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# Racing to the Bottom or Climbing to the Top?

## Economic Globalization and Collective Labor Rights

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This article explores the impact of economic globalization on workers' rights in developing countries. The authors hypothesize that the impact of globalization on labor rights depends not only on the overall level of economic openness but also on the precise ways in which a country participates in global production networks. Using a new data set on collective labor rights, the authors test these expectations. Their analysis of the correlates of labor rights in 90 developing nations, from 1986 to 2002, highlights globalization's mixed impact on labor rights. As "climb to the top" accounts suggest, foreign direct investment inflows are positively and significantly related to the rights of workers. But at the same time, trade competition generates downward "race to the bottom" pressures on collective labor rights. The authors also find that domestic institutions and labor rights in neighboring countries are important correlates of workers' rights.

*Keywords:* labor rights; multinational corporations; globalization; foreign direct investment

Does the internationalization of production lead to increased abuses of workers in developing countries, as governments allow the competitive lowering of labor standards? The proponents of economic globalization dismiss these worries, citing the benefits of foreign direct investment (FDI) and liberalized trade, including the transfer of technologies, better employment opportunities, and higher rates of economic growth. Detractors of globalization, on the other hand, worry that governments will engage in a "race to the bottom" in economic and social policies, leading them to favor the interests of firms over those of workers.

The complexity of the effects of globalization in developing nations and the lack of systematic cross-national data on labor rights have hampered analyses of this issue. Although there are several econometric studies of the linkages between economic openness and growth, there are few systematic analyses of globalization's impact on workers. Scholars have analyzed globalization's impact on human rights, yet collective labor rights are very distinct from overall human rights, which encompass civil and political rights and protection of physical integrity.<sup>1</sup>

We begin to fill this lacuna by generating an annual measure of labor rights violations<sup>2</sup> and by statistically testing the relationship between violations and economic globalization in 90 developing nations, from 1986 to 2002. Our data focus on the legal rights of workers to organize, bargain collectively, and strike, and the practical observation of these rights. This index encompasses components of human rights practices that are most likely to be related to economic globalization. Although other types of labor issues, such as wage levels and working conditions, also are important, we do not address them in this article. We assume, however, a positive association between greater collective labor rights and improvements in wages and working conditions (e.g., Aidt & Tzannaos, 2002; Huber & Stephens, 2001).

Like recent studies of the relationship between globalization and policy outcomes (including social protection, welfare-state policies, and taxation), our analysis reveals a nuanced picture: Different elements of economic globalization affect workers' rights differently. The impact of globalization depends on the precise ways in which a country participates in global production networks. As "racing to the top" accounts suggest, FDI inflows are positively and significantly related to the rights of workers. But at the same time, trade openness is negatively associated with collective labor rights.

We hypothesize about causal linkages between economic globalization and labor rights in the first section. We then describe the construction of our collective labor rights measure. Next, we summarize our expectations regarding the correlates of labor rights, and we present the results of our quantitative analyses. In conclusion, we consider avenues for future

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research, particularly variations in production and export profiles within individual countries.

## Labor Rights and the Global Economy: Causal Linkages

Globalization's impact on workers' rights in developing nations is likely to be mixed (also see Gallagher, 2005; Hafner-Burton, 2005). Some aspects of economic globalization improve workers' status vis-à-vis investors and employers; others reduce workers' bargaining capacity, generating a decline in their rights. Although we acknowledge the influence of domestic political and economic factors on labor outcomes, we focus theoretically on the impact of external economic forces. We consider two distinct but related influences. First, the overall impact of direct investment on workers' rights is likely to be a positive one, promoting a climb to the top among developing nations.<sup>3</sup> Second, trade openness is likely to give rise to strong competitive pressures among developing nations, generating downward pressure on collective labor rights. Differences in how firms and countries engage the global economy, then, generate variations in how workers fare.

*FDI and labor rights: The positive case.* FDI refers to longer term cross-border investment, which provides the investor (a multinational firm) with a management interest in an enterprise (an affiliate) and direct control over its production activities. Direct investment is distinguished from portfolio investment by its longer time horizon and by its direct control of assets. As part of the broader phenomenon of economic globalization, FDI has increased significantly in recent years (United Nations Conference on Trade and Development [UNCTAD], 2004). Most developing nations have liberalized their rules regarding direct investment, and many offer various incentives to foreign corporations (Mandle, 2003; UNCTAD, 2002).

There are three causal pathways through which directly owned production or FDI could enhance collective labor rights. First, multinational corporations (MNCs) may urge governments directly to improve the rule of law, protect the vulnerable, and invest in social services and infrastructure (Biersteker, 1978; Richards, Gelleny, & Sacko, 2001). Second, foreign direct investors can bring best practices for workers' rights to host countries (Finnemore, 1996; Garcia-Johnson, 2000; Organization for Economic Cooperation and Development [OECD], 2002). Activist and nongovernmental organization (NGO) attention to MNC behavior can promote the transmission of best practices, either by changing firms' and governments' beliefs about appropriate

labor rights practices (Brown, Deardorff, & Stern, 2003; Keck & Sikkink, 1998) or by providing material incentives for multinationals to treat workers well (Bhagwati, 2004; Frankel, 2003; Haufler, 2000). Third, direct investors may care about the quality of labor rather than its cost (Moran, 2002; Santoro, 2000; Spar, 1999). In such cases, corporations are likely to invest in countries with higher education levels, expend resources on employee training and benefits, and pay higher wages to reduce turnover (Gallagher, 2005; Garrett, 1998; Hall & Soskice, 2001; Moran, 2002; Santoro, 2000; Spar, 1999). This is likely true particularly when FDI is motivated by access to specific consumer markets rather than by efforts to lower production costs. Through each of these three mechanisms, a climb to the top should appear.

