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Compromised Stability and Security in the "Race to the Bottom"

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Abstract

Complex webs of global supply chains are rooted in low wage labor abroad. Transnational corporations (TNCs) – large global corporations that do not identify with a single country as its headquarters – have gained power over producers through these arrangements at the expense of the workers' rights and job security. We present the hypothesis that the flexibility and inherent lack of accountability of global supply chains combined with the constant pursuit of lowest production costs has the potential to destabilize countries inadvertently. Evidence supports the proposition that exploitative conditions at the bottom can threaten the physical security and political/economic stability of those at the top. This is tangibly evident in the garment industry, which is explored in depth in this article. Governments and corporations in developed countries must take a more proactive role guaranteeing the rights of workers throughout global supply chains to ensure long-term socioeconomic stability for all.

Multitudes employed in sweatshop factories are plunged further into destitute poverty when the global economy wavers. The failure of subcontractors to comply with basic labor standards or fulfill their contracts to workers as well as the TNCs' lack of accountability for their supply chains has jeopardized the job security, well-being, and stability of fragile communities. Unfair labor practices perpetuated by U.S. corporations exacerbate global class polarization, domestically as well as abroad. A global crisis emerges on many levels; to apparel workers and their communities, to the financial and social stability of the producer countries, and potentially to U.S. national security interests. The global linkages of apparel supply chains provide a poignant example of how injustices anywhere can affect everyone everywhere, in negative ways that even the most ardent security-driven conservatives must recognize.

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At the Bottom of the Chain

All products on retail shelves have a story to tell. Most have traveled vast distances through supply chains of bewildering complexity. Raw materials from countries specializing in resource harvesting are sent to low-wage factories for manufacture, then on to other locations for refinement before finding their way into our homes. Each link in the supply chain involves competition and the pursuit of maximum profit. Buyers seek the lowest cost, and in order to attract business, producers and even entire producer nations, compete by reducing wages and labor standards, resulting in a “race to the bottom.” Supply chains fluidly shift to follow the lowest costs. A result of this flexibility and disaggregated profit motive is an acceleration of the “race to the bottom,” which unnecessarily causes crises in the lives of the workers and creates externalities that contribute to the general fragility and instability of a country.

The “race to the bottom” means that the less economically dominant party must flexibly accommodate the demands of the more powerful party: brands are subordinate to retailers; contract factories are subordinate to brands; workers pay the price. The millions of independently-owned contract factories that provide the world’s consumer goods are each expendable: retailers – or the brands they carry – can shift production from factory to factory depending on market conditions, potential cost savings, or perceived worker unionization. Within a factory, common events in life that may temporarily limit productivity are often grounds for termination, such as sickness, injury, and pregnancy. Entire plants are shut down and communities left unemployed at the first sign of worker organization (Worker Rights Consortium, 2008). No one takes responsibility for the health, education, or rights of workers; they are externalized because they are irrelevant to the bottom line.

Supply chain flexibility allows corporations to generate intense competition between factories (Gereffi, 1994; Ross, 2004a), pressuring them to cut costs by violating labor standards (Bender & Greenwald, 2003) in order to keep a profit margin. When inspecting 569 of its supposedly compliant factories in 2005, Nike found labor violations in every one. Factory owners attribute this to the fact that “American companies continually demand lower prices” (Roberts & Engardio, 2006, p. 52), leaving them unable to afford the expenses of regulation, yet without bargaining power to alleviate this (Bello, 2005; Yimprasert & Hveem, 2005). Wal-Mart, which is less subject to consumer pressure than fashion brands such as Nike, overtly suppresses unions and drives down prices to the point where the factory social responsibility inspections are largely superficial, and according to the Institute of Contemporary Observation in China, "[n]inety percent of Wal-Mart sub-contractors and suppliers cannot meet Wal-Mart's own code of conduct" (Appelbaum & Lichtenstein, 2006, p. 11). Large retailers are at the top of the "pyramid of power" (Bonacich & Appelbaum, 2000) and can set the terms of contracts, squeezing every link in the chain down to the bottom with disregard for labor conditions.

