

MASSACHUSETTS INSTITUTE OF TECHNOLOGY

Industrial Performance Center

and

Institute for Work and Employment Research

**Globalization, Development and Standards:
A Proposal¹**

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EXECUTIVE SUMMARY

We propose a new initiative focusing on the interrelated issues of globalization, economic development, and labor and environmental standards. Through a combination of scholarly research and innovative educational activities, including the establishment of a new Forum that would bring together key stakeholders engaged in the debates surrounding globalization, we seek to identify and analyze in what circumstances is sustainable economic development facilitated by the interaction between multinational corporations and host countries, and in what circumstances is it distorted or suppressed. When do such standards promote industrial upgrading, productivity gains, and increased competitiveness and, conversely, under what conditions does the application of international standards stifle growth and development? How effective are private and non-governmental attempts to monitor business practices and codes of conduct in relation to traditional government regulation?

To address these questions, we plan on addressing a variety of issues, including:

- Labor standards, environmental protections and related codes of conduct for the global operations of multinational corporations;
- Alternative institutional arrangements and processes for monitoring work practices and conditions at different stages in the value chain;
- The interaction between international organizations and standards and local practices, institutions, and customs;
- The broader implications of corporate investment and contracting practices of multinational corporations for sustainable economic development of the host countries in which they operate?

This initiative has two basic goals. First, we plan to carry out in-depth, objective research and analysis that will provide a sounder foundation for the continuing international debates on these issues. Second, we propose to launch a series of innovative educational experiences that will broaden and hence alter the way different groups of people (e.g., students, researchers, managers, NGO representatives, public officials, etc.) come to think about the promises and

challenges associated with globalization. These new educational activities will include the development of new courses in various departments at MIT, the development of new educational materials to be used at MIT and elsewhere, a new inter-disciplinary research seminar on these issues, and the establishment of a Forum. The Forum would create a venue, away from the public spotlight for sustained conversation among multinational corporations, labor unions, governments, environmental groups, religious leaders, private certification firms, NGOs and others on issues related to globalization. We envisage an active role for this Forum in encouraging experimentation with alternative approaches to achieving the dual objectives of improving labor and environmental conditions in host economies and promoting positive labor adjustment in the home countries of the investing firms. The MIT team would act as neutral parties, generating and organizing the information, structuring the debate, and encouraging open and frank discussion.

The distinguishing features of this MIT initiative include:

- A more integrated approach. Whereas much of the contemporary scholarship and debate over globalization often focuses on a single dimension or a particular issue (i.e., labor standards), we plan on studying the interconnections (and possible trade-offs) among the various aspects of the globalization process. We believe that studying the strategies and behavior of multinational firms and/or their agents, within the broader context of development and environmental and labor standards, will better help us understand the subtleties and complexities of this phenomenon.
- A multidisciplinary, multi-method approach to research. We have assembled a group of scholars and advanced graduate students from several different disciplines (economics, engineering, management, political science, planning, law, and environmental science) to conduct a series of in-depth case studies (both historical and comparative – across countries and industries) on the different dimensions of globalization. We believe that our methods – quantitative, qualitative, historical – as well as our disciplines, will permit us to analyze the multiple dimensions of this phenomenon in a way that few other research teams could match.

- Dispassionate analysis. The issues surrounding globalization have generated significant debate and controversy. Within this debate, it is often difficult to separate facts from more normative assertions. We at MIT have a long track record of researching “high valence” issues in an objective, dispassionate way. We will build on this experience to guide our current project and to serve as neutral facilitators of conversations among key actors involved in this process.

Given the composition of our research team, our research approach, and our methods, we believe that we will be able not only to conduct first-rate research, but also gain the confidence of key actors – multinational corporations, governments, unions, non-governmental organizations – necessary to make a major impact on the debates regarding globalization. Drawing on these attributes, the United Nations has asked us to assist it with its new Global Compact Initiative. (See Secretary General Kofi Annan’s letter in Appendix A.)

