers, others have given rise to serious concerns. On the positive side, new employment opportunities hitherto unknown in many developing countries have opened. On the other hand, serious pressure on the working class has come through the stagnation of real wages² and adverse workplace conditions. The term ‘race to the bottom’ has come into circulation in this context. But this does not have to be the only way forward, since there are useful positive aspects from which workers could benefit alongside the rest of the global community. This paper explores possible paths to such outcomes.

Globalization of production and changes in the work world

Since the globalization of production involves splitting of the global value chain into different components, success depends critically on several conditions, including the technical capacity of the producers of components and assembly firms, the availability of workers with necessary skills, and the ability of managers to deliver according to strict time schedules (the so-called ‘just-in-time delivery’). In some cases, e.g., for basic consumer goods such as garments and shoes, the skills required are rather basic, while in the case of others, such as electronics and their components, parts of capital goods, etc., higher level skills are required. But what is key in either case is the flexibility

¹ There is a sizeable body of literature on the impact of globalization on the labour market. UNDP’s Human Development Report 1999 (UNDP 1999) pointed out the negative impact of globalization on labour markets. Likewise, the International Labour Organization (2004) provides a detailed analysis. There are many more studies, and no attempt is made here to provide a list of the relevant literature.

² Real wages have risen in some countries such as China and India, but not in many others. Further, rates of wage increases have been lower than those of labour productivity.

with which labour can be employed and its low cost, an arrangement that has its positive as well as negative aspects.

One major positive aspect is the location of labour-intensive (usually export-oriented) manufactures in labour-abundant countries and the absorption of surplus labour in sectors where wages and incomes may be higher than in traditional sectors. This facilitates the transformation of the structure of employment towards sectors where productivity and incomes are higher.

A related aspect is the creation of new avenues for women's employment. The early experience of export-oriented industrialization illustrates this, having created jobs in industries such as electronics and garments requiring so-called 'nimble fingers', particularly in countries of East and South-east Asia. More recent examples of increases in women's employment are in countries such as Bangladesh and Cambodia. Developments related to women's employment in export-oriented industries include increases in women's participation in the labour force,³ higher growth of women's employment compared to men's, and a rise in the share of women in paid employment.⁴

The location of modern manufacturing in developing countries, by generating demand for skills of different types, creates one of the basic preconditions for skills development. Although R&D, design and planning are normally carried out in developed countries, and there may not be much scope for transfer of technology through locating parts of production activity, a process of 'learning by doing' may be engendered, thus creating grounds for entrepreneurship development. Further, opportunities for participating in the global value chain lead to investment, both by domestic and foreign investors, and thus creates the possibility of attaining higher growth.

Participating in global value chains and the resulting growth of economies have also incurred costs in terms of negative effects on work. One feature that distinguishes industries emerging from the globalization of production is their direct link with work orders from buyers, and hence the uncertainty in the size of operation that a producer needs to maintain.⁵ The risk that arises out of such uncertainty is usually borne by workers in terms of the flexible arrangements through which they are hired. Flexibility may be manifested in terms of temporary contracts, if a formal contract is

³ With, of course, exceptions such as India.

⁴ For a good discussion of the gender dimensions of the globalization of production, see Barrientos et al. 2004.

⁵ Apart from centrally planned economies where production is usually designed to fulfil targets of production allocated by the planning authority, production in market-oriented economies is supposed to be undertaken in response to demand, and hence is bound to be subject to the uncertainties of the market. But in traditional industries, a workforce of a certain size is usually engaged on the basis of an ex ante estimate of the demand for a product.

even given to workers;⁶ the compulsory nature of overtime work often without appropriate compensation; the possibility of termination without notice and often without severance benefits; and so on. In fact, the workforce in such industries does not resemble the industrial labour force as it is commonly understood.⁷

Even in formal enterprises, workers are often engaged without normal benefits and allowances, e.g., those that protect against illness, old age, unemployment, etc. Thus, the boundary between formal and informal employment often blurs, and informal employment does not remain confined to the informal sector alone.

While increased women's employment has been a positive impact, this has also been associated with a host of issues including discrimination in wages and other terms of employment, a higher incidence of women in informal and casual employment, and the imperative to combine household and reproductive responsibilities with income-earning activities. Women employed in formal enterprises are usually young and unmarried, and what happens to their working life at later stages remains a question.

