



Cornell University
ILR School

ILR Review

Volume 56 | Number 4

Article 88

July 2003

Beyond Sweatshops: Foreign Direct Investment and Globalization in Developing Countries

Theodore H. Moran

Follow this and additional works at: <http://digitalcommons.ilr.cornell.edu/ilrreview>

Thank you for downloading an article from DigitalCommons@ILR.

[Support this valuable resource today!](#)

Beyond Sweatshops: Foreign Direct Investment and Globalization in Developing Countries

connected, integrated, and fast-paced environments. Work has become connected internationally while the internal bases for worker solidarity have disintegrated.

Another chapter outlines the increased diversity of family circumstances in tandem with the disappearance of the single-earner-with-homemaker family, along with the difficulties and opportunities associated with increasingly demanding and flexible jobs. A chapter on communities details the well-known breakdown of many local organizations and the local bases of broader institutions, including unions, churches, civic organizations, and volunteer service groups. The main argument here is that the need for such institutions has risen while the resources and reach of these institutions have dwindled, twin phenomena that have similar roots in the globalized economy and new technologies.

As in his earlier work, Carnoy demonstrates an amazing ability to synthesize a broad range of research. He has also maintained his sense of hope regarding possibilities for democratic reforms. The current sources of hope lie in the enhanced value of knowledge and life-long learning in the new economy.

That understanding leads him to focus on the continued prevalence of community-controlled, public schools. His vision of the locus of progressive social change has thus dramatically shifted from the factories of the past, with their clangor of machines, to the schoolrooms of today, ringing with the laughter and cries of children. Carnoy's readiness, when confronted with fresh facts and reasons, to fundamentally change his perspective is admirable.

To strengthen the case that public schools are indeed of central importance in society's adjustment to changing economic realities, the final chapters cite evidence that communities are increasingly recognizing the myriad ways schools can support our ability to adapt. Some relevant initiatives are the provision of child and after-school care, the implementation of school-readiness programs for preschoolers, adult learner programs, enhanced parental involvement, and, in some places, the opening of schools to community activities and functions.

Carnoy's latest vision fits hand-in-glove with the Accelerated Schools initiative, founded by another co-author of his, Henry Levin. Accelerated schools currently exist in over 1,400 school districts in the United States, and promote the active involvement of students, teachers, administrators, parents, and community members in decisions regarding schools' operations, cur-

riculum, and activities (Gene Chasin, "Accelerated Schools on the Move," *Imagine... Accelerated Schools Project Newsletter*, Vol. 10, No. 2 [Spring 2001], pp. 1-2). This empirical base for Carnoy's latest vision is indeed substantial and has a successful track record.

If I have any worry regarding *Sustaining the New Economy*, it is that the successful implementation of its vision may involve placing an even heavier load on already overworked teachers in understaffed schools that are suffering from shrinking resources. That concern is far from minor, but these problems can be surmounted if the will is there.

Carnoy has identified a set of opportunities that many individuals and organizations are actively pursuing. He has built on his earlier work while recognizing the massive changes that have occurred since its writing, and has once again given us reasons for hope and ways to move forward. He should be applauded for this work, and I hope that its impact is broad and strong.

Robert Drago

Professor of Labor Studies
and Women's Studies
The Pennsylvania State University

International and Comparative

Beyond Sweatshops: Foreign Direct Investment and Globalization in Developing Countries. By Theodore H. Moran. Washington, D.C.: Brookings Institution Press, 2002. 196 pp. ISBN 0-8157-0616-2, \$46.95 (cloth); ISBN 0-8157-0615-4, \$18.95 (paper).

Well written and thought-provoking, Theodore Moran's *Beyond Sweatshops* offers a comprehensive introduction to critical issues of labor standards in global commerce, especially in connection with foreign direct investment (FDI). Moran fails, however, to account for important developments in international labor law and too quickly dismisses prospects for strong, enforceable labor standards in trade regimes.

