

# Racing to the bottom: international trade without a social clause

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**ABSTRACT** *Linking trade concessions to compliance with internationally recognised labour standards is referred to as a ‘social clause’. The social clause is usually depicted as causing division between the (rich) global North and the less-industrialised global South. This article shows, however, that there is diversity of opinion among the labour movements of the global South and that contemporary labour-intensive manufacturing pits countries of the South against one another. The article raises the possibility of a race to the bottom in labour standards, where workers cannot enjoy the fruits of growth because their employers and governments hold on to the competitive advantage of cheap labour. Consider competition between China and Mexico for the North American apparel market: despite enormous employment growth apparel workers have not enjoyed wage growth and their conditions are often appalling. The race to the bottom can be prevented by South–South agreement to honour labour standards.*

The concept of a social clause—a shorthand for linking trade concessions to compliance with labour standards in multilateral trade agreements—has its roots in the post-World War I founding of the International Labour Organisation (ILO). It has most recently been hotly debated in, and around, the World Trade Organization (WTO). A social clause is usually portrayed by those against it as a ploy used by the ‘rich’ nations to protect jobs and dominate markets, pitting the higher income countries and workers of the global North against the interests of lower income, less industrialised countries and their workers in the global South.

In what follows, we show that the typical portrayal of the issue of trade and labour standards as merely a North–South issue needs to be revised. By examining the competition between China and Mexico for the apparel markets of the global North, we argue that the social clause issue also pertains to South–South competition. Yet governments of the global South usually downplay South–South competition and ignore support for social clauses among some developing country unions.

We shall show that the regulation of minimum labour standards through a social clause is in the interests of workers in the developing nations. We argue that unless the South—governments, trade unions and workers—admits this openly and works towards a self-regulated labour standard, the consequence will

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be a race to the bottom—that is, a competition that cheapens labour and deprives workers of the fruits of economic growth.

### **The ‘social clause’ and the WTO**

At the international legal level the ‘social clause’ refers to linking trade with, for example, the widely accepted labour standards embodied in the five ‘core’ labour rights (freedom of association, freedom to organise and to bargain collectively, no forced labour, no child labour and no discrimination in employment).<sup>1</sup> But in ordinary public discourse, the ‘social clause’ usually includes more than these minimum core rights. It also embodies labour standards such as minimum wages, limitation of work hours, and occupational health and safety.

Many developing countries either do not have laws to protect these rights or, when such are on the books, blatantly allow them to be violated. The issue of linking labour standards to world trade is not new. The 1947 preamble of the original General Agreement on Tariffs and Trade (GATT) stated: ‘Relations among countries in the field of trade and economic endeavour should be conducted with the view of raising standards of living and ensuring full employment’ (cited in Harvey *et al*, 2000). The language continues to be included in the ‘Preamble’ to the 1995 WTO Agreement.

The first showdown about the social clause issue took place at the first WTO Ministerial Conference in Singapore. The USA, supported by most of the members of the European Union, was on one side, with the Asian nations (including Japan) leading the resistance.<sup>2</sup> Over no other issue had the Association of Southeast Asian Nations (ASEAN) been as united.<sup>3</sup> In the end the Ministerial Declaration delegated the task of ensuring labour standards to the toothless ILO and declared: ‘We reject the use of labour standards for protectionist purposes, and agree that the comparative advantage of countries, particularly low-wage developing countries, must in no way be put into question’ (WTO, 1996).

The South won. The ILO is an international tripartite organisation known for its lack of power to enforce labour standards (Cooney, 1999). Given the responsibility but not the power, the ILO could do no more than pass yet one more resolution, in 1998, urging all nations to honour their obligation to work towards the realisation of the ‘ILO Declaration of Fundamental Principles and Rights at Work’ (ILO, 1998). But because the expression ‘social clause’ has become such a loaded pejorative term among so many governments in the global South a more neutral and abstract term, ‘social dimension’, which is not linked to trade sanctions, was introduced. We now hear calls for attention to social issues without linking them to trade.<sup>4</sup>

### **A labour world divided**

The broad impression created by the world press is that governments and labour in the global South oppose the social clause and those in the global North support it. Missing from this perception (mainly because the mainstream press rarely reports on labour movements or on trade union politics) is the division of opinion among the world’s trade unions, labour NGOs and labour advocates.

Organised labour is found on both sides of the debate, as are NGO advocates of unorganised workers. Many of the Southern trade unions question the motives of the Northern unions that urge their governments to push for the social clause to protect the jobs of their own members.<sup>5</sup> The International Confederation of Free Trade Unions (ICFTU), the largest and most influential umbrella trade union confederation in the world, representing more than 157 million workers in 226 affiliated organisations in 148 countries and territories, officially supports the social clause. Under pressure to address the criticism that its view merely reflects that of rich country unions, the ICFTU notes that numerous African and other union confederations—at least 19 from developing nations—support a workers' clause in the WTO agreement (ICFTU, 1999: 39).