Competitiveness is a key word in the globalization of production, usually interpreted in the narrow and static sense of cost per unit. As costs of material inputs are often beyond the control of producers in developing countries, the onus of maintaining competitiveness in terms of cost usually falls on labour. Wage repression is a commonly used mechanism for achieving this goal. This is amply demonstrated by the decline in the share of wages in value added (or national income) that has been experienced by many developed as well as developing countries for different periods, including the 2000s (ILO 2013, 2015); developed countries from 1980-2004 (IMF 2007); developing countries from 1980-1994 (Jaydev 2007); and both developed and developing countries from 1970-

⁶ During the early phase of the development of the ready-made garment industry of Bangladesh, employment of workers without written contracts was almost universal. Even today, providing written contracts is far from universal, although issuance of appointment letters is one of the conditions mentioned in a memorandum of understanding agreed in 2006. The Bangladesh Garment Manufacturers and Exporters Association claims the rate of compliance on appointment letters among their members is 80-90 percent. But other studies report much lower rates (Afrin 2014, for example, reports that half the employers provide appointment letters). In major industrial centres of India, unskilled production workers in the ready-made garment industry are usually engaged without formal contracts, which are given only to managerial and administrative officials (Hirway 2011). Serrano (2014) points out that except in Singapore, the incidence of 'non-standard employment' has increased in other Association for Southeast Asian Nations countries during the 2000s, alongside high rates of economic growth.

⁷ A survey of ready-made garment industries in major industrial centres of India shows that no 'permanent' employee has been recruited in the industry during the past eight years (Hirway 2011).

2009 (Guerriero 2012).⁸ A poor work environment and unsafe workplaces, which also characterize global value chains, provide further evidence of attempts by producers to cut costs, as exemplified by the frequency with which accidents occur in export-oriented industries.

Where workers lack formal contracts, it is a far cry to think of their right to voice grievances and demands. A very small proportion of workers enjoy fundamental rights such as freedom of association and collective bargaining. Not only is the degree of unionization very low, but the formation and joining of unions is actively discouraged in many developing countries. An additional challenge is the fractious nature of unions and their image problem in pursuing the real goal of workers' interests.

Is a race to the bottom the only way?

In view of the scenario outlined above, it is not surprising that there is serious concern about the danger of a race to the bottom. On the other hand, given the existing and potential benefits of globalized production, this is not the only outcome. The prevailing gloomy scenario is mainly due to a misplaced emphasis on a static, narrow interpretation of competitiveness in terms of financial costs per unit of production. The adoption of a slightly longer term, broader perspective could perhaps lead to a different conclusion.⁹

Why is a static view of competitiveness inadequate even from the point of view of profitability and of benefiting from advantages opened by the globalization of production? The simple reason is that a competitive edge based on low-cost, unskilled labour does not last indefinitely. Once surplus labour is exhausted, and the labour market tightens, an economy will be required to adopt other means of maintaining competitiveness. Even while surplus labour exists, and it is possible to keep production lines operational without raising real wages, there is often a cost in terms of the

⁸ According to standard theory, when developed countries import labour-intensive goods, their domestic industries face competition, and as their cost of labour is high, competition will result in gradual decline in such industries. The result of this process is normally a downward pressure on the wages of unskilled labour, and the share of labour in production eventually declines. On the other hand, as production of labour-intensive goods increases in developing countries, demand for labour increases, and the result is an upward pressure on wages and an increase in the share of labour in production. The result of these opposing forces in developed and developing countries should be a convergence in the wages of workers in the two sets of countries. Developments in the real world, however, do not exactly follow the theory. Although the experience of developed countries seems to be along the lines mentioned above, the experience of developing countries often diverges.

⁹ This paper does not go into more general issues concerning relationships between labour market flexibility and social protection on the one hand, and economic growth and employment on the other. For analysis of some of these relationships, see Islam and Islam 2015.

productivity and efficiency of workers. Unsafe and poor work environments also may have negative consequences for productivity.

Apart from economic aspects of costs and competitiveness, an important element of today's global market is perception about conditions in which goods are produced. Consumers are becoming increasingly aware of and sensitive to these, and buying intermediaries are facing growing pressures arising from ethical considerations. In such an environment, a single-minded pursuit of cost efficiency is likely to be a short-sighted strategy. That is illustrated by the global outcry caused by successive accidents in the ready-made garment industry of Bangladesh. It is a measure of global concern about conditions along global value chains that major retailers who source their imports from factories in Bangladesh have initiated remediation plans and are providing financial support. Although those initiatives have their limitations,¹⁰ they nevertheless indicate that sweatshop conditions are no longer acceptable in workplaces that are part of the global value chain.

Cambodia's experience illustrates the ability of a country to maintain its export market even by keeping wage rates and conditions of work at acceptable levels. Development of the economy of that war-torn country started in the early 1990s. Right from the beginning, the country was keen to earn a reputation in export markets by maintaining minimum standards in terms of workplace rights and conditions. A key factor in Cambodia's success with this approach was an agreement with the United States in 1999. Under it, Cambodia agreed to uphold the rights of workers, and the United States agreed to increase the annual quota of imports from the country. Cambodia has continued doing quite well in markets in the United States even after the quota system for garment imports was abolished, showing that low wages and poor working conditions are not essential for maintaining competitiveness.¹¹ Examples like this are still not common, however, and overall, the position of workers is becoming increasingly weak.

