

## Activism against Low Labour Standards in Developing Countries *Is it a bane in disguise?*

*Certain labour standards, such as freedom of association and freedom from forced labour, are considered as 'core standards' and are characterised by near universal acceptance by nations. Any detection of violation leads to such universal condemnation that most governments promptly react to undo the wrong. There are others such as the right to an employment policy, right to tripartite consultation, right to minimum age of employment and rules regarding maximum hours of work which are not characterised by universal acceptability or consensus. Steps are often taken by developed country NGOs to publicise the 'violation' or 'dilution' of these rights in a developing country even if such dilution is consistent with the labour standards of the concerned country. The resulting reaction from the 'aware' consumers of developed countries manifests itself in a fall in demand in the developed country and employment in the developed as well as the developing country. Governments who care about the aggregate welfare of labour actually try to arrest this decline in employment by allowing for even more laxity in 'non-core' standards in order to compensate the employers for the damage done by bad publicity. Thus, such publicity turns out to be counter-productive.*

### Introduction

Globalisation, because of its association with greater opportunities for trade and foreign direct investment, has not only resulted in a change in relative opportunities facing nations for income growth but has also been the source of changes in distribution of income and employment across and within nations. The tool of foreign direct investment has become a potent weapon in the hands of multinationals who now strive to cash in on the opportunities emanating from capital mobility to transfer capital and therefore, jobs from the more stringently regulated North to the more laxly regulated South.

Such changes and the associated adverse implications for employment in developed countries have produced a variety of reactions among consumers, NGOs, labour unions and the like. Thus, some labour unions and like-minded NGOs in developed countries tend to point to the poorer labour standards in the South in a bid to prompt officials bans and sanctions by their governments or boycotts or lowering of demand by their consumers.

On the other hand, there are other NGOs and their affiliated consumers who genuinely care about the maintenance of fair labour standards. They see the maintenance of fair labour standards as an end in itself; thus news of laxity in labour standards in developing countries leads to adverse publicity campaigns which prompt a boycott or lowering of demand for the products of North based multinationals operating in the South or even

for exports of products produced by domestic firms in the South.

It needs to be mentioned here that employment impacts of globalisation are probably assigned an importance which is totally out of proportion to their magnitude. A CUTS report (1997) provides a summary of impacts on employment. Overall, a small share of any decline in employment is attributable to free trade. Estimates vary from 6.2 percent of the overall decline in unskilled manufacturing employment to 20 percent of the economy wide decline in employment. However, in specific sectors the impact may be much larger; this is probably the reason for the mentioned disproportionate attention.

As the civil society becomes more powerful, there is increasing awareness among the citizens of developed countries of deficiencies in labour standards set by the governments of developing countries. The consumer class in any given country is naturally a heterogeneous lot; consumers in developed countries generally are divided between those who care about labour standards embodied in the products they consume and those who do not. The relative sizes in terms of population of the two sets of people and the "intensity of love for fairness in labour standards" among the sensitive set determine the saleability of products made by MNCs, who have production units in developing countries, after disclosures of laxity in labour standards.

Publicity campaigns by Northern NGOs about lax labour standards in the South and their exploitation by multinationals from the North increase the size of the first

set of consumers at the expense of the second set, thus leading to a shrinking of the demand for products manufactured by the mentioned multinationals. Such reduction in demand leads finally to a decline in employment by these multinationals.

To take a concrete illustration, a multinational company with a production unit in Bangladesh may face flak from consumers in developed countries such as the US and Germany after disclosures are made by Northern NGOs about production inside Bangladesh taking place through sweatshops. Such censure by citizens of these developed countries might take place even if products of the plant in Bangladesh are sold in developing countries only. In other words, the censure is not that of the product *per se* but the multinational who is seen as colluding in unfair labour practices. The censure manifests itself in multinationals losing markets in developed countries or a general reduction in the amounts people are willing to pay for their products.

The significance of the phenomenon discussed above would depend on how much and how many consumers care about the labour standards that are embodied in production. The results of some surveys put any doubts about significance to rest. For example, surveys conducted by Marymount University (1990), University of Maryland (2000), Freeman (1998) and Haq (1996) all show that Americans are on an average willing to pay more for goods manufactured under decent working conditions as opposed to those produced under inadequate standards. Blinder and Choi (1990) and Agnell and Lundberg (1995) demonstrate through interview surveys that notions of fairness in working conditions do matter to consumers. Such findings are substantiated by more indirect empirical studies, such as those by Rock (2001), which show that public disclosures of firms' sweatshop practices have indeed caused their stock prices to fall.

This briefing paper tries to speculate on whether activism by NGOs in developed countries to reveal sweatshop practices by multinationals in developing countries has the desired effect – that is, developing country governments actually raise their labour standards in response to activism. The analysis done in the next section shows that NGO activism in this regard might be counterproductive. Next section provides policy implications and then some conclusions are drawn.