Moran begins by asserting that labor exploitation in FDI facilities occurs when FDI is limited and, therefore, few alternatives for employment are available and little attention is paid to quality standards. This view generates the troubling implication that, in nascent stages of FDI, labor abuses should be expected but little can

be done about them. Moran calls for more FDI to generate “win-win outcomes for workers in home and host economies alike” (p. 145).

In Chapters 2 and 3, Moran uses five case studies to elaborate guidelines for a “build-up” rather than “trickle-down” strategy to maximize FDI benefits, aimed at attracting foreign investors, launching successful operations, and moving from low- to higher-skilled jobs. He continues this discussion in Chapter 7, asserting that the most effective way to capture FDI benefits is through overall liberalization of trade and investment, rather than the imposition of domestic-content, joint-venture, and other technology-sharing requirements. These beginning and late chapters are the book’s strongest.

The book’s middle chapters discuss how best to protect workers’ rights in FDI operations. They are based on the overstated assertion that “any effort on the part of the international community to define and monitor compliance, investigate complaints, and impose penalties on violators would be a complex and difficult undertaking” (p. 47).

In Chapter 4, Moran asserts that there is controversy regarding the basic tenets of the core labor standards identified in the International Labor Organization (ILO) Declaration on Fundamental Principles and Rights at Work. Yet most elements of these norms have been adequately addressed by ILO supervisory mechanisms, U.N. treaty bodies, or the plain language of international instruments. For example, the Committee on the Elimination of All Forms of Discrimination against Women and ILO Convention 100 flesh out the principle of equal pay for equal work, and ILO Convention 29, together with the ILO Committee of Experts on the Application of Conventions and Recommendations, provides a definition of forced labor that addresses prison labor, apprenticeships, and debt bondage.

Most troubling is Moran’s treatment of freedom of association, collective bargaining, and the right to strike. He downplays ILO rulings that employer-sponsored labor-management associations constitute unlawful interference with freedom of association, arguing that these rulings respond to “abstract arguments about what constitutes authentic representation of the interests of workers” (p. 59) rather than to an outcome-focused analysis. These arguments are hardly abstract, however, being grounded solidly in ILO Convention 98 and experience with “company unions” over many decades. Moran also cites anti-union practices in the United States to buttress his “complexity” argu-

ment. But such practices, even when they occur with the full sanction of U.S. law, do not mean that international standards are murky, but only that the United States, like many other countries, fails to uphold international law governing these rights.

In the same chapter, Moran argues against including a minimum or living wage among core labor standards, contending that “host countries need to avoid setting a minimum compensation package for export occupations that might price the country’s workers out of the market” (p. 54). Yet this argument could equally support the opposite conclusion—international standards should prevent countries from attracting FDI through depressed wages that further widen income inequality.

Moran then shifts to a discussion of labor rights enforcement mechanisms, beginning with a hypothetical World Trade Organization (WTO)-based system. He raises critical questions and concerns regarding implementation of a sanctions- or fines-based system. He presents the intriguing and refreshing suggestion that a multilateral initiative to define “fair treatment” not be limited to labor rights but “consider the much larger race-to-the-bottom tournaments that, increasingly, undermine the creation of a level playing field for trade and investment” (p. 83).

Moran’s insight here does not support his rejection of a WTO-based system for labor rights enforcement, however. He points out the irony that “when the exports from the offending plant are blocked, the ill-treated workers at the plant are likely to find themselves laid off or fired” (p. 69), yet he fails to note that the irony manifests itself only when sanctions are administered irresponsibly without accompanying technical assistance and remedial mechanisms. Similarly, Moran cites as an argument against a WTO-based system the negative ramifications of levying sanctions on a host country in response to abusive labor conditions in a single firm, yet such adverse effects could be avoided by restricting the imposition of sanctions to cases of systemic, not isolated, failure to uphold worker rights.