Another set of observers, however, argues that FDI has negative consequences for workers' rights. Such claims are based on competitive pressures: The mobility of MNCs, coupled with a desire to create jobs, produces incentives for governments to engage in cross-national "races to the bottom" (e.g., Drezner, 2001). This perspective is reminiscent of dependency theory in its view of the exploitative tendencies of MNCs (e.g., Cardoso & Faletto, 1971; Evans, 1979; Maskus, 1997; Smith, Bolyard, & Ippolito, 1999) and in its suggestion that national governments limit workers' rights to attract investment. Skeptics also point out that repression can persist after foreign firms have invested in a particular nation. Given the ease of moving operations, particularly labor-intensive ones, MNCs are increasingly able to threaten exit *ex post facto*. In response, workers who want to preserve their employment might disavow union organization, collective bargaining, or efforts at better working conditions.

What does the empirical record show? A few cross-national studies suggest that competition to attract foreign capital results in the reduction of social welfare and respect for human and labor rights (e.g., Rodrik, 1997).<sup>4</sup> At the same time, however, other empirical assessments provide modest support for our expectations. Several report a positive, albeit small, relationship between FDI and labor rights (Aggarwal, 1995; Busse, 2003; OECD, 2000; Rodrik, 1996); others find no significant relationship (Kucera, 2002; Neumayer & de Soysa, 2006; Oman, 2000; Smith et al., 1999). These, together with previous research on the various positive economic consequences of FDI (Bhagwati, 2004; Biersteker, 1978; Brown et al., 2003; Frankel, 2003; Graham, 2000; Leahy & Montagna, 2000; Moran, 2002; Mutti, 2003; OECD, 2002; Santoro, 2000), lead us to anticipate that FDI will be positively associated with labor rights.

Anecdotal evidence involving maquiladoras and sweatshops notwithstanding, market access remains the most important determinant of FDI flows (Hatem, 1998; Multilateral Investment Guarantee Agency, 2002).

Much MNC activity is aimed at producing goods closer to regional or national consumer markets and at producing high-technology, skill-intensive commodities (Graham, 2000; Moran, 2002; UNCTAD, 2002). Although governments in some developing nations may believe that restricting labor rights (especially in export-processing zones [EPZs]) makes them more attractive, MNCs from OECD countries often do not consider core labor standards a factor in assessing investment locations (Trade Union Advisory Committee to the OECD, 1996). Thus, FDI represents the positive side, for workers, of economic globalization.

*Trade and labor rights: The negative case.* It is in the area of trade openness that we expect empirical support for the pessimists' claims. Trade openness in developing nations has increased dramatically since the 1980s, sometimes as a component of structural adjustment programs and other times in an effort at export-led development (Garrett, 2000). Trade openness could have positive effects on labor rights, via the use of consumer pressures and trade sanctions, or via its longer term impact on economic growth. But sanctions and consumer pressures often are ineffective at improving workers' rights (Elliott & Freeman, 2001). Rather, participation in global commodity chains, via imports and exports, often forces developing nations (and their workers) into competition with one another.

Contemporary multinational firms conduct many of their operations via trade rather than via direct investment.<sup>5</sup> The standardization of manufactured commodities, the liberalization of trade in manufactures, and the decline in long-distance transportation costs have facilitated the development of global production networks (Gereffi & Korzeniewicz, 1994). Multinational firms may retain ownership of production within these networks (generating FDI, as above) or they may purchase inputs from firms in various countries. The latter decisions, which generate subcontracting relationships, entail seeking out the most cost-effective suppliers and local partners. Surveys of MNCs suggest that, across industries, concerns about costs are the major influence on subcontracting and outsourcing decisions (UNCTAD, 2004). In this context, a nation's ability to produce a good at the lowest possible cost is central to increasing export share and to winning business for local subcontracting firms.

Collective labor rights play an important role in production costs, given the empirical linkages between unions and collective bargaining on one hand and wage levels and nonwage benefits on the other (Aidt & Tzannaos, 2002; Gallagher, 2005; Graham, 2000; Murillo & Schrank, 2005). Firms can reduce demands for wages and nonwage benefits by restricting collective labor rights; governments can further serve investors' interests (O'Donnell,

1988) by not providing or not enforcing these rights. For instance, many developing nations have attempted to meet the demands of firms for lower cost production locations by establishing EPZs. These zones specialize in the manufacture of goods for export, often via subcontracting; jobs in these areas may be low skilled and labor intensive, and labor rights are often restricted (Madami, 1999; Mandle, 2003; Moran, 2002).

To capture this facet of globalization, we need to assess nations' participation in the subcontracting component of global production networks. Direct investment statistics, however, do not capture subcontracting, offshoring, franchising, or the myriad other ways in which firms do business internationally (World Trade Organization, 2005). Many manufacturing firms produce a large proportion of their goods overseas but rely more heavily on locally owned subcontractors than on their own affiliates (Navaretti & Venables, 2004; UNCTAD, 2004). In such situations, no FDI occurs; rather, subcontractor sales and purchases generate imports and exports (Aizenman & Noy, 2005).