### **A Three Way Interaction**

A government which cares about the welfare of its population does a fine balancing act in setting labour standards. While higher labour standards imply that the life of an employed worker is better, these also imply lower profitability of marginal employment to the entrepreneur and therefore lower total employment. Thus, higher labour standards in shoe factories might imply that a worker who continues to be employed after the imposition of new labour standards might be a happier man. But the very fact that labour standards have become higher might cause private entrepreneurs to lay off workers or stop hiring new ones when old workers retire.

In other words, the government in setting labour standards has to balance the gains from higher per capita welfare against the losses in terms of lower employment caused by higher labour standards and the higher implied costs of production. Let us look at how an equilibrium level of labour standards established through such a balancing act is upset when an NGO comes up with revelations of sweatshops functioning in developing countries because of poor labour standards.

The ultimate outcome might be far from obvious. One would expect the developing countries to be affected by the pressure from developed country NGOs and shore up their labour standards. However, this may not be true for the following reason:

A primary reason for why multinationals locate production in developing countries is that their less stringent labour standards lead to lower costs of production as compared to those incurred by these firms in developed countries. When an NGO comes out with a startling finding about sweatshops this leads to a decline in demand for the concerned multinational's product in developed countries. As the willingness to pay for the products of the multinational goes down in developed countries, the labour in developing as well as developed countries take a hit in terms of lower labour demand from multinationals and therefore, lower employment.

With the revelation acting as an implicit tax on consumption in markets where multinationals dominate, national income in these countries should decrease and so should employment unless domestic non-multinational firms which get access to a greater share in the market are decidedly more labour intensive than the multinationals they displace.

To illustrate, consider the case of NGOs in a developed country A publicising and demonstrating against the existence of sweatshops in a developing country B working for a multinational M, which has its base in A. The publicity and demonstrations imply that consumers in A now no longer get the same satisfaction from buying M's products, irrespective of whether they are produced in B or A. Demand for the products of the multinational M in A is hit, with the consequence that multinational M lays off workers in both B and A. Of course, some consumption demand facing the multinational M might be diverted to other firms but the general loss in available variety accompanying the adverse publicity (which acts as an implicit tax on consumers) means that national income and in all probability employment declines.

Faced by the grim reality of declining employment and incomes, both developed and developing country governments come to care even less about the per capita welfare levels of the dwindling workforces; they are quite prepared to take measures to actually make labour standards even less stringent than in the past so as to increase employment.

The lowered labour standards and therefore lowered costs of production, enables the multinational to compensate itself for the rise in awareness and sensitivity about lax labour standards. Note that because the allocation of labour by the multinational M between A and B also depends upon the difference in labour standards, the downward revision of

### Box 1: Still Waiting for Nike to Do It

On May 12, 1998, Nike's CEO and founder Phillip Knight spoke at the National Press Club in Washington, DC and made what were, in his words, "some fairly significant announcements" regarding Nike's policies on working conditions in its supplier factories. The announcements received favourable treatment from the press, with a *New York Times* editorial suggesting that Nike's new reforms "set a standard that other companies should match".

Knight made six commitments:

- All Nike shoe factories will meet the US Occupational Safety and Health Administration's (OSHA) standards in indoor air quality.....
- The minimum age for Nike factory workers will be raised to 18 for footwear factories and 16 for apparel factories.....
- Nike will include non-government organizations in its factory monitoring, with summaries of that monitoring released to the public.....
- Nike will expand its worker education program, making free high school equivalency courses available to all workers in Nike footwear factories.....
- Nike will expand its micro-enterprise loan program to benefit four thousand families in Vietnam, Indonesia, Pakistan, and Thailand.....
- Funding university research and open forums on responsible business practices, including programs at four universities in the 1998-99 academic year.....

Thus far Nike has treated sweatshop allegations as an issue of public relations rather than human rights.....

However, the projects Knight announced have been of little benefit to Nike workers. Some have helped only a tiny minority, or else have no relevance to Nike factories at all. The most significant promise, to allow NGOs to monitor its factories and release summary statements of that monitoring, has simply not been fulfilled. Health and safety is the one area where some improvement has occurred. But even here the company is not willing to put in place a transparent monitoring system involving unannounced factory visits. On the few occasions when independent safety experts have been allowed to visit Nike factories, they invariably have found very serious hazards.

The inaction of the last three years shows that rights groups are justified in treating the company with suspicion and demanding that factory monitoring be both genuinely independent from Nike's control and publicly reported in full. While Nike touts itself as an "industry leader" in corporate responsibility, Nike workers are still forced to work excessive hours in high pressure work environments, are not paid enough to meet the most basic needs of their children, and are subject to harassment, dismissal and violent intimidation if they try to form unions or tell journalists about labor abuse in their factories. The time has come for the company to adopt the reforms which human rights groups have advocated. It is indefensible that activists, consumers and most importantly Nike factory workers are still waiting for Nike to do it.