I. Introduction

The decades since the collapse of the Bretton Woods system have witnessed two fundamental and in many ways contradictory developments in the international world order. On the one hand, the liberalization of trade and finance, the remarkable advances in information and communication technologies, and the opening up of vast new markets – in Asia, the former Soviet bloc, and in previously closed developing countries in Latin America and Africa – have led to the creation of a truly global market. On the other hand, the decades since the 1970s have seen the growth of a host of new legal norms and institutions (at both the national and international levels) seeking to govern environmental standards and human rights, as well as the emergence of new actors, including many transnational non-governmental organizations (NGOs), active in areas of human rights, labor standards and environmental protection. Together, these developments have drawn together actors who previously may not have known of, let alone interacted with one another – multinational corporations, labor unions, governments, environmental groups, religious leaders, private certification firms, and a growing number of NGOs – into an intensifying and multifaceted debate over globalization.

The issue of globalization, with its volatile mix of economic opportunity and economic disruption, has far-reaching consequences for international relations and for the domestic political economies of virtually every country. Multinational corporations are eager to pursue the opportunities of global economic integration. They are also increasingly aware of the anxieties and insecurities their actions induce both at home and abroad, so they tread warily, lacking clear benchmarks for good corporate citizenship in this contentious and fluid arena. Labor groups, anxious about the impact of globalization on their domestic constituencies and frustrated by their inability to get basic worker rights and labor standards built into corporate policies or international agreements on trade, lack a framework or strategy for improving working and living conditions in a global economy. National governments, especially in the developing world, often lack the capacities to regulate the economic, social and environmental changes generated by increased levels of foreign direct investment (FDI) in their

countries, and feel squeezed between transnational NGOs demanding their adherence to “international standards” and local interests seeking to respond (in their own way) to both the opportunities and risks globalization offers.

We propose a new initiative, based at MIT, which will focus on the interrelated issues of globalization, development, and standards (both labor and environmental). Through a combination of scholarly research and innovative educational activities, which include the establishment of a new Forum that will bring together the various parties to the debates over globalization, we hope to deepen understanding of the range of possibilities for constructive action on the part of companies, governments, labor unions, and non-governmental organizations.

Although the present debate centers often on the question of minimum acceptable standards for conditions of work in emerging economies, we believe that an equally important dimension of the debate concerns the pace, direction, and sustainability of economic development in these countries in the longer run, and the contributions that different actors – multinational corporations, labor unions, governments, environmental groups, religious leaders, private certification firms, and a growing number of NGOs – can and should be expected to make to this process.

In exploring these issues, the new initiative will draw on and expand upon ongoing research at MIT, including the Globalization Study at the Industrial Performance Center (IPC), the various projects concerning work and employment relations being conducted at the Institute for Work and Employment Research (IWER), the International Human Rights and Justice Program based at the Center for International Studies, and on-going work on economic development and environmental standards in the Department of Urban Studies and Planning. In addition, we at MIT have a strong record of building international networks of scholars to study emerging research topics, and in this case we also anticipate building a network of leading international researchers to collaborate with us, thereby expanding the magnitude and scope of work beyond what can be achieved with MIT faculty and students alone.

II. Goals of the MIT Initiative

Our broad goal for this new initiative is to influence the course of public debate on globalization in two basic ways:

First, we seek to conduct research aimed at:

- Discovering the conditions under which increases in corporate profitability and the improvement of conditions in the workplace and local communities are positively correlated and, conversely, those under which they compete against each other;
- Identifying opportunities for innovation, adaptation, and upgrading in both the technologies and organizations of production and the social and institutional systems within which global corporations and/or their contractors operate;
- Identifying the respective roles for corporations, labor organizations, NGOs, and public policies and agencies in achieving the multiple objectives at stake in the globalization process.

Second, we seek to create new educational opportunities for both our students and key players engaged in the globalization debate, to learn about the relationships between globalization, development and standards. We will achieve this by developing new seminars, research workshops and course materials. Some of these seminars will send students in the field to observe, analyze, and interpret the processes of global economic integration at first hand.

In addition, we propose to establish a Forum in order to facilitate ongoing conversations among key participants in the globalization debate (e.g, companies, labor organizations, governments and NGOs) so that they too can gain deeper understanding into what constitutes good corporate citizenship in today's global economy.