It is not simply that labor is cheap in developing countries but also large corporations have been keeping wages down by using their disproportionate share of market power, with "even investment bankers quoted by *The Financial Times* calling wages for women garment workers in [Vietnam and Bangladesh] 'unsustainably low'" (Wolf, 2010). Retailers are consistently "extracting value via wage-depressing tactics" (Taplin, 1994, p. 210). To attract foreign investment, countries keep their minimum wages low, to the point that "minimum wages are starving wages" (Yimprasert & Hveem, 2005, p. 18). Many factories cannot even afford to pay this because of pressures to cut costs. For example, one report in 2006 found that only 20% of Chinese factories were found to comply with wage rules and 5% with hour limitations (Roberts & Engardio, 2006). Despite the efforts of anti-sweatshop activists, there is evidence that wages of the poorest apparel workers in many countries have stagnated.[2]

"Flexibility" of supply chains is not limited to the footloose nature of contracts but also includes variability in demand. Short lead times, last minute additions to orders, and seasonal variation in consumption causes the amount of labor needed to fluctuate greatly (Yimprasert & Hveem, 2005). Wages are often illegally held until the contract is fulfilled (China Labor Bulletin, 2007; Marquand, 2004). The employment and livelihoods of the workers are at the whims of highly unpredictable global commodity markets. In times of consumer economic decline or political shifts, this can mean catastrophe for workers in contract factories.

Pushing risk down the supply chain to the shoulders of the most vulnerable workers in the world is not without great consequence. The negative effects reverberate and ultimately come full circle. The following sections aim to bolster the hypothesis that the conditions of the "race to the bottom" jeopardize entire societies of both producer and consumer nations.

[2] A forthcoming paper for the Center for American Progress shows that when adjusted for inflation, prevailing wages for apparel workers in the majority of the top apparel producing countries have actually declined over the past decade.

The Flexible Supply Chain as a Destabilizing Force

The economic and political condition of a country can be tied to capricious commodity market demand. Already fragile governments are extraordinarily vulnerable to market fluctuations (OECD, 2010). Economic crises can cause massive layoffs (Gereffi & Frederick, 2010), and the loss of jobs has a tremendous ripple effect through poor societies. Even distant international events or changes in trade regulations can spur unrest, such as when over 100,000 Bangladeshi workers lost their jobs after 9/11 (BBC News, 2001) and hundreds of thousands more in 2005, after the end of the Multi Fibre Agreement (MFA[3]) (Yimprasert & Hveem, 2005). The political debate over whether or not to maintain China's Most Favored Nation status (which offers special tax breaks, and hence lower costs) caused retailers to relocate preemptively (Gereffi, 1994). In general, if large corporations decide to relocate, it can impact a country's stability. This is especially true when a single company dominates a nation's economy, such as in Lesotho where garment manufacturing is the dominant industry, and *The Gap* is responsible for one-third of its business (Fernandez-Stark, Frederick, & Gereffi, 2011). Furthermore, some situations may even create a vicious cycle. When one corporation pulls out, instability may be increased in the society, which in turn prompts other companies to pull out to avoid risk, sparking more turmoil, and continuing the downward spiral.

The social conditions bred by highly flexible and unregulated supply chains weaken the resilience of a society, perpetuating a cycle of poverty. Parents may not be able to afford education for their children or may leave them alone to fend for themselves while working long hours in a factory. Children have been found to work in factories at the expense of formal education (Clark, 1999; Piotrkowski & Carrubba, 1999). Factories often do not invest in their labor force, even in more "upgraded" production (Fernandez-Stark, Frederick, & Gereffi, 2011). The lack of health regulations has significant health impacts on the local population (Chen & Chan, 1999). Sweatshops, especially in free trade zones, are not taxed. Thus, they do not even support the infrastructure that they rely on. "Even the obvious job creation and foreign exchange benefits of export-oriented industrialization for Third World nations can become liabilities when foreign buyers…

[3] The MFA (Multi-Fiber Arrangement) was an elaborate quota system designed primarily to allow developed countries to adjust to imports from the developing world, but had a consequence of allowing smaller countries to become competitive in the apparel market because of restrictions on large countries such as China. The system expired in 2005, causing apparel production to shift dramatically.

decide because of short-term economic of political considerations to move elsewhere" (Gereffi, 1994, p. 100).