Source: Excerpts from a 2001 report by Tim Collins of Global Exchange (<http://www.globalexchange.org/campaigns/sweatshops/nike/NikeReport.pdf>), an American human rights NGO, on Nike's labour practices in the three years since CEO's speech in 1998 to the National Press Club, Washington DC.

labour standards by any one government triggers off a race to the bottom. As the government in A reacting to the expose and the consequent fall in demand and employment, lowers its labour standard this causes the multinational to think about relocating some more of its production within A's borders. The government of B then reacts to this by further reducing its labour standards, prompting A's government to do the same.

The whole cycle continues in a race to the bottom. Finally, an equilibrium is attained when both work forces become large enough so that government is as sensitive about the aggregate welfare loss from fall in per capita welfare of the existing workforce caused by laxer regulations as it is happy from the welfare gain brought about by any expansion in workforce caused by the same factor. No further relaxation of labour standards is considered necessary.

### Policy Implications

This paper shows that activism by NGOs in attracting the attention of people in developed countries to sweatshops in developing countries might be counterproductive. As demand from the developed countries for the products of associated multinationals declines in both

sets of countries, governments in developing and developed countries compete with each other in making supply conditions easier for such multinationals with production bases in both developed and developing countries i.e. a further relaxation of labour standards takes place.

One might argue that this implies that more stringent steps are required – NGOs and consumers in countries should lobby for boycotts, bans and trade sanctions against those countries which have poor labour standards. However, this hardly solves problems for labour in those countries. For example, in 1993 a film on the use of child labour (see CUTS, 2000) in the readymade garment sector in Bangladesh led to a boycott by US consumers of garments being sold in WalMart stores. Fifty thousand children were thrown out of work and had to resort to begging because of economic need; some girls were pushed into prostitution.

Such lessons from history need to be taken heed of seriously. Economic development has historically been seen to be a driving force behind better labour conditions. For example, in East and South East Asia the economic development of the eighties saw a decline in the significance of child labour as a problem. As economic development proceeds there would be endogenous movements to improve labour standards; these movements would have a

better and more long lasting effect than exogenous movements initiated by NGOs and consumers which are not backed by the actions and wills of local governments and people.

Certain labour rights can, however, be considered to be basic human rights. In this context it is essential to remember the advice proffered by a Dutch advisory group (National Advisory Council for Development Cooperation, 1984) to its government: only those labour rights which pass the social test (targeted at human rights and basic human needs), the political/legal test (widespread international acceptance of the convention) and economic test (do not impose undue economic hardship or impede economic development) should be adopted as core standards worthy of universal protection and promotion by citizens of all countries across the globe. Actual application of this criterion to a range of labour rights saw only freedom of association (consisting of the rights to organise and collective bargaining), freedom from forced labour and freedom from discrimination in employment emerging as core labour standards with others such as the development of employment policy, minimum age for employment and the right to tripartite consultations not passing the second test.

These core labour standards have become inalienable from man's conception of the basic rights of labour. Moreover, conformity to these is easily measurable and their universal observance and acceptance means that detection of their infringement results in universal disapproval and therefore corrective action. The other labour standards are not only difficult to measure and detect; some of these conditions such as a ban on child labour can result in economic hardships. More importantly, there is no consensus about the extent to which these rights should be pursued.

Regulations pertaining to these non-core labour standards leave ample room for less or more stringent enforcement. For example, a labour regulation allowing for

10 hours of work in a developing country can be seen to be exploitative by developed country NGOs. When adverse publicity leads to the fall in demand for the products of a multinational belonging to the developed country and operating in both countries and therefore to a decline in employment, governments in both countries try to compensate the multinational in order to revive employment by it. This can be done, say, by the government in the developed country increasing the maximum number of permissible working hours from 8 to 9 and that in the developing country increasing the same from 10 to 11 hours. What allows them to do so is the fact that there is no universal consensus on the maximum number of hours that a worker should work in a day.

## Conclusion

To conclude, labour standards can be classified into two types – 'core standards' with 'universal' or 'near universal' acceptability and 'non-core' standards. While violation of core standards, when detected, leads to prompt corrective action because of their universal acceptance, no such guarantee is there for 'non-core labour standards'. In fact, adverse changes in demand and employment caused by the publicity of NGOs regarding the dilution of such standards induce governments to contemplate further dilution as a means of compensating afflicted firms and inducing them to raise employment to the initial high levels.

It is, therefore, advisable to allow the acceptance of such presently 'non-core labour standards' to be shaped by future economic development. As economic development proceeds over time, the domain of 'core labour standards' should expand to include what are presently considered as 'non-core labour standards'.

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