III. The Proposed Research Agenda

The range of issues to be addressed in the new program include:

- Labor standards, environmental protections and related codes of conduct for the global operations of multinational corporations;
- Alternative institutional arrangements and processes for monitoring work practices and conditions at different stages in the value chain;
- The interaction between international organizations and standards and local practices, institutions, and customs;
- The broader implications of corporate investment and contracting practices of multinational corporations for sustainable economic development of the host countries in which they operate.

We will address these issues in parallel and inter-related strands of research:

III. A. Multinational Corporations and Sustainable Economic Development

The role of multinational corporations (MNCs) in developing (host) countries has provoked a fierce debate in recent years. On the one hand, MNCs are portrayed as agents of progress, transferring to developing countries, through either direct foreign investment or global buyers or even the use of local suppliers and contractors, needed capital and leading-edge technology, access to international markets, and “high-performance” organizational practices. Seen in this light, MNCs have catalytic and transformative effects on the local economies in which they operate. It is through these agents of progress that countries long struggling to develop can finally achieve this goal. On the other hand, multinationals and their local contractors/suppliers are also depicted as agents of exploitation, taking advantage of developing countries’ low wages and low levels of social and environmental regulation and remaining in these countries only so long as these cost-advantageous factors continue. Should these conditions change, footloose firms will move to other countries with perhaps even cheaper wages, weaker

regulations, and more favorable tax incentives. Seen through this lens, the interaction between MNCs and developing countries often leaves the latter trapped in low value-added segments of the global supply chain, with few resources to promote sustainable development, or even worse, with local communities stripped of resources and abandoned.

In many ways, the current controversy over globalization and role of MNCs mirrors earlier and remarkably similar scholarly and popular debates in the 1960s and 1970s. Then, as today, the role of MNCs in developing countries was depicted very much in these extreme, black and white terms. The reality, of course, is much more complex and subtle and thus, all the more interesting as an object of study. A quick survey of the historical record, as well as of developments currently underway, reveals that, in fact, MNCs have and continue to play **both** an exploitative and a progressive role in developing economies. Whereas their role in the mineral-rich countries of Africa has been far from exemplary, there is little doubt that MNCs have contributed significantly to the economic development of Singapore and some of the other Asia Tigers. Even as labor intensive processes have moved out of these countries, as a result of rising wages, it is clear that many capital and knowledge intensive processes have remained and even flourished.

The same is true today. Although most articles published in the popular press highlight the poor working conditions found among MNC contractor firms in Southeast Asia or Central America, our own research and that of others shows that in certain contexts, the interaction between MNCs and local economies has proven to be extremely positive. Think, for example, of the ex-Nike subcontractors in the Veneto region of Italy who, after Nike left for less expensive production sites in Asia, were nonetheless able to re-launch themselves on the world market with their own branded sports shoes. The same story could be told for US and European automobile components producers in Brazil or Japanese electronics companies in parts of Southeast Asia.

Thus, the important question facing scholars, business leaders, civil society groups and policy-makers alike is **not** whether or not MNCs are good for developing countries but rather, under what conditions is sustainable development facilitated through the interaction between MNCs and host

countries, and under what conditions is it distorted or even suppressed? This is one set of questions we propose to study in this project.

III. B. Labor Standards and Environmental Protections.

A related set of questions concerns standards, both labor and environmental: which actor(s) (i.e., domestic governments, individual corporations, international organizations, etc.) should set them, and what impact they may have on sustainable economic development in host countries. Here too there exists significant divergence of opinion and much debate. Some argue that the terms and conditions of employment manifest in different societies (developing and advanced industrial alike) are very much a product of each of these societies' histories and cultures and reflect their respective levels of economic development. Seen in these terms, insisting on the broad-brush application of so-called "international standards" is nothing less than regulatory imperialism and could become nothing more than *de facto* protectionism in another guise. Others contend that international standards are merely base-line rights and goals, ones that most countries have already embraced in principle, and are designed to be adapted to the particularities of different countries' social and economic arrangements. The problem, according to these proponents of standards, is not their universal nature but rather the failure of different actors – national governments, corporations, even domestic unions – to adapt them and implement them to their own circumstances.