Unfortunately, little systematic information about subcontracting activities exists (World Trade Organization, 2005). A reasonable proxy for subcontracting activity, however, is trade. Because global production networks rely on the movement of goods between nations, they generate large import and export flows. Once we control for the (positive) effects of FDI on workers' rights, we expect a residual negative effect from trade. Cingranelli and Tsai's (2003) research lends support to this expectation: They report a negative association between trade and their labor rights measure (also see Murillo & Schrank, 2005; Neumayer & de Soysa, 2006).

To summarize, participation in the global economy is a mixed bag for workers in developing nations. Trade openness may present governments and firms with one set of pressures, whereas capital market openness may expose them to a different—and perhaps contradictory—set of demands. The overall impact of economic openness depends on how each country is integrated into the global economy, and this varies across countries and over time.

## Measuring Collective Labor Rights

Despite the fact that labor rights are the subset of human rights most likely to be influenced by economic globalization, few studies have systematically examined the relationship between globalization and labor rights specifically. We fill this empirical hole by constructing a data set of

collective labor rights. This data set, which consists of annual observations from 1985 to 2002, focuses on the legal rights of workers to freedom of association and collective bargaining, key elements of core labor standards, and respect for these rights (when present) in practice.<sup>6</sup>

Kucera's (2002) template, which we use to construct our data set, records 37 types of violations of labor rights in six categories: freedom of association and collective bargaining-related liberties; the right to establish and join worker and union organizations; other union activities; the right to bargain collectively; the right to strike; and rights in export processing zones.<sup>7</sup> In each of these broad categories, specific violations include the absence of legal rights, limitations on legal rights, and the violations of legal rights by governments or employers. On the basis of expert assessments, Kucera's method assigns a weighting to each violation, with more serious violations (e.g., general prohibitions) weighted more heavily than others (e.g., a requirement of previous government authorization to form a union).<sup>8</sup> The complete coding template is contained in the data appendix.<sup>9</sup>

To reduce bias, our assessments of violations of collective labor rights are drawn from three (rather than one) sources: U.S. State Department *Annual Reports on Human Rights Practices*; International Labor Organization Committee of Experts on the Applications of Conventions and Recommendations, and Committee on Freedom of Association reports;<sup>10</sup> and the International Confederation of Free Trade Unions (ICFTU) *Annual Survey of Violations of Trade Union Rights* (on ICFTU reports, Weisband & Colvin, 2000). Single sources vary over time in their geographic coverage and in the attention given to certain types of violations. Single sources also may be prejudiced. For instance, one might expect that U.S. State Department reports would be biased toward U.S. allies and against U.S. adversaries (Milner, Poe, & Leblang, 1999; Poe, Vazquez, & Carey, 2001).<sup>11</sup> Likewise, we might worry that—given donor interest, access to information and local activists, and the level of political openness—transnational advocacy networks pay more attention to violations in some countries than in others. Although it is impossible to remove all potential biases in reports of labor rights violations, the use of multiple sources helps to reduce many of these biases.<sup>12</sup>

When a country displays a violation of labor rights for 1 of the 37 dimensions, we assign a score of 1 for that category and year. If a violation is recorded more than once in a source or in multiple sources, the maximum score per category remains 1. If no violation is reported for a given category, we assign a score of 0. We multiply these scores by the weighting for each category; the sum of these category scores provides the annual measure of labor rights violations. Possible scores on the labor standards



indicator, then, range from 0 to 76.5. In practice, however, no country exhibits violations in every category of labor rights, and maximum scores are in the mid-30s. For ease of presentation, we reverse the scale of the labor rights indicator so that higher values indicate better collective labor rights and lower values represent less respect for such rights.

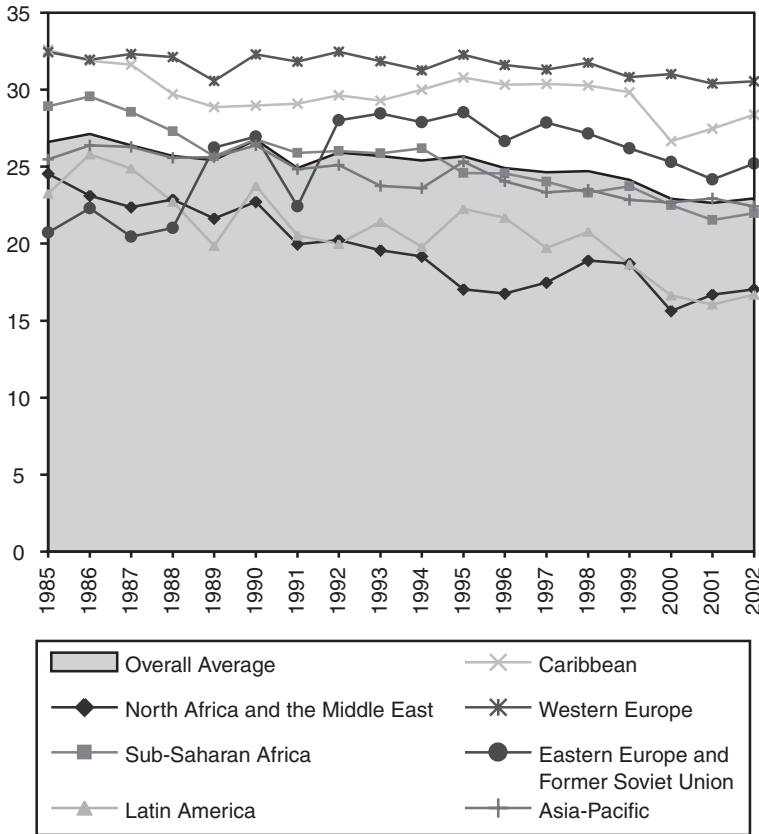
Our labor rights data represent a dramatic improvement over existing measures. Although this method does not distinguish between single and multiple violations within the same category, it allows us to capture an overall picture of variations in labor rights across countries and over time. The index of labor rights is also distinct from conventional human rights measures.<sup>13</sup> For instance, for the years (1985 to 2001) during which our data overlap with “personal integrity rights” data,<sup>14</sup> the overall bivariate correlation between the two measures is .18, with annual correlations ranging from .07 (1997) to .34 (1991). Our scores are also distinct from other cross-sectional time-series measures of workers’ rights (Cingranelli, 2002; Cingranelli & Tsai, 2003; OECD, 2000; Rodrik, 1996): We consider domestic labor legislation and actual behavior regarding workers’ rights; our scores include multiple categories of rights; and we draw from multiple sources.<sup>15</sup> These differences generate scores that are noticeably different. For instance, the correlation between our labor rights measure and Cingranelli’s (1985 to 2002, all countries) is .43; for the nations included in our analyses, the correlation is .27.