¹⁰ Two projects launched by two groups of retailers cover less than 2,000 out of a total of 4,000-plus factories in the ready-made garment industry of Bangladesh (Labowitz and Baumann-Pauly 2014). What is more important is that conditions in factories not covered by these programmes are perhaps worse.

¹¹ Workplace safety and work conditions nonetheless remain a problem in Cambodia—demonstrating that it is not easy to transform them. Given the manner in which the global supply chain works and the constant focus on nominal costs, there is always a tendency to exploit the vulnerable. Without concrete leverage after the abolition of the quota regime, the long-term effectiveness of the arrangement mentioned here is coming into question (O'Keeffe 2013).

How to prevent the race to the bottom

Despite alternative ways of attaining and maintaining profitability and competitiveness in the globalized production system, the world of work associated with this system reflects many characteristics of a race to the bottom. This is not entirely surprising, because it is not easy to see the benefits of the high road to growth, and short-term profit motives usually lead to what seems to be the more lucrative path. What then is the way out? A combination of measures will be needed.¹² Singling out a few areas should not imply that others are less important, but those mentioned below must not be compromised under any circumstances.

The first area of non-compromise is safety in places of work. The worst situation one can think of is where security of life is threatened, and that must top the list of unacceptable aspects of the work environment. Accidents like the disaster at Rana Plaza in Bangladesh should provide a wake-up call (if any was needed), and necessary measures must be adopted to prevent any such accidents in future irrespective of the level of development of a country, the type of industry and the type of contract under which a worker is working. Security of life must top the agenda of human development relating to the world of work.

The second area where improvement needs to be made on a priority basis is the wage rate—with particular focus on ending gender discrimination—and the rate's periodic adjustment. Since trade unions and collective bargaining are still exceptions, workers are often at the mercy of employers with respect to wage rates, compensation for overtime work and other allowances. Timely payment of wages and allowances often becomes an issue. Adjustments of wages to growth of productivity and cost of living are not usually made unless there is intervention from governments. Even then, the usual arguments of jeopardizing competitiveness and inability to pay are invoked in order to keep adjustments to the barest minimum. All such practices must end and modalities of wage determination and adjustment must be straightened out.

Third, the dignity of people who work to produce goods and services for the world cannot be compromised in a discussion on human development. A basic prerequisite is for them to have a voice in matters relating to their work and life, which in turn requires that fundamental principles and rights at work be honoured.¹³

¹² The purpose here is not to elaborate a detailed agenda for decent work as espoused by the International Labour Organization.

¹³ In 1998, a Declaration on Fundamental Principles and Rights at Work was adopted by governments, employers' organizations and workers' organizations at the International Labour Organization. One of these principles and rights at work is the freedom of workers to form associations and bargain collectively with their employers.

Coming back to measures to bring about the kind of improvements mentioned above, the basic question is how private enterprises can be encouraged to move in the required direction. They are not likely to do so on their own, and that's where public policy and governance of the labour market come in. There are two levels at which this issue needs to be addressed—national and international. At the national level, appropriate legislation is needed in areas mentioned above as well as on other relevant issues. Compliance requires not only legislation, however, but also the willingness and capacity of governments to implement it in an efficient and transparent manner.

Action to improve the terms of employment and working conditions will inevitably face resistance unless producers can find a way of passing on at least a part of the additional costs to their buyers. And that's where the role of the global community also comes in. If there is real commitment to meeting basic standards in the world of work, that would have to be reflected in the willingness to incorporate them in price negotiations. In other words, consumers in the importing countries and buyers who act on their behalf would have to underwrite, to some extent at least, the cost increases resulting from wage adjustments and improvements in working conditions. In this connection, it would be useful to remember Amartya Sen's observation: "The increasingly globalized world economy calls for a similarly globalized approach to basic ethics and political and social procedures" (Sen 2000, p. 127). A "globalized approach" would require national action in tandem with action from beyond national boundaries.

Democracy, freedom of expression and an active media—both national and international—can play a valuable role in the implementation of ethical standards in the world of work. This has been demonstrated, to some extent at least, in the wake of the Rana Plaza disaster in Bangladesh, when both national and international media became active in bringing out the roles and responsibilities of various partners in the global value chain, viz., producers and international buyers, and putting pressures on them to adopt remedial measures.¹⁴ The responsibility of the media should extend beyond ex post reporting, however, to embrace more proactive journalism that points out, on a regular basis, the need for interventions and improvements.

¹⁴ This is somewhat akin to Sen's argument (1993) that democracy and active media are an important factor in preventing deaths due to disasters such as famines.

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