Related to the debate on which labor and environmental standards (if any) should be applied to producers in developing countries are others concerning who (which actors) should be responsible for developing and implementing them, and what the consequences of these standards may be on the more general process of development in these emerging market economies. Issues of sovereignty and "fair" trade are often conflated with concerns over the economic consequences of applying these standards. Although some scholars and policy-makers argue that the application of international standards would stifle growth and development and chase away recently arrived multinationals, others insist that encouraging or even forcing firms in developing countries to meet the costs of environmental and labor standards will cause them to become more efficient

and up-grade their production systems, thus rendering them even more competitive on international markets.

Again, the empirical evidence to date is mixed and thus lends support to both (and thus neither) positions. Although some have presented evidence to show that the imposition of more stringent standards by global buyers or their governments led to the up-grading of leather goods in India, precision surgical instruments in Pakistan, or even fruit exports from Brazil; others have argued that the application of more stringent labor and environmental regulations generated numerous bankruptcies among traditional manufacturers in Latin America, along with the growth of the informal economy as producers, unable to abide by these new regulations, have gone underground in an effort to survive. This, of course, may only be a temporary phase: similar developments were witnessed in advanced industrial economies (e.g., the Third Italy in the 1960s) when their economies were first industrializing. Today these same areas are held up as models of highly competitive, labor and environmental friendly production. It is possible that the real effects of more stringent labor and environmental standards will only be revealed with time. When do such standards promote industrial upgrading, productivity gains, and increased competitiveness and, conversely, under what conditions does the application of international standards stifle growth and development? The issue of standards demands in-depth and dispassionate research and analysis which views these issues not in isolation but rather as inter-related and mutually dependent. This is precisely the approach we propose to pursue.

III. C. New Systems of Monitoring

A noteworthy aspect of efforts to improve labor and environmental practices among multinational firms and their contractors/suppliers in developing countries involves new strategies for monitoring factory performance along supply chains, not only in terms of traditional business criteria (quality, cost, timeliness) but also, and increasingly, for compliance with standards of labor, environment and social performance. This monitoring is being conducted internally within global firms by management or outside consultants and externally by labor unions and an array

of NGOs. Information collected is deployed in a range of ways to motivate compliance with codes of conduct and/or local laws.

These private and non-governmental efforts at monitoring are offered up as solutions to the limitations (or failures) of traditional government regulation. Firms themselves are developing codes of conduct and monitoring systems to “prove” that they are socially responsible and to win credibility with customers. For very different reasons, NGOs are promoting monitoring systems to supplement government regulation, and to better track multinational corporations and expose problems in their contractor factories. National governments and international organizations are exploring the potential that codes of conduct and third-party monitoring may have as supplements to state inspectors and command and control regulations.

Interestingly, MNCs, labor unions, government agencies and NGOs – groups often in conflict over these issues – appear to be converging on similar strategies for advancing codes of conduct and monitoring global supply chains. However, these actors have very different interests and perspectives on how monitoring can and should work, and very different goals for the results of the monitoring. A wide variety of codes and monitoring systems have thus emerged, with different underlying principles and likely outcomes. Think, for example, of monitoring initiatives as diverse as The Fair Labor Association, SA8000 (Social Accountability International), The Workers Rights Consortium, and the Ethical Trading Initiative. For each of these initiatives, the major components of monitoring systems vary. Although some emphasize freedom of association and anti-discrimination in their codes, others instead focus on minimum vs. “living” wages. Some advocate that internal corporate officers conduct the monitoring while others insist on external consultants or even NGO staff. The scope of issues, protocols employed, and the use of the information collected also vary tremendously among these monitoring groups. Thus, when we talk about monitoring, we are actually talking about several, very different models of action, each with their own strengths and weaknesses.

These new monitoring systems hold out both potential and peril. They offer the potential of democratizing regulation, bringing in new voices and new mechanisms for motivating improvements for workers and the environment. They

also offer the potential of privatizing regulation, effectively closing off democratic forms of regulation and undermining state jurisdiction. Systematic research is thus needed to examine in detail these new initiatives and systems of regulation and to help us understand how current monitoring systems actually work, evaluate the efficacy of the alternative approaches, and to assess the various trade-offs embedded in each of these monitoring models.