For the 1985 to 2002 period, observations on the labor rights indicator range between 0 (greatest violations) and 34.5 (no violations), with a mean of 25.1 and a standard deviation of 7.71. Figure 1 summarizes the labor rights measure, by region and across time. On average, labor rights are most respected in Western Europe and least respected in the Middle East, North Africa, and Latin America. There also are some deteriorations over time, as in Latin America, Asia, and sub-Saharan Africa; Central and Eastern Europe, on the other hand, display improvement over time. These broad patterns suggest that as economic integration has increased, so have violations of collective labor rights. The empirical question, then, is whether these two trends are related to one another: Do nations with greater participation in global production networks also display lower collective labor rights scores?

## Expectations and Independent Variables

In this section, we summarize our hypotheses regarding the correlates of collective labor rights; these include international economic factors, interstate

**Figure 1**  
**Average Labor Rights Scores, by Region**



diffusion and competition, and various domestic factors. Table 1 summarizes the measurement of independent variables, indicates the hypothesized direction of their effects, and provides summary statistics.

*International economic factors.* Our expectations regarding the causal relationship between FDI and workers' rights are informed by race-to-the-top arguments, as discussed above. Although collusion between local elites and MNCs has sometimes led to repression of the working class (Evans, 1979;

**Table 1**  
**Independent Variables: Expectations and Summary Statistics**

| Variable                                  | Operationalization  | Expected Relationship with Labor Rights   | <i>M</i> | <i>SD</i> |
|---|---|---|----------|-----------|
| Economic globalization                    |   |   |          |           |
| Foreign Direct Investment (FDI)—flows     | FDI inflows divided by GDP  | Positive                                  | 2.22     | 2.84      |
| FDI—stocks                                | FDI stock divided by GDP  | Positive                                  | 19.45    | 18.45     |
| International Trade                       | Imports plus exports divided by GDP   | Negative                                  | 67.63    | 37.54     |
| Other external variables                  |   |   |          |           |
| External debt                             | Total external debt divided by GDP  | Negative                                  | 90.09    | 87.19     |
| Competition variables                     |   |   |          |           |
| Regional practices                        |   |   |          |           |
| Economic peers' practices                 | Average labor rights score for every other country in the region, by year           | Positive                                  | 23.41    | 3.31      |
|   | Average labor rights score for all other nations in the same income decile, by year | Positive                                  | 23.98    | 2.43      |
| Internal variables                        |   |   |          |           |
| Income                                    |   |   |          |           |
| Economic growth                           | Income per capita (natural log)   | Positive                                  | 7.69     | 0.81      |
| Population                                | Annual change in income per capita  | Positive                                  | 3.39     | 5.14      |
|   | Total population (natural log)  | Positive or negative (offsetting effects) | 16.26    | 1.58      |
| Democracy                                 | Polity IV measure of democracy  | Positive                                  | 1.41     | 6.49      |
| Civil conflict                            | Uppsala measure of civil war  | Negative                                  | 0.21     | 0.41      |
| Presence of nongovernmental organizations | Total number of nongovernmental organizations in a country-year (natural log)       | Positive or negative (offsetting effects) | 2.16     | 1.25      |
| Potential labor power                     | Skilled or Unskilled Workers $\times$ 1/Surplus Labor                               | Positive                                  | 1.96     | 2.22      |

O'Donnell, 1988), recent public attention toward corporate behavior serves to strengthen the incentives for MNCs to help promote—or at least not detract from—labor rights. Moreover, a dearth of labor rights in developing nations—and the more general occurrence of repression—may have less to do with the presence of MNCs than with trade openness and with internal political and economic factors. We expect that, *ceteris paribus*, FDI is positively related to workers' rights.