Corporations prefer to minimize risk by locating production in countries that do not allow democratic organizing or unionization (Kwong & Lum, 1988). As a consequence, "only 5% of workers in the garment and textile sectors worldwide are unionized" (Yimprasert & Hveem, 2005, p. 41). Companies will even relocate within the same country to work with a factory that does not have an organized labor force. On average, wages are lower in authoritarian states (Rodrik, 1999).

With economies larger than that of many countries (Trivett, 2011), giant transnational corporations are capable of using their power to play a significant role in international affairs (Bennett, 2002). Their search for profits can lead to pressure on local governments to suppress dissent, thwart unionization efforts, and, in general, subordinate social welfare concerns to the company's business interests. Corporations pressure governments to roll back regulations (Toussaint, 1998) and are backed by the international political agenda characteristic of the current phase of economic globalization. The threat of losing investment dollars forces governments to accept wage levels – including legal minimums – that are far below a living wage. For example, two years ago, Haiti passed a law raising the minimum wage to 61 cents an hour, but because of pressure from Hanes and Levi Strauss, the new minimum wage was reduced to 31 cents (Johnson, 2011).

Proponents of sweatshop labor often point to Hong Kong, Singapore, South Korea, and Taiwan as having benefited from sweatshop labor. They do not recognize that the success of these countries has been largely due to result of government policies; in different ways, various forms of state intervention accounted for the success of these "late industrializers" (Engardio & Belton, 2000; Rothstein, 2005). These nations were at least, initially, rather authoritarian, but their developmental elites emphasized economic growth, such that the benefits of low wage jobs enabled a degree of upward mobility (Tilak, 2002). Such "miracles" of development are the exception rather than the rule, as most do not have the political ability to withstand pressure of the corporate profit motive.

In sum, we argue that the current form of highly flexible supply chains has an affinity with governments that neglect human rights and social development. The "race to the bottom" causes production to be concentrated in areas that are specifically rife with labor violations. We further assert that these types of societies are likely to be unstable

(Walker, 2011), although this is currently being debated by political and social scientists (Krastev, 2011).

Selling Out the United States

For a country so heavily dominated by a cultural narrative that prizes security and freedom, the United States seems to have overlooked the negative influence of supply chain dynamics, perhaps in favor of corporate interests and the free market ideology. As a consumer nation that consistently runs a trade deficit, the U.S. depends on low wage labor abroad to satisfy its appetite for consumption. Using the U.S. as a representative example of a consumer nation, we present the hypothesis that injustices from the destabilizing mechanisms and labor suppression forces of modern supply chains propagate from societies at the bottom to impact buyers at the top. With the present manifestation of capitalism and the emergence of a transnational capitalist class (TCC) (Robinson & Harris, 2000), what is good for Wal-Mart is certainly not what is good for America,[4] or for that matter, any state or its labor force (Lichtenstein, 2005). The U.S. government has begun to recognize the far reaching threat of climate change to national security (U.S. Government, 2008; U.S. Government, 2010), and a similarly expansive approach needs to be taken towards economic consequences generated by the current corporate power structure of commodity chains. The “race to the bottom” directly increases vulnerability to physical threats and presents broader challenges to economic and political stability. “National security” is championed by U.S. conservatives, who paradoxically refuse to acknowledge the destabilizing effects perpetuated by America’s global socioeconomic influences. The fact that dynamics of global supply chains compromise national security requires even the most ardent conservatives to admit that injustice done to those abroad has negative affects at home and that securing the rights and livelihoods of all beings is in everyone’s collective interest.

Direct Physical Security

National security is, as defined by former U.S. Secretary of Defense Harold Brown (1983):

> the ability to preserve the nation's physical integrity and territory; to maintain its economic relations with the rest of the world on reasonable

[4] This is a play on a famous quote that is frequently mis-attributed to Charlie Wilson, the head of GM back in the 1950’s: “What is good for GM is good for America.”

> terms; to preserve its nature, institution, and governance from disruption from outside; and to control its borders. (p. 4)

The interests of corporations can be completely contrary to each of these facets. Monitoring supply chains and ensuring their resilience is a vital aspect of national security, but most governmental reports restrict concern to immediate threats of terrorism at ports or importation of terrorist devices (Altemoller, 2011), although some hint that broader economic regulations may be necessary (U.S. Customs and Border Protection, 2004; Moon, 2010). Even with this emphasis, port security post-9/11 has been found to be lacking; the 11 million shipping containers entering U.S. ports every year are not sufficiently monitored. ABC News reporters, wanting to highlight the gap in security, shipped 15 pounds of Uranium from Indonesia in a shipping container that successfully made it through customs (Ross, B. 2004).

