

FOREIGN AFFAIRS

SEPTEMBER/OCTOBER 2002



From North-South to South-South

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Robert J.S. Ross and Anita Chan

Volume 81 • Number 5

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The True Face of Global Competition

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As protesters battled the police in the streets of Seattle in 1999, calling on the World Trade Organization to include environmental and labor issues in its trade negotiations, government representatives in conference rooms were carrying on a battle of another sort. Many developing nations, particularly the Asian countries, were strongly resisting a U.S.-led proposal by developed countries to link trade to environmental and labor standards through a new “social clause” in WTO agreements. The clause, its opponents argued, was a protectionist ploy that rich nations would use to shelter their own workers’ jobs from the competition in developing countries. This stance reflected a commonly held perception that the main competition in the production of goods is between the North and the South. But in truth, this competition—particularly in labor-intensive commodities—is not so much North versus South but South

versus South. The absence of a mechanism establishing international labor standards is propelling the economies of the South in a race to the bottom in wages and labor conditions.

The social clause, in brief, refers to the proposed insertion of five core labor standards into trade agreements: freedom of association, freedom to organize and to bargain collectively, and freedom from forced labor, child labor, and job discrimination. Many poorer countries either lack the laws to protect these rights, which are enshrined in the conventions of the International Labor Organization (ILO), or they simply do not bother to enforce those laws in their export industries.

TRADE UNIONS DIVIDED

Governments do not necessarily reflect the interests of their country’s workers, but labor unions are supposed to. So how do unions line up on the social-clause

ROBERT J.S. ROSS is Professor of Sociology and Director of the International Studies Stream at Clark University. He is the author of the forthcoming *Hearts Starve: The New Sweatshops in Global Context*. ANITA CHAN is Senior Research Fellow at the China and Korea Centre at Australian National University, editor of *The China Journal*, and author of *China’s Workers Under Assault*.

question? Although the issue at Seattle had united the government leaders of the South in opposition, the international trade-union movement holds diverse views. The International Confederation of Free Trade Unions, composed of 221 affiliated unions that represent 150 million workers in 148 countries, supports the social clause. But African backing for the clause has not always been uniform: trade unions in some countries, such as South Africa, are in favor, whereas those in others, such as Zimbabwe and Zambia, are opposed.

In Latin America, unions are more amenable to linking trade and labor rights, thanks in part to their strong relationships with their North American counterparts. Struggling unions in Guatemala, Honduras, El Salvador, and Nicaragua have strategically used the U.S. threat of trade sanctions (specifically, in response to violations of labor rights) to secure their own rights to organize. For example, Guatemalan workers formed an unrecognized union at a factory owned by the U.S. clothing giant Phillips-Van Heusen in the early 1990s. In a long and bitter campaign, their North American allies—including UNITE, the U.S. apparel-workers union—filed a lawsuit in the United States at their behest, alleging that Guatemala was ineligible for trade concessions because it denied workers the right to organize. This pressure finally led the firm and the Guatemalan government to recognize the union.

Other Latin American confederations of unions—for example, those in Argentina and Chile—support a social clause, too. The trade unions of several middle-income countries in Asia also approve. The Korean Confederation of Trade Unions believes the “social clause can be a significant and

effective instrument to protect and achieve social rights and the basic trade union rights.” Likewise, the Malaysian Trade Union Congress supports a linkage between labor standards and trade and exports—out of fear that its members’ rights could be undermined by competition from the large number of Asian migrant workers working without labor protection in Malaysia’s export zones.

But India’s trade unions and China’s quasi-governmental trade union federation take a different approach. The governments and trade unions of the two most populous countries in the world are determinedly against a social clause. And because of their dominant weight in the world’s cheap-labor market, their positions have enormous repercussions on the wages of unskilled laborers throughout the underdeveloped world. This dominance may also explain the perception that the South is staunchly opposed to the social clause—even though the truth is more variegated.

NECK AND NECK

In rejecting a regulated international labor regime, countries of the South lower their own labor standards to remain competitive and provide a “good” investment climate. This imperative gives businesses an excellent opportunity to exploit their work forces to the fullest; examples include the South Korean, Taiwanese, and Hong Kong firms that subcontract from brand-name corporations to do labor-intensive manufacturing in poor countries. The apparel industry aptly illustrates this type of globalized production. The work is highly labor intensive, and the industry continues to use a vast amount of unskilled labor supplied by the South, despite technological upgrading. This sector is

also among the most footloose: production facilities can be moved easily from city to city or country to country. Apparel manufacturing employs a large number of workers in the South, mostly young women; in turn, this high volume of jobs affects the overall wage levels and labor standards of these countries.