We use two measures of FDI; both are scaled to gross domestic product (GDP), capturing a country's reliance on direct investment. The FDI inflows variable focuses on the impact of new direct investment on labor rights. The stock variable (the accumulated total of FDI) gauges the overall presence of foreign investment in the country. Although it is plausible that both new and total FDI could have a positive impact on labor rights, we expect a more pronounced effect from the flow variable. Although the FDI stock variable cumulates FDI from all previous years, the flow variable captures the more immediate influences on labor rights outcomes.

At the same time, we anticipate a race-to-the-bottom relationship between trade openness and collective labor rights. Although trade openness could generate demands for greater social safety nets, Rudra (2002) finds that, particularly where labor has little political power, trade openness is associated with a decline in welfare-state policies (Kaufman & Segura-Ubiero, 2001). In our analyses, we measure trade using the conventional metric for openness, the ratio of imports, and exports to GDP. Given our focus on multinational production, an indicator that captures both elements—imports and exports—of trade is most appropriate.

We also control for the level of external debt. Where debt is high, governments are more subject to the pressures of both private international investors and international financial institutions. The structural adjustment policies suggested by these groups can have negative consequences for labor and human (Abouharb & Cingranelli, 2006; Richards et al., 2001) rights. Higher debt, therefore, could be associated with less respect for labor rights.

*Interstate diffusion and competition.* In addition to considering the direct effects of economic globalization, we also explore the effect of competitive diffusion on labor rights. As nations compete with one another to attract and retain investment, the behavior of peer nations will influence governments' propensity to protect collective labor rights. We consider two types of peer nations: regional and economic. The regional variable (Brooks, 2005; Simmons & Elkins, 2004) captures the extent to which competition for FDI takes place among neighboring countries. If MNCs undertake investment

because they want access to certain consumer markets, natural resources, or low transportation costs, competition may occur within geographic regions. Our regional variable is the average, for a given year, of the labor rights score elsewhere in the region. We expect a positive relationship between labor rights in the region and labor rights in a particular country.

The economic peer variable considers competition among nations with similar levels of economic development and factor endowments. If MNCs undertake foreign investment as part of a strategy of vertical integration—to locate different parts of the production process in their most efficient locations—then nations with similar resource endowments, skill levels, and infrastructure will be in competition with one another. For instance, in the apparel sector, where firms are motivated primarily by lower labor costs, patterns of firm location and relocation are often cross-regional (Mandle, 2003). The economic peer measure is the mean of the labor rights scores in each year for all other countries in the same per capita income decile. Again, we expect that peer labor rights outcomes will be positively associated with national labor rights outcomes: Better rights protections in peers facilitate better rights protections at home, but lower rights in peers provide incentives for less respect for labor rights at home.

*Domestic variables.* Many recent studies of economic globalization and national policies find that the key influences on domestic policy outcomes often remain internal rather than external (Brooks, 2002; Huber & Stephens, 2001; Mosley, 2003; Murillo & Schrank, 2005; Wibbels & Arce, 2003). According to a “domestic factors” view, it is not so much differences in economic internationalization that drive variations in labor rights but differences in political institutions, ideologies, and interest groups. Although our focus is on external factors, our analyses control for large-scale variations in domestic economic and political institutions.

Where the level of democracy is higher, labor rights should be better protected throughout the economy (Cingranelli & Tsai, 2003; Neumayer & de Soysa, 2006; Poe, Tate, & Keith, 1999; Richards et al., 2001). Our democracy variable controls for large-scale differences in political regimes and therefore in the ability of workers to demand protection. We do not test the importance of middle-range domestic variables, such as government ideology with respect to economic issues. Measuring ideology in a cross-national context is fraught with difficulties, particularly among lower income nations, as well as democratizing and semidemocratic (or even nondemocratic) regimes. Future qualitative work, however, could assess the impact of other types of institutional and interest group structures on labor rights.

We also expect that, all else equal, wealthier nations will be characterized by greater respect for collective labor rights. Likewise, increased economic growth should provide greater opportunities for workers' political participation and should be associated positively with our labor rights measure.<sup>16</sup> Moreover, where nations are characterized by civil conflicts or wars, we expect to find worse labor rights practices. Finally, we are agnostic regarding the association between population size and rights: Smaller populations may make repression easier to carry out. At the same time, though, a larger population presents more opportunities for violations of labor rights (e.g., Poe & Tate, 1994; Poe et al., 1999; Richards et al., 2001).

*Human rights NGOs.* Finally, to assess the effects of human and labor rights activists on labor rights outcomes (Brown et al., 2003; Keck & Sikkink, 1998; Murillo & Schrank, 2005), we control for the total number of human rights NGOs in each country-year. NGOs could be positively or negatively related to our measure of labor rights: NGO activity could lead to increased reporting of labor rights violations in developing nations, generating a negative relationship.<sup>17</sup> At the same time, however, where MNC behavior is more closely monitored by human rights NGOs, firms may be more inclined to respect workers' rights, generating a positive association between rights and NGOs. Our analyses include both an overall measure of human rights NGOs and an interaction term between FDI inflows and NGO activity.<sup>18</sup>