Trade unions of countries of South Asia in particular tend to be in the forefront of those rejecting the social clause. These are countries notorious for using child labour. In the past few years South Asia has been the site of numerous anti-WTO and antisocial clause conferences and rallies. In India an All-India People's Resistance Forum held a three-day conference attended by 'representatives of 50 organizations of farmers, tribal groups and agricultural labourers from 18 states', who adopted a declaration that dubbed the WTO a "brutal enemy" pitted against the Indian masses' (MAI-NOT Forum, 1998).

Those who object to the social clause differ in their reasons. Some reject the WTO altogether and, by extension, the social clause. They view the WTO as an institution set up by capitalist countries to perpetuate the concentration of wealth in the global North. Others focus more on the loss of national regulation the 1994 GATT treaty implies. In contrast with the ICFTU, the World Federation of Trade Unions (WFTU), whose membership is heavily based on developing-country unions, rejects the inclusion of a social clause in the WTO, but advocates that the ILO lead compliance efforts for core labour rights (Zhericov, 2000).

The Asian trade union with the largest membership is of course the All China Federation of Trade Unions (ACFTU). Under the control of the Chinese state, the ACFTU rejects criticisms of Chinese human and labour rights violations and opposes the social clause. But within the ACFTU there are dissenting voices. On the surface against linking trade with labour standards, these tendencies are not against the core labour standards *per se*. The ACFTU's official position rejects the two core labour standards: freedom of association and the right to collective bargaining. The minority view argues that linking labour standards with world trade will be inevitable (for example, Yang, 2001: 314; Zhou, 2001; Zheng, 2001). These writers hope that after China joins the WTO, external pressure will require the Chinese government and the ACFTU to raise labour standards and occupational health and safety standards (Qiao, 2001; Liu, 2001). This may be wishful thinking, but within the ACFTU structure there are those who hope that globalisation will permit external pressure to raise China's labour standards to be applied.

Among the Asian trade unions within capitalist countries there is no unanimity. Some support the social clause. For example, the Korean Confederation of Trade Unions (KCTU) 'believes a "social clause" can be a significant and effective instrument to protect and achieve social rights and the basic trade union rights' (KCTU, 1996). Likewise the Malaysian Trade Union Congress supports a sort of

labour standard–trade linkage, although it is adamantly against the concrete inclusion of a minimum wage.<sup>6</sup>

In southern Africa there is also a division of opinion between the Congress of South African Trade Unions (COSATU), Southern Africa's most powerful and once most militant trade union, and the Southern African Trade Union Coordinating Council. COSATU supports the social clause, concerned about losing jobs to jurisdictions where workers have not won the rights COSATU members have earned so arduously. The Southern African Trade Union Coordinating Council and other regional movement activists who oppose the WTO rejected Cosatu's position in 1999 (Bond, 2000).

### Strange alliances

The examples above show that, while the labour movement is divided over the issue, the division is not along a simple North–South axis. This has resulted in the emergence of strange alliances on the world trade labour linkage issue. Western bankers, multinationals and employers align with Southern governments in favour of unrestricted trade without labour conditionality. While talking about free trade, some Western governments also want a social clause, which the developing countries oppose. But, oddly, Western labour NGOs, human rights groups and trade unions that usually stand on the opposite side from their governments have often been on the same side over this issue.<sup>7</sup> Paradoxically, the NGOs who are usually critical of the WTO and often call for its dissolution find themselves on the opposite side from the developing world (and some labour movements) that they normally support. Those from the ideological left who dismiss the WTO altogether (and thus the social clause) have become strange bedfellows of the multinationals who also do not want internationally enforceable labour rights. These strange alliances seriously undermine international workers' solidarity.

Now that the social clause appears to be off the WTO agenda, those who object to it may feel relieved. But the problem of widespread violation of labour rights remains unresolved. Workers' conditions in many industries, both in the North and South, threaten a race to the bottom.

Reframing the social clause debate is a pressing necessity. We propose that a new paradigm has emerged in the world—from one of predominantly *North–South* competition shifting to one that prominently includes *South–South* competition. The process of this shift has not yet affected all industrial sectors in the same way. In labour-intensive industries the shift is almost complete. According to the World Bank, 'The share of manufactures in developing country exports rose from 20 percent to 60 percent between 1960 and 1990. Low and middle-income countries already account for almost 80 percent of the world's industrial work force' (1995: 16). Competition for the export markets of the North has sparked an intense competition that threatens labour standards in the South. Unless something is done to arrest this race, labour conditions in the South will be pulled down into a black hole of ruthless competition.

## South–South: China and Mexico competing for the North American apparel market

### *North–South competition*

We use the apparel industry to illustrate the shift to South–South competition because this is perhaps an industry more globalised than any other. The labour intensity of the industry, despite technological upgrading, still requires the use of abundant unskilled labour. The industry is also among the most footloose; facilities move easily from city to city, country to country or region to region.

The US apparel industry has been in decline, with domestic production and employment replaced by imports that have risen from about 2% of US domestic consumption in the early 1960s to over 60% (by value) in the 1990s (US Bureau of the Census, 2001). This steady rise in imports has of course had a drastic impact on US apparel employment. Figure 1 shows the history of declining employment and increasing imports in the US apparel industry.

