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World Development Vol. xx, pp. xxx–xxx, 2017
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http://dx.doi.org/10.1016/j.worlddev.2017.03.038

Do Economic Problems at Home Undermine Worker Safety Abroad?: A Panel Study, 1980–2009

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Summary. — Do economic downturns in the Global North undermine worker safety in the Global South? Literature suggests that bilateral trade linkages lead to the diffusion of "good" labor standards from importing countries of the Global North to exporting countries of the Global South. The crucial mechanism is the ability and willingness of importing firms to deploy their market leverage and ask for improved labor standards from their overseas suppliers. Yet, cost-cutting pressures emanating from economic downturns might lead the same importing firms to give lower priority to worker safety in their overseas supply chains. When importing firms demand price reductions, overseas suppliers might respond by reducing wages, ignoring safety regulations, and working their labor force for longer hours. The observable implication is that worker safety in the Global South may deteriorate during economic downturns in their export markets located in the Global North. We evaluate our hypothesis using a panel of 83 developing countries for the period during 1980–2009, and find that economic downturns in developed country markets are associated with significant increases in non-fatal occupational injury rates in developing countries. The injury-increasing effect is more pronounced in developing countries with weak workers' rights protection.
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Key words — worker safety, bilateral trade, standards diffusion, economic cycle, economic downturns

1. INTRODUCTION

Globalization is connecting different regions of the world in interesting ways. Economic and political developments in one country influence policies in far off countries through trade, foreign investment, capital flows, foreign aid, the internet, Twitter, to name a few. In this increasingly interconnected world, some suggest that the ability of countries to control their domestic policies is sometimes compromised (Keohane & Nye, 1977). We focus on the role of trade-based linkages in shaping domestic policies of exporting countries.

Dependency scholars note that trade connections facilitate the economic exploitation of developing countries by developed countries by forcing an inequitable international division of labor. In this structure, developing countries focus on lower value commodities and end up with unfavorable terms of trade for their exports (Cardoso & Faletto, 1979; Prebisch, 1950; Singer, 1949; Wallerstein, 1974). Some suggest that trade and economic linkages also lead to exploitation of the labor force in exporting countries and the degradation of the environment (Nash & Fernandez-Kelly, 1983; Lebaron & Ayers, 2013). Others paint a more optimistic picture; for them, developing countries might benefit from trade because these linkages allow developed countries to diffuse their superior labor and environmental standards to developing countries (Greenhill, Mosley, & Prakash, 2009; Vogel, 1995).

But trade linkages between exporting, developing countries and importing developed countries might have some additional implications for the former. Specifically, we offer the first systematic study of how economic downturns in the export markets of the Global North affect worker safety in the exporting countries in the Global South. Economic cycles represent structural conditions over which an individual firm has virtually no control (mega banks are perhaps exceptions). How might these structural pressures shape firms' incentives to promote or ignore worker safety in their overseas supply chains? We seek to answer this question by examining how trends in country-level occupational injuries (as reported to the International Labour Organization, ILO) in exporting, developing countries are influenced by economic downturns in importing, developed countries. [1]

Worker safety is perhaps the most important and widely recognized dimension of labor standards. The ILO has adopted more than 40 standards and Codes of Practices dealing specifically with workers' health and safety. Reducing workplace health and safety risks, especially the ones that are not immediately visible, is challenging. Every year 317 million accidents occur in the workplace, and every day 6,300 people die as a result of occupational accidents or work-related diseases. [2] The literature emphasizes that appropriate assessment and mitigation of health and safety risks at workplace require technical expertise, management systems as well as a safety culture (DeJoy, 2005; Flin, Mearns, O'Connor, Bryden., 2000; Moss & Hwang, 2010; O'Toole, 2002). The literature also notes that firms face incentives to cut corners on worker safety, especially in the context of developing countries where labor tends to be not organized, governmental regulations are poorly enforced, and penalties for accidents tend to be minor (Rodrìguez-Garavito, 2005; Reinecke & Donaghey, 2015). [3] The tragic industrial accidents in Karachi, Pakistan in 2012 and in Rana Plaza, Bangladesh in 2013 revealed how factory owners disregarded basic regulatory requirements such as keeping the passage to fire exits clear (Taplin, 2014).

Trading relationships have been recognized as important mechanisms for the cross-country diffusion of regulatory standards, practices, and norms (Collinsworth, Goold, & Harvey, 1994; Frankel & Rose, 2005; Neumayer & De Soysa, 2011). In the area of labor standards, scholars find empirical support for

* This research did not receive any specific grant from funding agencies in the public, commercial, or not-for-profit sectors. Final revision accepted: March 28, 2017.

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bilateral trade-based upward diffusion; the so-called California Effect. This literature suggests that importing countries in the Global North use their market leverage to *ratchet up* labor standards in exporting countries in the Global South that typically have shown low respect for labor rights (Greenhill *et al.*, 2009; Lim, Mosley, & Prakash, 2015; but see Kollmeyer, 2009; Mahutga, 2014).

We introduce a new dimension to the trade–labor practices dynamics. Contrary to the optimistic predictions of trade-based upward diffusion, we explore the possibility that trade linkages with the North lead exporters to neglect worker safety. At the core of the upward diffusion of labor standards has been the willingness and capability of importing firms to demand improved labor conditions from their overseas suppliers. We focus on a scenario in which the same importing firms in the North face a different structural context—the context that reduces their willingness and capability to demonstrate worker safety abroad: economic downturns.