## Quantitative Analyses

We estimate cross-sectional time-series models for annual data from 1986 to 2002.<sup>19</sup> The list of countries included in our analyses is found in the data appendix. The late 1980s and 1990s are periods of growing—and often high—economic openness and, therefore, the years for which the impact of globalization on labor rights should be most pronounced; these years also provide the broadest data coverage on key variables.<sup>20</sup> We include developing nations from Africa, Latin America, Asia, and the Middle East in our analyses; omitted country-years from these regions are those for which data on our independent variables are not available. We exclude developed and transition countries from our analyses, as we expect that the independent variables of interest will have different effects in these countries.<sup>21</sup> With respect to developed—wealthy, historically democratic—countries, we seek to avoid biasing our cases toward a set of nations with large amounts

of trade and direct investment activity and very few reports of labor rights violations. With regard to transition nations, during the first part of our sample period, these nations were under Communist rule, and reliable data on economic indicators are usually unavailable. In the latter part of our sample period, these countries remain very different from the others in our sample (Bunce, 1995). Although they are not necessarily exceptional in their simultaneous economic and political transitions, they are quite unique in their Communist legacy (and the attendant treatment of workers), in their degree of economic restructuring (mass privatizations and the movement away from a closed, command economy), and in the efforts of many former Communist countries to join the European Union.

We use OLS estimation with panel-corrected standard errors, developed by Beck and Katz (1995, 2004) and widely used for cross-sectional time-series data, particularly when the number of countries ( $N$ ) exceeds the number of time periods ( $T$ ). We assume first-order autocorrelation within panels, an autoregressive-1 (an AR1 process).<sup>22</sup> We opt against using fixed effects, given the fact that fixed effects will be collinear with time-invariant or largely time-invariant regressors (Beck, 2001). Because several important independent variables (i.e., democracy, population, income per capita) remain fairly constant across time, the inclusion of fixed effects would greatly dilute the implied importance of these variables. Although random effects models do not suffer from this shortcoming, they do require the assumption that unit-specific errors do not correlate with the model's independent variables (see Hsiao, 1986). This is, in our view, too strong an assumption for cross-sectional time-series data. Our estimated models assume that the disturbances across panels are heteroskedastic (variance specific to each panel) and contemporaneously correlated.<sup>23</sup>

Table 2 reports our results, based on annual observations for 90 middle-income and lower income developing nations. Positive coefficients imply a positive impact on labor rights, given the rescaling of our indicator. The correlation matrix for the cases included indicates little potential collinearity.

Our results give credence to the mixed-bag view of economic globalization. The results for our main model, which are reported in the second column of Table 2—the effects implied by the coefficients (coefficient  $\times$  one standard deviation) are included in the third column—also suggest that both domestic and international factors are important to collective labor rights outcomes. As we expect, both FDI variables<sup>24</sup> are associated positively with collective labor rights. Only the flow variable estimate, however, is statistically significant, suggesting a more pronounced effect of recent FDI. Where inflows of FDI are higher, respect for labor rights is greater, lending

**Table 2**  
**Correlates of Labor Rights, Cross-Section Time-Series Analysis**

| Independent Variable                                     | Main Model |        | Implied Effect:<br>Coefficient $\times$<br>One Standard<br>Deviation |        | Model with<br>Potential<br>Labor Power |        | Main Model,<br>with Regional<br>Dummy<br>Variables |        |
|--|------------|--------|--|--------|--|--------|--|--------|
|  |            | SE     |  | SE     |  | SE     |  | SE     |
| FDI Inflows  | 0.1351*    | 0.0788 | 0.5184   | 0.2603 | 0.5640*                                | 0.2603 | 0.1371*  | 0.0797 |
| FDI Stock  | 0.0063     | 0.0135 | 0.1171   | 0.0302 | -0.0208                                | 0.0302 | 0.0160   | 0.0141 |
| External debt  | 0.0041     | 0.0043 | 0.3554   | 0.0101 | 0.0221*                                | 0.0101 | 0.0049   | 0.0044 |
| Trade  | -0.0176*   | 0.0089 | -0.6600  | 0.0184 | -0.0669*                               | 0.0184 | -0.0251*   | 0.0101 |
| Regional average,<br>labor standards                     | 0.5114*    | 0.0761 | 1.6941   | 0.1293 | 0.5639*                                | 0.1293 | 0.6937*  | 0.1006 |
| Economic peers',<br>labor standards                      | 0.1174     | 0.0869 | 0.2849   | 0.1436 | 0.2242                                 | 0.1436 | 0.0566   | 0.0839 |
| Human rights NGOs  | -0.4450    | 0.2999 | -0.5575  | 0.4542 | -0.4389                                | 0.4542 | -0.3613  | 0.3036 |
| NGOs $\times$ FDI Flows                                  | -0.0480    | 0.0411 | -0.3909  | 0.1119 | -0.2958*                               | 0.1119 | -0.0461  | 0.0412 |
| Income per capita  | -1.5062*   | 0.3147 | -1.2173  | 1.0401 | 0.4911                                 | 1.0401 | -1.1680*   | 0.4672 |
| Economic growth  | 0.0398     | 0.0277 | 0.2048   | 0.0570 | -0.0079                                | 0.0570 | 0.0368   | 0.0277 |
| Population size  | -1.4484*   | 0.2836 | -2.2847  | 0.4133 | -1.2491*                               | 0.4133 | -1.6259*   | 0.3551 |
| Democracy  | 0.1368*    | 0.0477 | 0.8878   | 0.0744 | 0.1537*                                | 0.0744 | 0.1822*  | 0.0532 |
| Civil conflict   | -1.0743*   | 0.6130 | -0.4383  | 1.0355 | -2.6951*                               | 1.0355 | -1.2273*   | 0.6185 |
| Potential labor power<br>North Africa and<br>Middle East |            |        |  | 0.2784 | 0.2291                                 | 0.2784 | 2.2217*  | 0.8902 |