Since 1980 import competition has cut employment in the US apparel industry by half, over 600 000 jobs. What is left of the garment industry in the USA is produced by low-wage labour, much of it paid below the legal minimum wage; some of the work performed is formally prohibited homework, or is done by illegal immigrants.<sup>8</sup> Two great suppliers have become the lions of the US market.



FIGURE 1. Apparel employment ('000s) and import penetration (%), 1939–2000.  
Sources: US Bureau of Labour Statistics (2001); US Department of Commerce, Office of Textiles and Apparel (2001); US Bureau of the Census (2001).

First, China and then Hong Kong<sup>9</sup> were the major exporters, then Mexico joined in and snatched away part of the market. As of 2000 Mexico supplied just under 15% of all imports to the USA; Hong Kong and China each supply over 7%, slightly more than Mexico's 15%. Figure 2 shows this growth at the expense of the US domestic market production and employment.

The graph shows that 1995, the year the North American Free Trade Agreement (NAFTA) began, marked the intensification of the competition. Mexico enjoys two substantial advantages over China. First, proximity to consumers means much faster turnover time for orders. Second, NAFTA members are free of the ATC quota restrictions.<sup>10</sup> Asian investors, particularly Korean and Taiwanese, who had previously concentrated their apparel production in other Asian countries, especially in China, quickly took advantage of NAFTA and diversified some of their investments to Mexico (and other Central American countries).

#### *South–South competition: China vs Mexico*

This dramatic expansion of apparel exports from Mexico and China to the USA causes gains in foreign direct investments and in employment in both countries. The export-oriented factories of both countries employ mostly domestic migrants from their poorer regions.

In China the growth first began in the mid-1980s in Guangdong province in the south, picked up speed in the early 1990s and spread steadily to other, northerly coastal cities. The Pearl River delta of Guangdong, which 20 years ago was

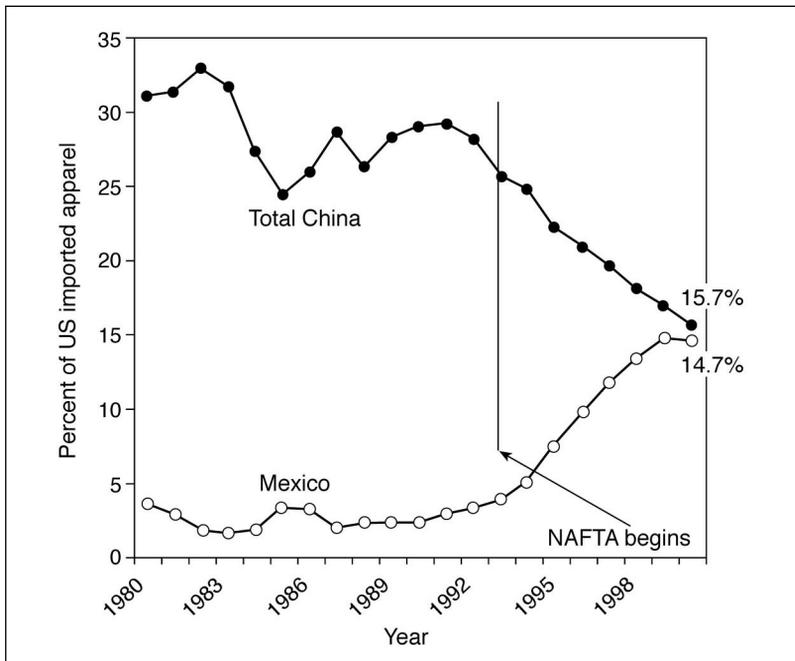


FIGURE 2. Clothing America: import shares from Mexico and China.

Source: United States Department of Commerce, Office of Textiles and Apparel (2001).

mostly agricultural, is now a gigantic manufacturing powerhouse churning out labour-intensive goods for the world market. Today, the production lines of these factories are staffed almost exclusively by migrants, some 10 million strong. A large component of the investment in this industry comes from the Asian newly industrialising countries (NICs—Hong Kong, Taiwan, Korea and Singapore), joined increasingly by Chinese domestic capital.

There was a similar phenomenon in Mexico in the 1990s. The expansion created an unprecedented boom along the US–Mexico border where *maquiladoras* (assembly plants) mushroomed. *Maquiladoras* now employ some one million workers, an increase of 150% since 1990.<sup>11</sup> As in China, *maquiladoras* have subsequently spread to other parts of Mexico.

This phenomenal growth in employment has not ratcheted up labour standards in the two regions. Here we shall focus our comparison on one labour standard: the wages of migrants in China and Mexico. Contrary to general wisdom, the growth in employment has not translated into higher wages either in Mexico or in China. Indeed, there has been a decline, as competition to attract factories that sell to the markets of the North intensifies.<sup>12</sup> This is reflected in the low legal minimum wage levels set by the two countries and in the real purchasing power of workers.