We suggest that during periods of economic downturns, cost cutting tends to become the mantra for firms' economic survival. Stock markets and the financial media celebrate CEOs who are prepared to cut costs by taking "tough" decisions such as laying off workers and demanding price reductions from suppliers. Firms want to demonstrate that they are focusing on "core" activities (read, profit enhancing) while dropping the "nonessential" ones (Bansal, Jiang, & Jung, 2015), which might include the labor-related CSR activities in overseas supply chains. In addition to the pressure from the stock market, firms might feel that their customers are less likely to pay attention to their overseas labor practices and look more aggressively for a good price, special bargains, and promotions (Bray, Johns, & Kilburn, 2011; Carrigan & Attalla, 2001; Desvaux, Regaout, Labaye, Yu, & Mednonca, 2009; Öberseder, Schlegelmilch, & Gruber, 2011). Facing cost pressures at home, importing firms can be expected to ask their suppliers, located at home and certainly the ones located abroad, to reduce prices (Gulati, Nohria, & Wohlgezogen, 2010; Lamming, 2000). In return, they may not press these suppliers on labor standards; and in some cases, even turn a blind eye to unsafe working conditions. These suppliers may then squeeze their sub-suppliers, and a culture of cutting costs by ignoring workplace safety may spread across the economy. Even exporting country governments may back off from their minimal labor enforcement activities, lest their firms lose export markets and therefore accentuate unemployment problems at home (a dynamic that the Rana Plaza episode illustrated). In short, during economic downturns, importing firms' willingness and abilities to demand worker safety from overseas suppliers are significantly reduced, or even reversed. In such situations, bilateral trading relationships might diffuse "bad" norms and practices from importing, developed countries to exporting, developing countries.

We empirically test this logic using an unbalanced panel of 83 developing countries for the period, 1980–2009. We operationalize worker safety as occupational injury rate per 10,000 working-age population. We find support for the hypothesis that economic downturn in importing, developed countries is associated with a significant *increase* in occupational injury rate in exporting, developing countries. We also find that the injury-increasing effect is more pronounced in developing countries that offer weak government protection of workers' right. Our finding is robust to different specifications of economic cycles in the importing countries of the Global North (unemployment rate as well as unemployment gap) and different measures of exports from the Global South (total exports, industrial goods exports, and manufacturing goods exports).

The rest of the paper is organized as follows. In Section 2, we elaborate our main argument, outlining the mechanism by which economic downturns in importing, developed countries lead to increased occupational injury rates in exporting, developing countries. We also investigate how the domestic politics and macroeconomic performances of exporting countries might condition the above diffusion mechanism. In Section 3, we introduce the variables and model. In Section 4, we present our empirical findings from the main models and a series of robustness checks. We conclude in Section 5.

2. TRADE-BASED DIFFUSION OF LABOR STANDARDS AND ECONOMIC CYCLES

Whether international trade hurts or helps labor rights, both in importing and exporting countries, has been extensively debated. The first-generation trade-regulation studies examined the effect of overall trade salience on exporting country's labor standards. While the intuition was that exposure to the global economy will influence domestic labor standards, the results of these studies were inconclusive (Collinsworth *et al.*, 1994; Elliott & Freeman, 2003). Instead of focusing on *how much* a country trades, the second generation studies examine how the exporting country's labor standards were influenced by *with whom* it traded. Here the idea is that some importing countries might deploy their market leverage to project their regulatory and managerial preferences onto their suppliers abroad. Because these importing countries were located predominantly in the Global North, scholars suggest that bilateral trading relationship might actually lift labor standards in the exporting countries of the Global South (Greenhill *et al.*, 2009; Lim *et al.*, 2015) These diffusion dynamics cohere with the broader conception of stakeholder theory (Mitchell, Agle, & Wood, 1997) and resource dependence theory (Hillman, Withers, & Collins, 2009; Pfeffer & Salancik, 2003); firms respond to cues from actors in the external environment that have the ability to deny them critical resources required for their survival and growth.

The intellectual inspiration for the second-generation theories can be traced to the so-called California Effect: the ability of the importing destination to deploy its market leverage to diffuse its regulatory preferences to the exporting jurisdiction (Vogel, 1995). While Vogel made his case in the context of "product" standards, subsequent work has extended this logic to the realm of "process standards," including labor standards (Greenhill *et al.*, 2009). Countries participating in the World Trade Organization (WTO) find it difficult to use trade sanctions (to deny access to their home markets) as a tool for promoting labor rights abroad. This is because the WTO constrains them from regulating imports using "process-based" rules; how firms use their labor force is interpreted as part of the production process. After all, free trade is predicated on the principle that countries should be free to exploit their "relative advantages." Some suggest that if a country has a relative advantage in labor (predominantly in the Global South), then it should be allowed to use this resource as it deems fit; capital rich countries (predominantly in the Global North) should not be permitted to tell labor rich countries on how they should regulate their labor standards (Bhagwati, 2003). While WTO obligations restrict governments from restricting imports based on labor standards, they cannot restrict private actors from demanding that companies demonstrate labor safety in their overseas supply chains. What might be the mechanisms?

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