(continued)



Table 2 (continued)

| Independent Variable  | Main Model | SE     | Implied Effect:<br>Coefficient $\times$<br>One Standard<br>Deviation | Model with<br>Potential<br>Labor Power | SE      | Main Model,<br>with Regional<br>Dummy<br>Variables | SE     |
|-----------------------|------------|--------|--|--|---------|--|--------|
| Caribbean             |            |        |  |  |         | -4.4762*   | 1.3262 |
| Sub-Saharan Africa    |            |        |  |  |         | 0.7524   | 0.9425 |
| Asia-Pacific          |            |        |  |  |         | 0.7956   | 1.0720 |
| Constant              | 43.6933*   | 5.8428 |  | 23.8653                                | 15.3533 | 40.6970*   | 7.4155 |
| <i>N</i>              | 1,286      |        |  | 397                                    |         | 1,286  |        |
| Number of countries   | 90         |        |  | 48                                     |         | 90   |        |
| <i>R</i> <sup>2</sup> | .38        |        |  | .46                                    |         | .38  |        |
| rho                   | 0.59       |        |  | 0.45                                   |         | 0.59   |        |
| Wald Chi <sup>2</sup> | 287.97     |        |  | 1137.26                                |         | 713.68   |        |

Note: FDI = foreign direct investment; NGO = nongovernmental organization; positive coefficients imply lower levels of violations.  
\* $p < .10$ .

support to a “climb to the top.”<sup>25</sup> All coefficient signs and significances remain if we omit the FDI stock variable from our model.

At the same time, trade is negatively and significantly related to collective labor rights. Nations with higher levels of imports and exports are less likely to treat workers well; this reflects the competitive pressures that stem from participation in global production networks. The substantive effect of the trade variable is just slightly greater than that of FDI flows; in overall terms, therefore, the impact of globalization on workers’ rights is contingent on the particular way in which a country participates in the global economy.<sup>26</sup> If we include an interaction between trade and growth, testing whether growth-promoting openness improves rights, the coefficient on trade openness remains as it is; the interaction term is positive but insignificant. The external debt variable is not significantly related to labor rights outcomes.<sup>27</sup> The NGO variable, on its own, is negative but insignificant. This result may stem from contending effects—“reporting of violations” versus “reduction of actual violations”—of NGOs. The interaction between FDI flows and national NGO activity is also statistically insignificant.

Moreover, we find some evidence of an indirect impact of globalization via competition. Both competition variables (regional or economic peers) are positively associated with labor rights; only the regional variable, however, is statistically significant. The implied effect of the regional variable is larger, by a factor of three, than the effects of FDI or trade. The impact of regional competition also is greater than that of democracy or civil war. The regional effect could be the result of shared norms (Simmons & Elkins, 2004; Weyland, 2003) or of the similarity in firms and workplaces across nations in the same region. Further qualitative research into the competitive diffusion of labor rights could help to distinguish among these causal mechanisms.

Turning to internal factors, Table 2 suggests that domestic variables also have important influences on collective labor rights. First, the level of democracy is significantly and positively associated with collective labor rights; the implied effects of democracy are substantively large (0.88, compared with 0.52 for FDI inflows). Second, civil war is negatively and significantly related to labor rights. Third, the coefficient on population is negative and significant; larger populations appear to provide more opportunities for repression or at least for the reporting of it.<sup>28</sup> The annual rate of economic growth, however, is not significantly related to labor rights.

Next, the level of per capita income is significantly and negatively linked with labor rights: Wealthier developing nations have worse labor rights practices. This result appears to contradict theories that predict improvements in rights as a result of economic development. One possible explanation for

this finding is that the relationship between income and rights varies among countries. Opportunities for violating workers' rights may be greater in more industrialized developing nations, which also tend to have higher incomes per capita; industrial sectors tend toward higher unionization and greater demands by workers for collective labor rights than the agricultural and services sectors. The structure of economies, then, is likely important to labor outcomes.<sup>29</sup>

Furthermore, our results are robust to the inclusion of a finer grained measure of domestic labor strength. The second model reported in Table 2 includes "potential labor power" (PLP; Rudra, 2002), based on the ratio of skilled to unskilled workers and the presence of surplus labor in an economy. The inclusion of PLP greatly reduces the number of country-years included, as the variable is available only through 1997, and only for a subset of our sample nations. PLP is not significantly associated with labor rights outcomes; the main model results on our key external variables (i.e., FDI, trade) persist. Finally, our results also are robust to the inclusion of regional dummy variables, which might capture regional economic cycles, culture, or religion. A main model that includes four of five regional dummy variables, with Latin America as the excluded category, is included in the final column of Table 2.

In sum, our cross-sectional time-series models give credence to the mixed-picture view of economic globalization and labor rights. We find support for both the race to the bottom and the climb to the top views: Trade openness augurs poorly for workers' rights, but inflows of direct investment are associated with better labor rights outcomes. We also find that national respect for labor rights is strongly related to regional respect for labor rights. This result gives some credence to diffusion-oriented accounts of policy choice and to a potential indirect effect of FDI via regional diffusion or competition. Finally, our results suggest that domestic factors, including the degree of democracy, are also important for labor rights laws and practices.