In China the setting of a minimum wage is extremely decentralised. Each city, or even a district in a city, can set its own minimum wage based on a formula provided by the central government that takes into account factors such as the cost of living in the locality, the prevailing wage, and the rate of inflation. The minimum wage is adjusted each year. In 2001 Shenzhen City had two standards: inner Shenzhen, the commercialised sector of the city just north of Hong Kong, had the highest minimum wage level in China, 574 yuan per month (US\$72); while the outer, industrialised sector had a minimum wage of 440 yuan per month (\$55). Elsewhere in China the legal minimum wages are lower, and local governments try to attract investment by granting numerous concessions to investors.

The minimum wages set in the cities listed in Table 1, when measured against the consumer price indexes of those cities, have just kept pace. But compared with the average wages of the urban population of those cities, the minimum wages lag far behind. Table 1 in fact shows a decline in their share.

According to the international standard employed by the Chinese government, the minimum wage of a locality should be set at 40% to 60% of the average wage in that locality.<sup>13</sup> This table uses 40% as the cut-off point to see whether the minimum wages officially set by various localities have reached this standard in past years. As data on minimum wages standards are not published in a centralised form by the Chinese government, we have not been able to find the standards for all the cities for all the years. Despite the gaps, however, a general trend is discernible from the table. The only year in which all minimum wages fulfilled the Chinese government's own criterion of reaching at least 40% of the average wage was 1993. Since then, in most localities and years, the minimum wages did not attain even the 40% level, although the average wages had been rising rapidly in some places. With only a few exceptions (squares shaded in grey), the general trend in minimum wages has been one of little increase or

TABLE 1  
**Proportion of minimum wages to employees' average wages in Chinese cities (1993-2000)**

	Monthly wage in yuan											
	1993			1994			1995			1996		
	Minimum Wage (M)	Average Wage (A)	M/A %	Minimum Wage (M)	Average Wage (A)	M/A %	Minimum Wage (M)	Average Wage (A)	M/A %	Minimum Wage (M)	Average Wage (A)	M/A %
Beijing	N/A			200/210	545	36.70/38.53	210/240	678.7	30.94/35.36	210/270	798.3	26.31/33.82
Tianjin	N/A	340		N/A	447		210	541.8	38.76	270	636.9	42.39
Shanghai	210	470.8	44.60	220	616.8	35.67	220/270	773.3	28.45/34.91	220/300	888.6	24.76/33.76
Guangzhou	250	533.3	46.88	250	735.9	33.97	320	883.7	36.21	380	1022	37.20
Shenzhen	280	694.6	40.31	285	901.3	31.62	380	1070	35.52	398	1242	32.05
Chongqing	N/A	262.1		N/A	355.2		N/A	404.2		180	417.5	43.11
	Monthly wage in yuan											
	1997			1998			1999			2000		
	Minimum Wage (M)	Average Wage (A)	M/A %	Minimum Wage (M)	Average Wage (A)	M/A %	Minimum Wage (M)	Average Wage (A)	M/A %	Minimum Wage (M)	Average Wage (A)	M/A %
Beijing	290	918.3	31.58	N/A	1024		310	1148	27.00	412	1362.5	30.24
Tianjin	290	686.5	42.24	N/A	824.6		290	920.5	31.50	350	1040	33.65
Shanghai	315	952.1	33.08	325	1005	32.34	N/A	1179		445	1544.3	28.82
Guangzhou	380	1143	33.26	380	1255	30.27	380	1434	26.49	450	1590.9	28.29
Shenzhen	420	1408	29.83	430	1575	27.31	430	1804	23.84	547	N/A	
Chongqing	210	458.5	45.80	N/A	430.8		210	525	40.00	290	581.7	49.86

Proportion  $\geq 40\%$

Sources: Average wages are from various statistical yearbooks and minimum wages are from various sources, including newspapers and labour bureaus. Shenzhen entry is the inner, higher, zone.

stagnation. This results, for example, in the minimum/average wage percentage in Beijing declining from 36.7% in 1994 to 27% in 1999; in Shenzhen City from 40.31% in 1993 to 23.84% in 1999. This means China's income gap between its regular urban population and the migrant workers continued to widen in the 1990s. This trend parallels China's increasing Gini coefficient in the 1990s, from 0.42 in 1996 to 0.458 in 2000.<sup>14</sup>

Guangzhou and Shenzhen, the two cities that have the highest average income in the country, and the first cities the central government allowed to entertain foreign investment, have the lowest minimum-to-average-wage percentage. The percentage in these two cities did not reach 30%. The worst of all the nine cities is Shenzhen, the most famous model of China's special economic zones. The percentages in the two cities have consistently been the lowest of the nine since 1997, dropping to a low of 23.8% in 1999. On the other hand, in Chongqing City, in China's interior, which is the least linked with the globalised economy and where the income of the average population is the lowest of the nine cities, the minimum wage was able to reach at least the 40% level in 1999. As a region becomes richer, it has to maintain its attractiveness to foreign capital and compete with other localities in China by keeping its minimum wage level low and employing cheap migrant labour. The benefits of globalisation do not trickle down to those who make the products.