IV. Methods

Our research approach will approach the study of these issues across both different developing countries and in different industries. Within the various industries, we will analyze the experiences of particular firms and of individual plants. Multi-tiered research is needed to connect the experiences of individual workers with large-scale, structural shifts in value chains and production networks induced by new technologies, market liberalization, and, in some cases, trade rules. It will also be important to broaden the scope of research beyond MNC-owned factories to include the factories of contractors, sub-contractors, and the nature and extent of backward linkages into the host economy. We plan on studying cases in both labor and resource intensive industries (e.g., garments, shoes, export agriculture) and in more capital and technology intensive ones (e.g., software, electronics, autos) in a variety of different developing countries and even regions within these countries. Country cases will vary according to their professed policies with regard to development and standards as well as the “capacity” of local actors (government agencies, unions, civil society groups) to promote and monitor standards. Our multi-tiered, cross-national, cross-industry, cross-firm approach will allow us to “control” for various factors like industry features, company strategies and/or country institutional arrangements, and will lead to a more general understanding of the phenomena of interest as they play themselves out in an array of economic and institutional settings.

Our case studies will focus on both current MNC practices in order to see first-hand both the problems and the prospects for sustainable development generated by these realities, and of historical experiences of economically successful developing-country producers who previously served as contractors

for MNCs but who, over time, underwent a process of upskilling and upgrading that allowed them to generate positive spill-overs for their local economies and societies.

For several years researchers affiliated with the Industrial Performance Center – an interdisciplinary research center that involves faculty and graduate students from several departments at MIT– have been studying various aspects of the globalization phenomenon. In the current phase of this research, the IPC Globalization Study is focusing on the movement of production networks (or, more precisely, pieces of these networks) from advanced industrial countries to the developing world.

To address these issues, we have assembled an interdisciplinary team of 22 MIT faculty and advanced graduate students together with colleagues from research institutes in Asia and Europe. This team is currently engaged in a multiyear investigation of the impact of the globalization process on the advanced industrial economies, including the United States, Japan, Italy, Germany and Taiwan. In connection with these studies IPC-affiliated researchers have carried out an extensive program of plant visits in China, Southeast Asia, Mexico, Italy, Eastern Europe, and Brazil. The research focuses on the relocation and reorganization strategies of firms from advanced industrial economies in several industries, including textiles and apparel, automobiles, semiconductors and electronics, financial services, and software.

The proposed research on standards and economic development is thus a natural extension of the IPC Globalization Study. At the same time, it builds on the extensive work on employment relations and labor markets in the United States and abroad conducted in recent years by scholars affiliated with the Institute for Work and Employment Research (IWER) within the MIT Sloan School of Management as well as research on economic development and environmental standards occurring within the Department of Urban Studies and Planning (DUSP). Since the mid-1990s, IWER-based scholars have conducted or coordinated 5 cross-national studies on changes in labor relations in both advanced industrial and developing countries. They have also published numerous books on changes in work relations in the United States. Within DUSP, Dara O'Rourke has been researching alternative approaches to

monitoring labor and environmental standards, Balkrishnan Rajgopal has been working on human rights and justice issues in various developing countries, and Judith Tendler and Richard Locke, along with their graduate students, recently completed a study on northeast Brazil that focused, among other things, on the conditions under which large corporations can promote development in “backward” regions.

V. Educational Activities

In parallel with the program of research described above, we propose to launch a series of new educational experiences. Since the faculty involved in this new initiative come from many different departments at MIT (economics, political science, engineering, urban studies and planning, management) we hope to develop new courses focused on the various issues relating to globalization throughout MIT. Some of these new courses will be housed in traditional departments but others, we hope, will be truly interdisciplinary and draw students from many different areas of the university. We also hope to develop new course materials that can be used both in these new courses as well as in already-established courses.

In addition, we plan on launching a Faculty/Advanced Graduate Student Research Seminar on Globalization, Development and Standards as well as a Working Papers Series based on the research we generate. Although some of us have collaborated before, the vast majority of people involved in this project have not previously worked together. (See Appendix B for a list of key faculty involved in this project.) We view this creation of a new intellectual community, built around issues of globalization, development and standards, as a positive development. We believe that it will lead to stronger ties across different disciplines and research groups within MIT.