In defense of his position, Moran cites the possibility of protectionist capture of enforcement mechanisms by developed world interests that might wish to block imports, such as labor organizations and firms facing competition from developing country products. But competition in goods from FDI operations occurs not primarily between developed and developing countries, but among developing countries. No evi-

dence of protectionism has emerged from eighteen years of linking labor rights and trade in the U.S. Generalized System of Preferences. And *neutral* international mechanisms with significant developing country representation should determine non-compliance and remedial programs, considering sanctions only as a last resort.

Moran goes on to observe that voluntary compliance mechanisms may produce results superior to those from a WTO-based system of labor rights enforcement and could be effectively complemented by ILO activities. This insightful discussion is marred, however, by a treatment of international labor standards that is logically inconsistent with the discussion in Chapter 4. Moran says that "the simplicity and straightforwardness of commitments" embodied in workplace codes of conduct would make it "relatively easy" to identify violations (p. 100), yet these commitments are less well defined than obligations in international labor instruments, which Moran asserts are "fraught with controversy" (p. 151).

Beyond Sweatshops is an important contribution to labor rights literature. It provides a solid and useful economic analysis of factors that ensure maximum FDI benefits for host countries, through backward linkages and spillovers to local companies and workers, generated by the introduction of foreign firms' intangible assets, such as technologies, business and management skills, human relations policies, and marketing capabilities. It falls short on the prescriptive side, however. The complexity and difficulty of linking workers' rights and trade are not reasons to give up on developing an enforceable international labor rights regime; they are reasons for getting it right.

Carol Pier

Labor Rights and Trade Researcher
Human Rights Watch

Workers after Workers' States: Labor and Politics in Postcommunist Eastern Europe. Edited by Stephen Crowley and David Ost. Lanham, Boulder, New York, and Oxford: Rowman & Littlefield, 2001. 241 pp. ISBN 0-7425-0998-2, \$75.00 (cloth); 0-7425-0999-0, \$26.95 (paper).

The contributors to this edited volume, writing from a political science perspective, share the view that labor in post-communist society

has suffered persistent weakness. The book's focus is thus on the relationship between labor and politics in the transition countries of the former Soviet bloc. The book addresses two basic questions: why labor has been quiescent in post-communist Europe, despite unprecedented political freedoms coupled with truly painful economic change; and why labor remains a weak social and political actor more than a decade after the start of the transition. The book aims not only to measure and explain labor's weakness in the post-communist era but also to explore the impact of that weakness on the consolidation of democracy.

In the introduction, David Ost and Stephen Crowley begin by outlining their conceptual framework for analyzing decreasing union power. They judge the extent of union weakness by seven major indicators: levels of union membership; styles of management; strength of collective bargaining; number and impact of strikes; nature of political alliances; union impact on public policy; and workers' material well-being.

The introduction then looks at three possible explanations for labor weakness. The first would assign blame to economic conditions—a drastic fall in production, continued downsizing, non-payment of wages for months, and the like. The editors grant that hypothesis some value in explaining union weakness in Russia and Ukraine, but they reject it as an explanation of union weakness in eight other countries, given the lack of evidence that economic hardship provoked a crisis of social unrest in those countries. The few protests over these conditions that did occur, they argue, were not linked to the labor movement. Union leaders may have feared that union organizing in such circumstances carried too much of a risk of backlash; and strikes are difficult to organize when factories have stopped production and unemployment looms as a real threat.

The second possible explanation is derived from resource mobilization theory. After the break with communism, this hypothesis runs, labor was starved of the resources it needed to grow and consolidate its strength. The editors question the factual accuracy of that picture. They argue that the privileged access to resources enjoyed by trade unions in state socialist societies largely continued after 1989 for many unions, which were able to retain property, funds, factory radio systems, newsletters, and even newspapers.

The third possible explanation is that some aspects of labor's ideology and union identity—