Not revealed by this table is a more worrisome reality. On paper local governments comply with the central government's decrees about raising minimum wage levels annually to keep up with inflation. In reality the wages of migrant industrial workers are often considerably lower than the official legal standards. For one thing the minimum wage is set by the month and does not take into account the fact that many migrant workers labour for illegally long hours. According to a survey Anita Chan conducted of China's footwear industry, the average number of work hours each day came to 11, often with no days off. Nor do the official statistics take into consideration the staggering amount of wages owed but not paid to migrant workers. Some 40% of the 20 000 cases of workers' complaints lodged by letters and personal visits to the Shenzhen authorities during the first nine months of 2001 were related to wages owed. As a Shenzhen newspaper has editorialised, this has become the 'normal practice' in southern China. Local governments in Guangdong province periodically launch campaigns, especially just before Chinese New Year, to collect unpaid wages and/or unpaid overtime wages.<sup>15</sup> When the illegally long work hours and the unpaid wages are taken into account, a sizeable proportion of the workers are making considerably less than the legal minimum wage.

There are reasons to believe that the conditions of migrant workers in Guangdong province will continue to decline. Capital, forever seeking better investment conditions, is beginning to go to other parts of China. Indeed, the Chinese central government has been worried that Guangdong province is pricing China out of the international market and has started to encourage foreign capital to move northwards to the Shanghai region and elsewhere. Hong Kong and Guangdong are under much stress.

While China took up foreign investment at the expense of other Asian countries in the late 1980s, the Asian financial crisis of 1997–98 drained some

investment away. Thanks to the depreciation of the Vietnamese, Thai and Indonesian currencies, China faces intense competition:

The cost of one labour-day in Vietnam is US \$1, lower than Dongguan by half. Producing the same garment in Southeast Asia is 20—30% lower than in China. (Chui, 2000: 123)

China's main challenge in respect of the US market, however, comes from Mexico. Workers' conditions in Mexico's *maquiladoras* are also grim. There are three minimum wage levels set for Mexico, which also apply to the US–Mexico border region: in 2000 they ranged from \$108 to \$93 a month based on 26 working days a month (Rosenbaum, 2001). Compared with China's highest minimum wage standard for industrial districts, which is Shenzhen's outer zone's \$54 (430 yuan) a month for 2000, Mexican wages are twice as high. But, like China, Mexico's minimum wage level (Table 2) also started to decline in the 1990s. In fact, there was a sudden drop in 1996, two years after the implementation of NAFTA. Mexico's prevailing wages in the manufacturing sector have declined at a rate even slightly higher than that of its minimum wages.

The data above show that in neither China nor Mexico have workers who produce for export benefited from the export booms in these countries. The only gain for the workers as a class has been the creation of more jobs. In terms of working conditions and wages, their situation has deteriorated.

Asian investors are the major beneficiaries of the competition between the two regions—gaining the competitive advantage of *both* regions. In the process they have been able to hold down both Mexican and Chinese wages. 'Wages were not only hammered after Mexico's 1995 economic crisis, but continue to be squeezed to compete with Asian countries', observed *The Economist*. The economic downturn in the USA has cost the *maquiladoras* almost half their jobs. The downward pressure on wages can only increase.<sup>16</sup>

A comparison of Chinese and Mexican labour is in order.

TABLE 2  
Wages in Mexico, 1990–99  
1990=100

Year	Minimum wage	Minimum wage in manufacturing
1990	100.00	100.00
1993	67.50	111.40
1994	65.80	105.20
1995	81.10	88.70
1996	66.50	81.20
1997	58.90	82.90
1998	56.90	85.70
1999	55.40	88.40
Change, 1993–99	–17.9%	–20.6%

Source: 6° Informe de gobierno de Ernesto Zedillo, in Salas (2001).

### Chinese and Mexican labour conditions

Wages in China are lower than those in Mexico. It is normal practice in Chinese export areas for management to provide housing and subsidised food to workers. This adds to the total compensation package, but the employers gain large advantages from these apparently paternalistic arrangements. Dormitories, usually confined within factory compounds, extend management control over workers' lives beyond normal work hours. Movements in and out of the factory compounds can be monitored and controlled. No time is wasted in commuting. The provision of meals cuts down on workers 'wasting' time buying and cooking food. Demands for mandatory and extended periods of overtime are facilitated by these arrangements. Disciplining workers is also easier because there is near-total control over them. In some factories the discipline is so fierce that the management style can be described as militaristic (Chan, 2001: 46–71; Chan, 2002).

Most of both the Chinese and Mexican workers who produce for export are migrant workers, and in both countries the majority are female. But there is a difference. Almost all Chinese female migrant workers are single women in their late teens or early twenties. They have travelled long distances from poor provinces in China's interior to look for jobs. They cannot bring their families because of China's household registration system (Chan, 1998; Goodkind & West, 2002). Factories recruit single women by asking to see their officially issued identity certificate, on which, in keeping with the Chinese state's strict family-planning policy, all Chinese women have to have their marital and family-planning status listed. Since most workers are single women living in dormitories, management only needs to pay them enough for individual survival.