Proponents of increased port security attempted to pass legislation to increase funding for high technology inspection devices and monitoring capacity. Wal-Mart, acting in coalition with Retail Industry Leaders Association (RLA), successfully blocked action to do so, arguing that increased monitoring would decrease efficiency in the supply chain (Judd, 2006). This is a case when corporations have directly acted to maintain the flexibility and opacity of their supply chains in at the expense of U.S. national security.

It is not untenable to suggest that the living conditions resulting from the "race to the bottom" could influence "terrorist" activity, especially considering that corporations favor environments that suppress wages and rights, as previously discussed. Less controversially, unemployment and a lack of social structures can lead to an increase in illicit informal sector activity (Shifter, 2007), manifesting clearly as a national security concern in the prominence of trafficking across the U.S.-Mexico border (Cook, 2007). A connection likely exists between the social conditions corporations foster in Latin America and the drug trade. The "race to the bottom" both weakens monitoring of borders and creates adverse socioeconomic conditions in societies abroad, increasing the vulnerability of the U.S. to direct security threats.

Political and Economic Stability

Corporations have no allegiances but to the profit margin. The transnational capitalist class is not tied to any state and relocates business to avoid costs of taxation or providing stable domestic jobs. Transnational corporations (TNCs) benefit from the protection of a state's military, as was the case with Halliburton, The Carlyle Group, and Bechtel throughout the U.S.-Iraq War (Robinson, 2007), but even such favorites of the

U.S. Military Industrial Complex move abroad in pursuit of endlessly accumulating profit, as Halliburton did in 2007.

TNCs have more power than many countries, a fact that is not adequately accounted for in U.S. foreign policy. Companies play a significant role in international affairs and orient their value chains as profit maximization dictates, not national security or stability. TNCs may support regimes that are opposed to international stability. Volatility in markets, combined with conditions created by the "race to the bottom," can destabilize countries of U.S. interests (OECD, 2010) and can jeopardize international relationships.

"Offshoring" of jobs and corporate pressure on subcontractors abroad has not caused "creative destruction" but created direct labor competition that has resulted in lower domestic wages (Levinsohn & Petropoulos, 2001). Between 2000 and 2010, 5.6 million American manufacturing jobs were lost, 32.5% of all manufacturing jobs (Crawford, 2010). Between 2001 and 2007, real income in the U.S. decreased by 1.9% for the median working-age household and by 2.7% for the lowest quintile, despite productivity increasing by 18.5% over that time (Pollack, 2007). The value of domestic labor is compromised by labor abuses tolerated abroad. Labor laws and human rights violations can be transmitted across societies through trade (Greenhill, Mosley, & Prakash, 2009), and the UN recognizes that abuses of corporations can have ripple effects (Ruggie, 2008).

Downward pressure on wages has manifested itself in greater class polarization, which is illustrated by a diminished middle class (Bello, 2005). The U.S. military industrial complex, utilizing surplus capita, finds a market in the creative destruction of war and humanitarian crises (Robinson, 2007). Emerging from the imposed structure of a profit-driven TCC is an increasingly socially polarized world that existing global architecture is not capable of supporting. Instead of promoting stability, TNCs foster an unstable "race to the bottom," which is backed by a disproportionately powerful military.

In coming years, the U.S. will have to respond to several new challenges that will render the country even more vulnerable to the negative effects of the "race to the bottom." Dependence has been increasing on low wage labor concentrated within a few large developing countries, most notably China. Continued regionalization of markets will reduce the sphere of U.S. influence. Such regionalization is evident from changes in the apparel value chain; producers are interacting directly with the domestic markets of emerging economies (Fernandez-Stark, Frederick, & Gereffi, 2011), indigenous brands are gaining prominence (Gereffi & Frederick, 2010), and supply chains are being restructured to be smaller and more regional due to the financial climate (Escaith, 2009). Monitoring networks and labor organizations are collaborating and becoming increasingly more transnational (Yimprasert & Hveem, 2005).