Over the past four decades, the U.S. apparel industry has been overwhelmed by this global low-wage competition. Apparel imports rose from about 2 percent of U.S. domestic consumption in the early 1960s to more than 60 percent in the 1990s. In the largest categories of clothing imports—men's and women's tops—the \$26 billion of imports furnishes more than 70 percent of the market by value and about 90 percent by quantity. Since 1980, imports have cut U.S. apparel-industry employment by half, a loss of more than 600,000 jobs. Many of the workers who remain in the U.S. garment industry, toiling as sweatshop workers or as underpaid home workers, suffer declining wages that today are often below the legal minimum. Even so, the North-South competition is basically over in this industry. The enormous difference in North-South wage levels ensures that those jobs lost will not return to the United States.

A TALE OF TWO COUNTRIES

In recent years, China and Mexico have become the lions of the U.S. clothing market, obtaining an equal market share since the 1993 signing of the North American Free Trade Agreement (NAFTA). By 2000, Mexico and China each supplied around 15 percent of all apparel imports to the United States. (The Chinese total includes Hong Kong's apparel manufac-

turing, which has relocated almost entirely to the mainland.) But Mexico enjoys two substantial advantages over China: close geography (hence a faster filling of orders) and the absence of quota restrictions, thanks to NAFTA. As a result, Asian investors—particularly South Koreans and Taiwanese—became increasingly active there in the 1990s, even moving apparel production out of Asia into Mexico.

The dramatic growth of apparel exports from Mexico and China to North America has created a surge of new jobs. In both countries, the export-oriented factories employ migrant workers from poor, rural areas. In China, the growth first began in the mid-1980s in Guangdong province (which neighbors Hong Kong) and picked up speed in the early 1990s. The entire Pearl River Delta in Guangdong, which 20 years ago was largely agricultural, is now a manufacturing powerhouse that churns out labor-intensive goods for the world market. Today, some 12 million migrant workers from poor parts of China's countryside staff these factories' production lines. A similar phenomenon emerged in Mexico in the 1990s. Along the U.S.-Mexican border, new investment created boomtowns where *maquiladoras* (assembly plants) have mushroomed. By 2000, these factories employed about one million workers—an increase of 150 percent since 1990—and production was spreading to other parts of the country.

Contrary to general wisdom, however, more jobs have not meant higher wages or rising labor standards for migrant workers, whether in Mexico or in China. On the contrary, wages have fallen as a result of intensified competition to attract factories that sell to the North's markets. This drop is reflected in both the low legal

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minimum wages set by the two countries and the real purchasing power of workers.

In China, the setting of a minimum wage is extremely decentralized. Any city, or even a city district, can set its own minimum wage based on a formula provided by Beijing. This formula takes into account such factors as the local cost of living, the prevailing wage, and the rate of inflation, and it is adjusted each year. In 2001, for example, the city of Shenzhen (just north of Hong Kong) had two standards. Inner Shenzhen, the city's commercialized sector, had the highest minimum wage in China at the equivalent of \$72 per month, but the outer industrialized sector's minimum wage was only \$55 per month. Elsewhere in China, legal minimum wages have been set even lower. Although these local governments comply on paper with Beijing's decrees on minimum wages, they attempt to attract investors by allowing them to pay workers below those rates. The legal minimum wage is set by the month and does not take into account that many migrant workers labor illegally for longer hours. (For example, our survey of China's footwear industry shows that the average number of hours worked each day is 11, and laborers often have no days off.) Furthermore, official statistics do not take into consideration the staggering amount of unpaid back wages. Some 40 percent of the 20,000 workers' complaints lodged with the Shenzhen authorities over nine months in 2001 were related to owed wages. Such abuse has become normal in southern China.

Official minimum wages also obscure other critical facts. They do not show the violence and physical abuses that have become pervasive in the factories in China

owned by Taiwanese, Korean, and Hong Kong intermediaries; nor do they take into account the acute and chronic occupational health and safety hazards. These factories record a startlingly high incidence of severed limbs and fingers; Shenzhen alone certified more than 10,000 such accidents in 1999 among a migrant population of 4 million. In short, despite China's dramatic export growth, the benefits have not trickled down to the assembly-line workers who make the exported goods. Indeed, their situation has gotten even worse since the Asian financial crisis of 1997-98; the downturn intensified competition with Southeast Asian labor, which had become much cheaper in the wake of local currency devaluations. (Provincial surveys in China show that a downturn in migrant workers' pay started at that time.)