In Mexico the social context is different. While most women workers in *maquiladoras* are also migrants from poorer regions, they come with their families or even their extended families, and many are single mothers. Often these women are the sole family breadwinners. Since they live with their families, part of their waking hours has to be spent on 'unproductive' chores (from management's viewpoint); for example, in commuting, in household tasks such as cooking and taking care of the old and the young. No matter how ruthless, there is a limit to the amount of overtime management can squeeze out of Mexican workers compared with the time that they can demand in China.

There are also differences in the social, cultural and legal contexts in which Chinese and Mexican employers extract labour from their workers. In Mexico, Article 91 of Chapter VI of the Mexican Labour Law on minimum wages states that 'The minimum wage must be sufficient to satisfy the normal necessities of the head of the family in the material, social and cultural order, and to provide for the obligatory education of his children'.<sup>17</sup> This article echoes Article 25 of the UN Universal Declaration of Human Rights and is similar to the concept of a living wage. Although in reality the minimum wage levels set in Mexico are far below the standard stipulated by the law, and enforcement is chronically absent, a culturally approved notion of a wage that can provide for the family exists (Rosenbaum, 2001). As result both local labour movements and their North American allies use the 'living wage' or 'family support' concept to justify both union organising and solidarity campaigns.

No such concept exists in China's discourse on wages, nor is it stipulated in the Chinese Labour Law. There, migrant workers' protests revolve mainly around wages in arrears. Only when workers have not been paid for several months, when the situation has become desperate, do workers begin to protest. The expectation of better labour standards is much lower in China than in Mexico.

The household registration system places Chinese workers in a very vulnerable condition, in much the same way that illegal Mexicans are vulnerable when working in the USA. In China most migrant workers apply for 'temporary residence permits' to work legally, but when work is not available in a place they have no right to be there. This system is open to abuse when factories keep their workers' identity documents to prevent them from leaving. This is one of the factors that enable employers to pay their workers substandard wages, or sometimes nothing at all. From management's perspective these factors—restricted legal residential mobility and dormitory control—translate into a 'docile' Chinese workforce and, with low wages, 'higher labour productivity'.

Another cause of the difference in labour costs of Chinese and Mexican workers is in the right to organise. Unlike countries in South Asia, neither China nor Mexico *systematically* uses child labour to drive down wages. Pressures for wage increases are contained, in part, by restricting the emergence of autonomous trade union activities. In China, the ACFTU is an arm of the party-state. It has but little autonomous space to protect labour rights. In the face of the massive influx of foreign capital and the rapid rate of industrialisation, the trade union's efforts, even when undertaken with good will, encounter a near-impossible task. Local governments in China actively collaborate with capital and management and compete among each other to set low minimum wage levels and to create a permissive environment that allows violations of labour standards.

A parallel situation exists in Mexico, but it has been mitigated in recent years. Wages and health and safety reforms stemming from workers' pressure were contained by the Revolutionary Confederation of Workers and Peasants (CROC), the union affiliated with the former ruling party, the Institutional Revolutionary Party (PRI). CROC's branches sign 'sweetheart' contracts that demand little from management and then enforce contracts with thug-like behaviour when workers agitate for higher wages or organise alternative trade unions. However, there is some sign of change in this situation.

Independent unions have attempted to challenge CROC's authoritarian and pro-management practices for some time. For example, the Authentic Labour Front (FAT) was founded in 1960. In the past 20 years though the quickening pace of industrialisation has brought the Mexican labour movement into close contact with allies in the USA and elsewhere. The strategic alliance formed, for example, by FAT and the United Electrical, Radio and Machine Workers of America (UE) recognises a solidarity based on interdependency.<sup>18</sup> UNITE, the US apparel workers' union, has supported organisers in the border regions. These efforts have been paralleled by alliances with other sectors of North American society.

The anti-sweatshop movement in the USA and Canada, composed of trade unions, NGOs, labour advocates, university students, and human rights and church groups, grew rapidly in the 1990s. It can no longer be ignored by either multi-national corporations or governments. The sensational stories of poor working

conditions in Mexico highlighted by the movement and the direct support it has been giving to Mexican workers have been valuable to labour activists in the *maquiladoras*. As the living standards of Mexican workers stagnated and declined in the 1990s, labour agitation increased. Along with the historic loss of power of the PRI, with the election of Vicente Fox as President in 2000 there is also a new generation of *maquiladora* workers, more critical of their government, their employers and CROC. These young workers have sustained repeated attempts to improve working conditions, raise their pay and establish independent trade unions.<sup>19</sup>

Geographical proximity is an important factor in the formation of this North–South labour alliance. The phenomenon of labour advocates from the North fighting with workers from the South in Mexico cannot be replicated in China.

The terrible question confronting labour activists in the export platforms of the Western Hemisphere is this: will independent trade unionism drive away capital, especially that of the Asian NIC investors? In choosing between Mexico and China investors have begun already to favour China once again. The danger is that for Chinese workers more work may not result in better lives.