A Brief Treatment of Possible Solutions

Global supply chains are here to stay. De-globalization is not a favorable solution, as the reduction in trade would cause a decline in wages and labor standards (Escaith, 2009). However, the operations of TNCs must be regulated in some way to ensure basic human rights (Anderson, 2010). There are many forms supply chains can take, and it is possible for the “race to the bottom” to be eliminated. Global systemic change must be made to end the economic repression of marginalized workers and to avoid the future destabilization of both producer and consumer nations. The current dynamics of supply chains are neither economically nor socially sustainable and the more time that passes without reform, the longer millions will be forced to endure the crushing burdens of poverty and alienation.

The Worker Rights Consortium (WRC) is the only labor monitoring organization for the apparel industry that does not receive funding from the corporations they monitor. The WRC has been designing a policy, the Designated Suppliers Program, which would implement supply chain reform in the university apparel industry. Under this program, university licensing contracts would require apparel companies to source from factories that have been certified to pay workers a living wage (far above the legal minimum), meet international labor standards, and allow unionization (Worker Rights Consortium, 2012a). The program would also require that apparel brands have long-term contracts with these factories to ensure that workers have stable employment and that the factory has sufficient business to operate sustainably while complying with the higher cost of enforcing labor regulations. Recently given a favorable review by the U.S. Department of Justice, activists at universities are expected to push to implement the program over the next few years.

The power that consumer nations wield could be used to eliminate the destabilizing characteristics of supply chains. Precedents already exist for a variety of policies. The 1938 Fair Labor Standards Act gives U.S. regulators the power to intervene at any point in the supply chain if any worker is treated in violation of the Act (Fung, O’Rourke, & Sable, 2001). On the larger scale of international organizations, a reformed WTO could require that enforceable labor standards be integrated into trade agreements. On the smaller scale, municipalities could play a stronger regulatory role.

For instance, the City and County of San Francisco has implemented a Sweatfree Contracting Ordinance and takes an active role in ensuring that its contracts live up to these standards by working with groups such as the WRC (Worker Rights Consortium, 2012b; Worker Rights Consortium, 2010).

Polarizing economic pressures need to be counterbalanced to prevent further inequality and unequal concentration of power. Regional coalitions such as ASEAN (Coalition for Clean Governance) and South Asian Association for Regional Cooperation (ASARC) exert power over the global economy. A similar regionalization strategy for nations that rely heavily on low added value export manufacturing such as Indonesia, Bangladesh and Pakistan would augment bargaining power against transnational corporations. Regardless of improvements made to labor rights and exploitative supply chain dynamics, changes will be neither permanent nor complete without the empowerment of workers. Fundamental labor rights are simply not encouraged by TNCs, or even monitoring groups which largely rely on corporate funding as does the Fair Labor Association (Anner, 2012).

Ending the “race to the bottom” requires labor standards enforceable across countries, including rights to unionize, a minimum salary, and long term contracts. These provisions would promote more stability for workers in the supply chain in weak countries, inter-governmental accountability, and standardization of ethical treatment. Changes will have to be brought about through the coordinated efforts of monitoring groups, governments, corporations, consumers, and where possible, unionized labor (Appelbaum, 2005).

Conclusion

A “crisis” is defined as when a system encounters problems that it cannot solve from within its current configuration (Wallerstein, 2004). The disaggregation of the profit motive down the supply chain incentivizes a “race to the bottom” that results in the continued exploitation of hundreds of millions of workers. This is a crisis that cannot be resolved without significant changes to the current system of sourcing and pricing practices.

This paper has presented the destabilizing effects of the “race to the bottom” and hypothesized several repercussions on the international stage. Future research would solidify the connection between value chain shifts and political changes in fragile states and relate exploitation abroad to weaker domestic purchasing power.

In our increasingly interconnected world, labor injustices abroad have a very real effect at home. Workers at the bottom are systematically exploited for the sake of the bottom line and their societies are destabilized politically, economically, and socially. Human rights violations anywhere affect others everywhere, transmitted along the globalized web of supply chains. Highlighting how the effects of the “race to the bottom” propagate can shed light on its nature and inform the pursuit of alternatives.

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