China's main challenge in apparel and other sectors, however, comes from Mexico. There, workers' conditions in the *maquiladoras* are also grim. But unlike in China, wage levels in Mexico are more regulated. Only three minimum-wage levels exist for the entire country, including one for the U.S.-Mexico border region (equivalent to \$93 to \$108 per month). These minimum wages, although low, are almost double those of Shenzhen, which are the highest in China. But Mexico's legal minimum wages fell by almost half during the 1990s, due in part to the peso's collapse in 1996. In addition, competition with countries such as China created a downward pressure on average real wages in Mexico. In the manufacturing sector, wages dropped in real purchasing power terms by 20 percent over the same period. And in the booming apparel sector, ILO data show that their wages shed

14 percent of their purchasing power from 1990 to 2000. Since 2000, wages have gained slightly, but that increase is threatened by the prospect of capital flight to regions with even lower labor costs.

In short, export workers in China and Mexico have not benefited from the economic boom. More workers are being employed, but over the course of the 1990s working conditions and wages deteriorated. These assembly workers are caught in an internationally competitive race to the bottom.

INTENSIFYING COMPETITION

In 2005, trade barriers on apparel are due to end under the 1975 Multi-Fiber Agreement (and its 1994 successor). Assuming that its wages remain low, China will then be poised to make more inroads into rich-country apparel markets, offsetting Mexico's advantage of proximity to the U.S. market. In other industries, the WTO's lowering of trade barriers will also tip the scales away from Mexico and toward China. Fearing this, Mexico sought to delay China's entry into the WTO; in fact, it was the last WTO member to sign last year the necessary bilateral agreement with China that paved the way for WTO accession.

Mexico is already feeling the increased competitive heat. Knowing that trade barriers will soon fall, intermediate firms have begun shifting their Mexican assembly lines back to Asia, particularly China. The number of *maquiladoras* swelled from 120 in the 1970s to 3,700 in 2000 but has dropped by 500 since then. Pressures are increasing on other Mexican factories to compete with China's long working hours and bargain-basement wages. These pressures may also threaten the incremental

growth of an autonomous Mexican trade-union movement—a result of years of painstaking political and social change, supported by a solidarity movement in the United States and Canada. Employers who resist relocating to China or to other low-wage countries will be tempted to lower standards in Mexico by resisting the fledgling union movement.

Mexican President Vicente Fox has proposed the “Puebla to Panama Plan,” which would build an investment corridor for more *maquiladoras* from southern Mexico through Central America—at wages even lower than those at the U.S.-Mexican border. In China, meanwhile, the government is encouraging foreign investors to go north and inland in pursuit of lower costs than can be found in southern China.

The examples of China and Mexico show just how much the international competition among nations of the South influences their workers' well-being. And this race to the bottom affects people elsewhere in the developing world who hold jobs in those sectors. Without regulations to protect labor, akin to rules that protect investors, poor-country workers will not share in the benefits of a growth in world trade. For that reason, labor standards ought to be as much a South-South issue as a North-South one.

MAKING STANDARDS STICK

The debate over a WTO social clause has reached an impasse. Accordingly, there is no internationally binding enforcement mechanism to protect workers' rights in the South. Even the ILO, charged with this responsibility, has no means to enforce compliance with its conventions. It is doubtful that the Global Compact

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initiated in 1999 by UN Secretary-General Kofi Annan, which draws up guidelines for good corporate practices in the areas of human rights, labor rights, and the environment, will be useful, because it too lacks an enforcement mechanism. No competent global forum can enforce a verdict when a nation or its enterprises contravene fundamental labor rights.

Governments and trade unions of the South must confront this challenge. Their campaign against the North's protectionism has done little to improve the lot of their own work forces in export industries. They have to face the fact that they are competing among themselves—and that they themselves are partially responsible for the decline in wages and labor standards. The growing crisis in back wages (and wages simply never paid) owed to Chinese migrant workers shows that the bottom is continuing to fall. China is a key player in the South-South competition, and unless other countries can convince China to form or join a Southern consensus to put an international floor beneath wages, the scenario will only worsen. Only through enforceable minimum-wage standards can these countries prevent Northern corporations and intermediate suppliers from playing them off against each other. The possibility of WTO trade sanctions would deter abuses and give incentives to national labor-law enforcement. It would give all nations the right to complain about violations in an international forum. Picking up where President Bill Clinton and other developed-country leaders left off in Seattle, the WTO should devise a regulatory regime in line with a labor "social clause," so that violators, both governments and corporations, can

be sanctioned if they contravene it. This scheme or something similar to it will be necessary before labor standards can be expected to improve—or even just stabilize. The globalization of capital has made the world smaller and safer for investors; now the question before the world community is whether it can do the same for workers. 🌐