### **A new paradigm: labour standards as a South–South issue**

One way out of the race to bottom requires that the governments, trade unions and labour advocates of the global South face the reality that they are competing among themselves as much or more than they are competing with the North. The emergence of a new paradigm in defining the world's labour problem can be seen in a statement made by Bill Jordan, the ICFTU's former General Secretary: 'intense competition between countries to attract foreign investment is undermining respect for the labour standards ... And it is particularly in labour-intensive industries that the competition is most vicious, not between North and South, but among nations of the South'.<sup>20</sup>

Southern trade unions should analyse the objective consequences of rejecting a trading regime without labour standards and recognise that there is genuine concern among Northern unions for workers' conditions around the world.<sup>21</sup>

Southern trade unions could have, collectively, a major impact on the agenda of labour rights in international fora. An example occurred at the WTO Ministerial Conference at Doha in November 2001 concerning anti-HIV drugs. An intensive international grassroots campaign won for the developing countries significant success in obtaining broader exceptions to the patents for anti-HIV drugs and those for other infectious diseases.<sup>22</sup> No such concerted lobbying efforts with regard to improving labour standards came from developing countries or allied NGOs. Instead they continued to object to setting standards, called them protectionism in disguise and in effect allowed the labour standards of their own workers to continue to decline.<sup>23</sup>

Using the success of the anti-HIV drug lobbying efforts as a model, Southern countries as a bloc could negotiate with the North to set a minimum living wage in accordance with each country's own standard of living. Their solidarity, after all, would mainly confront the transnational corporations in the export sectors. Such a strategy will only work when the South is united, first through the trade

unions, then the governments. This is one way that the global South could regulate the otherwise cutthroat competition among its own members.

The nature of this regulation—even if accepted in principle—also needs careful review. There is an urgent need to uphold substantive social and economic rights. Yet the international community's emphasis today is on civil and political rights and procedural rights, eg the right to organise.

In the West it has taken workers more than a century of struggle to attain recognition by the state and capital of their political and civil rights so that they can have a voice in industrial and social arrangements in their countries. Today global neoliberalism is in fact eroding their voice. Yet developing countries are expected to trace the same steps under the more difficult pressures of globalisation. The odds are enormous, but social and economic rights require high priority—a fast-track on the lengthy historical process.

For example, India is the biggest democracy in the world, and Indonesia is a new democracy. The labour struggles in these countries indicate that, under the pressures of globalisation, a civil and political voice alone cannot raise wages and improve labour conditions. Unfortunately reference to a living wage as a substantive right is often considered impractical—by governments and trade unions in both the North and South—while (almost) everyone is willing to mouth support for the procedural core labour rights, now embodied in the ILO Declaration on Fundamental Principles and Rights at Work. We think the technical argument that the living wage is impossible to compute is a red herring.<sup>24</sup>

Above and beyond practicalities, the wage issue is a human rights issue. This is more profound than computing living wages down to the nearest US cent. A living wage provides a decent standard of living. It is a norm that can be made relative to each social setting. Further, Articles 23, 24, 25 and 26 of the Universal Declaration of Human Rights provide benchmarks for a family's 'dignified existence'. It is this concept to which Southern activists, in labour movements and NGOs, should turn their attention. Setting a global norm that minimum wages should be local liveable wages, while ensuring the rights of workers to act to defend their wages and associations—these are the basic means to accomplish what in rhetoric many Southern movements now uphold: a redistribution of global wealth.

### **China setting the floor**

The size and strength of the Chinese export economy makes it particularly important in a discussion of international labour standards—for China now appears to be setting the 'floor' for the world's workers in the labour-intensive export sectors. Looming in particular is the 2005 expiration of the Agreement on Textiles and Clothing (ATC)—the successor to the Multi-Fibre Agreement (MFA) under the GATT. As of the time of writing there are, among the importing countries, quotas that limit the amount of textile and clothing imports from any one country to the importing countries. There is widespread anticipation that the expiration of MFA quotas will move many nations' textile-apparel operations to China. Jobs are already moving from Mexico to China in anticipation of quota

removal (Colunga, 2002; Jordan, 2002). In addition, as a WTO member, China will gain, or regain, some investments it lost to Mexico after NAFTA, while the advantage of producing in Mexico to take advantage of NAFTA is diminishing.

China is now the world leader in receiving foreign direct investment and it is poised to be the winner in its competition with Mexico and others, as it continues to suck in capital in search of cheap labour (Greider, 2001; Norton, 2002). An article in the *China Daily* attempted to allay such fears. It will be a win-win situation for all, it said. When China exports more it will import more from its neighbours.<sup>25</sup> This is an unusual, indirect admission that there is a South-South competition and that China is to be the ultimate winner.

The impact of WTO accession on China will be job losses in some industries, but more jobs in the labour-intensive sector—some three million in textiles and 2.6 million in garments.<sup>26</sup> More jobs do not mean better working conditions and higher pay, especially for a country (or for a world) with a vast pool of cheap labour. When jobs flow to China from its Asian neighbours, the latter may respond by further lowering their wage standards, thus continuing the vicious cycle.