Finally, as part of our educational activities, we propose to establish at MIT a Forum on Globalization, Development and Standards, to which we will invite leaders of various communities and organizations involved in the globalization debate in the United States and overseas to participate in a series of workshops and seminars. Creating a Forum **away from the public spotlight** for sustained

conversation among corporate leaders, government policy-makers, religious leaders, environmentalists, labor leaders and others will help to clarify and, perhaps, ameliorate the conflicting interests among them.

Among the functions of this Forum, we envisage an active role for it in encouraging experimentation with alternative approaches and institutions designed to achieve the twin objectives of improving labor and working conditions in host economies and promoting positive labor adjustment in the home countries of the investing firms. A key role of the Forum will be to discuss design options for institutional experiments intended to achieve these twin objectives and to evaluate and disseminate the results of these experiments. Our plan is to organize a series of meetings focused on specific aspects of the globalization debate (i.e., standards, monitoring mechanisms, etc.) and convene small groups of interested parties to these meetings. We at MIT would act as neutral parties, generating and organizing the information, structuring the debate, and encouraging open and frank discussion on these various dimensions of the globalization debate. Our goal here is to further the exchange of information among key players in this debate and hence shift the terms of the debate.

V. Organization and Finance

The project's two main components – research program and educational activities – will be housed in different parts of MIT.

The research program will be based within the Industrial Performance Center (IPC) since it builds on the Center's current globalization project and can thus rely on the IPC's expertise in conducting cross-disciplinary, cross-national research projects. The research will take place in phases. In the first phase, different faculty teams will conduct their own, self-standing projects focused on particular issues, (i.e., up-grading strategies by multinational operations in particular industries and/or localities, the impact of different monitoring systems in different local economies, cross-national comparisons of similar production systems or even plants working for the same buyers in order to analyze the factors leading to differences in practices, historical case studies of the same company or plant or even region and how it evolved in terms of standards and

strategies over time, etc.). During this phase of the project, there will be loose coordination among the different studies, primarily through bi-monthly meetings of the project team, in which findings will be shared and discussed. Findings from these individual projects will be published and disseminated through a Working Papers series. Depending on how these discussions proceed, a second, more coordinated phase of the project will ensue. This second phase would seek to investigate in a more systematic manner a set number of hypotheses across the various industry and country/regional studies.

Output from these research activities will include a Working papers Series , a web page summarizing the key findings of the research and make them available to a broader public, and a final report, summarizing the key findings of the research, will be published at the end of our three-year project. We also hope to organize a public conference at the conclusion of our research to disseminate and publicize the major findings of our research.

The educational activities will be distributed throughout the Institute, in the various departmental homes of the faculty involved in this project.

The Forum will be housed in the Institute for Work and Employment Research at the Sloan School of Management. We will draw on MIT's strong ties to various global corporations, as well as to labor groups and international organizations, which will facilitate the bringing together of key stakeholders to discuss in a dispassionate manner the dilemmas globalization creates for each of them. We plan on holding two meetings per year for each year of the project. Each meeting will focus on a particular issue or debate (e.g., alternative monitoring systems and their trade-offs, which standards should be enforced and by whom, cases of best corporate practice in this area and how to replicate them, etc.) and thus will involve different mixes of people, depending upon their interests and expertise. These meetings will be small and informal, away from the public eye, in order to guarantee as much open exchange of information and debate as possible. At the end of the project, a more public conference, highlighting the main findings of the research and the Forum, will be organized.

In light of the intense public debate surrounding these issues, the financing of this initiative must meet two key criteria. First, the research must meet MIT

standards of objectivity and independence, and must be able to withstand the reactions of sponsors and others to potentially controversial conclusions and recommendations. Second, the program must be perceived by potential critics, peers, and decision-makers as credible and not under the undue influence of one particular party or stakeholder. It is for these reasons that we are approaching several different foundations in order to fund this project at the level and for the duration that it requires. Appendix C is a detailed budget for both the research component of the project and the Forum.