China and Mexico will continue to compete for the North American apparel export market. Mexico will lose its unique advantage of quota-free access, but its geographical advantage will continue. Chinese goods are also penetrating the markets of the developing countries. For instance, Mexico feels that Chinese cheap goods are invading and destroying Mexican industries. 'China is going to wipe out the textile industry here and throughout the world', said the head of the yarn maker Costmotex de Mexico SA (Spagat, 2001). To counteract the flood of Chinese imports, Mexico uses anti-dumping charges, as do other countries.<sup>27</sup>

Even without a social clause China still cannot be shielded from such 'protectionism'. The solution, we argue, is for the countries in the South to arrive at a broad agreement to set a floor to the competition for cheap labour. China, the country with the largest labour force, should be the country taking the initiative. China has been trying to play a leadership role in various international organisations; it is the natural leader to take up the cause of labour standards.

If China fails to realise this, and the race to the bottom continues, those who are threatened by China may form a united front themselves, composed, for example, of Mexico and its Central American allies and/or of China's Asian neighbours (Garten, 2002). In the worst case a massive loss of Asian jobs and falling labour standards in Asia and other countries in the developing world will be caused by competition with China—which will itself experience widening inequality and declining labour standards. That is a story of a lose-lose game in the global South—and we think it can be avoided.

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## Notes

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- <sup>1</sup> These correspond to the formal acts of the ILO: Freedom of Association and Protection of Rights to Organise (ILO Convention No 87, with 128 ratifications out of 175 member states); Right to Organise and Collective Bargaining (No 98, with 146 ratifications); Forced Labour (No 29, with 152 ratifications); Abolition of Forced Labour (No 105, with 146 ratifications); Equal Remuneration (No 100, with 144 ratifications); Discrimination—Employment and Occupation (No 111, with 142 ratifications); and Minimum Age Convention [Child Labour] (No 138 with 85 ratifications).
- <sup>2</sup> *Canberra Times*, 10 and 12 December 1996.
- <sup>3</sup> Editorial, *Far Eastern Economic Review*, 19 December 1996; *International Herald Tribune*, 26 July 1996.
- <sup>4</sup> For example, a press statement released by the ILO puts it this way: ‘The ILO governing body, which is presently meeting in Geneva, will discuss next week a proposal by the ILO Director-General, Juan Somavia, to set up a world commission of eminent personalities which would provide a forum for all the institutions concerned to discuss the social dimensions of globalization.’ ACTRAV (2001).
- <sup>5</sup> The main target of this suspicion tends to be the US AFL-CIO.
- <sup>6</sup> *New Straits Times* (2000: 18; 2001: 7).
- <sup>7</sup> We note that the sporadic support of Western governments for a labour rights clause in trade agreements is relative and subordinate: it is relatively greater than that of other governments; it is subordinate to their desire to maintain and advance the larger project of expanding free trade.
- <sup>8</sup> See Ross (2002; forthcoming 2003).
- <sup>9</sup> Although Hong Kong became part of China in 1997, economic statistics for China do not include Hong Kong’s.
- <sup>10</sup> The Agreement on Textiles and Clothing (ATC) is the current and terminal form of the Multi-Fibre Agreement, expiring in 2005 under the WTO agreement.
- <sup>11</sup> *The Economist*, 7 July 2001, pp 27–30.
- <sup>12</sup> While official statistics, for example, the ILO LABORSTA database shows *relative* (to inflation) decline in Mexican apparel and manufacturing wages (ILO, 2001), field workers in the Northern *maquila* sector send us reports of absolute declines. Similarly, Chinese statistics report average wage gains for manufacturing workers, while official minima do not reflect these, and field reports show horrific conditions.
- <sup>13</sup> See *Notice concerning Regulations of Enterprises’ Minimum Wages*, issued by the Ministry of Labour on 24 November 1993.
- <sup>14</sup> *Zhongguo gaige bao* (Chinese Reform News), 11 September 2001. A Gini coefficient above 0.4 puts a nation among the highest group on an international comparative basis (World Bank, 2000).
- <sup>15</sup> *Nanfang ribao* (Southern Daily), 13 March 2000.
- <sup>16</sup> *The Economist*, 7 July 2001, p 28.
- <sup>17</sup> Mexico, 1996.
- <sup>18</sup> For a union perspective on this, see UE International Labor and Action website at <http://www.ueinternational.org/#About%20Alliance>.
- <sup>19</sup> See Worker Rights Consortium (2002).
- <sup>20</sup> ICFTU On-line, 30 October 2001.
- <sup>21</sup> We note that in our conversations, especially with Asian trade unionists, the political change in AFL-CIO international policy after John Sweeney’s 1996 election as president has not been broadly understood.
- <sup>22</sup> *Guardian Weekly*, 22–28 November 2001, p 25.
- <sup>23</sup> *Ibid.*
- <sup>24</sup> International organisations such as the World Bank have long devised all sorts of complicated formulae to calculate, for example, a purchasing power parity index, poverty lines, the calorie consumption needed to maintain physical survival. Why should computation of living wage levels be more complicated?
- <sup>25</sup> *China Daily*, 24–25 November 2001.
- <sup>26</sup> *Gongren ribao* (Workers’ Daily), 19 November 2001.
- <sup>27</sup> *Boxun News Network* (2001).

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