## **Conclusion and Future Directions**

This article contributes to the literature regarding the consequences of economic globalization by creating a new, cross-national measure of collective labor rights, and by using this measure to statistically test the relationships between labor rights and various facets of economic openness. We find that the effects of economic globalization are contingent on the particular ways in which a nation is integrated into the global economy. Inflows

of direct investment are associated with better collective labor rights, but trade openness is negatively related to rights. In addition, behavior among peer nations is strongly related to national labor rights outcomes. Moreover, we find that a country's level of democracy, its income per capita and population, and the occurrence of civil conflict are strong correlates of labor rights. These findings highlight the importance of exploring further, perhaps in a qualitative context, the interaction between the internal (domestic) and external drivers of labor rights outcomes.

Our analyses suggest three additional lines of inquiry. First, in a dynamic sense, how do collective labor rights change as multinational production changes? Second, what are the significant determinants of other types of labor practices, such as child labor, working hours, and workplace health and safety? Third, and perhaps most important, economic globalization should be further disaggregated. Within the categories of trade and FDI, there is variation in how developing nations participate in the global economy. For instance, despite the overall positive effect of FDI on workers' rights, it is likely that some types of MNCs are associated with improvements in rights, whereas others are associated with deteriorations. One way to differentiate among MNCs is according to their motives: Some investors aim to extract natural resources, whereas others seek access to local markets. Yet another set of foreign direct investors are efficiency seeking (e.g., Feng, 2001; Kobrin, 1987; Leahy & Montagna, 2000).<sup>30</sup> Such variety in motivations is likely to generate diversity in labor rights practices; efficiency-seeking MNCs probably are more concerned with labor costs than resource-seeking and market-seeking affiliates.<sup>31</sup>

Another possible distinction among MNCs is by economic sector. Multinationals involved in labor-intensive production (e.g., apparel) should be more concerned with labor costs than multinationals involved in capital-intensive or technology-intensive sectors (Hattem, 1998; Nunnenkamp & Spatz, 2002). In such industries, labor costs are a large portion of firms' overall budgets, creating greater incentives for repression (Elliott & Freeman, 2001). Exit is also easier in such sectors; firms may move repeatedly, seeking out those locations with lower labor costs and less stringent regulations (Mandle, 2003; Mutti, 2003). In capital-intensive sectors, however, labor costs are a relatively small portion of firms' overall costs, and it is important for employers to attract and retain skilled labor (Hall & Soskice, 2001; Moran, 2002; Spar, 1999). Finally, as capital-intensive industries entail larger sunk costs, it is more difficult for firms to threaten exit *ex post facto*. As the sectoral composition of a country's FDI changes, then FDI's impact on labor rights should also change.

A final source of variation within MNCs is nationality. Our results support the notion that MNCs can help to promote best practices (e.g., Garcia-Johnson, 2000). But as FDI increasingly comes from non-OECD nations (UNCTAD, 2004), where core labor standards are not fully respected, MNCs' respect for labor rights could decline (Gallagher, 2005; Moran, 2002). It also may be the case that foreign direct investors' preferences vary across source countries as the result of cross-national differences in corporate culture and corporate social responsibility (e.g., Doremus, Keller, Pauly, & Reich, 1999). For instance, North American and Asian firms report greater concerns with obtaining information about labor costs and with labor relations and regulations than do their European counterparts.<sup>32</sup>

Further disaggregating the elements of developing nation participation in the global economy will provide additional evidence regarding the causal impact of global production on labor rights. At present, few (if any) studies use data on FDI by sector or source country; these data are often not widely available for developing nations. Future work on economic globalization and labor rights would do well to collect and use such indicators.

## Notes

1. We use the terms *collective labor rights* and *workers' rights* interchangeably to refer to the rights to join unions, to bargain collectively, and to strike. These are distinct from individual labor rights, which include working conditions and compensation.

2. This data set is generated according to the template and method created by Kucera (2002).

3. Our theoretical framework does not consider short-term financial flows, as these are less likely to be causally related to labor rights. See below for empirical confirmation of this expectation.

4. Given the paucity of data on labor rights, most analyses focus on human rights (e.g., Apodaca, 2001; de Soysa & Oneal, 1999; Hafner-Burton, 2005; Meyer, 1998; Poe & Tate, 1994; Poe, Tate, & Keith, 1999; Richards, Gelleny, & Sacko, 2001; Spar, 1998). In these studies, FDI often is linked with human rights via economic growth or via rule of law and investment risk (Jensen, 2003; Li & Resnick, 2003).

5. A large literature explores why multinationals choose wholly owned (directly invested) or arms' length (trade, licensing, subcontracting) production strategies. See, among others, Buckley and Ghauri (2004); Henisz and Williamson (1999).

6. See Leary (1996); Moran (2002). International Labor Organization (ILO) Convention 87 covers freedom of association, and Convention 98 addresses collective bargaining.

7. The six components of labor rights are positively and often strongly correlated with one another; factor analysis of our scores by component indicates a strong loading on a single dimension.

8. There is a high correlation—.89 for all nations and .87 for developing countries—between weighted and unweighted (assigning each category a score of 1) labor rights scores.

9. The data appendix and coding template are available at <http://www.unc.edu/~lmosley/mosleyuno.htm>

10. Complaints may be filed (by national or international workers' or employers' associations) against any ILO member, regardless of whether the nation has signed Conventions 87 and 98.

11. Innes (1992) posits that State Department reports have become less biased over time.

12. Furthermore, we code information from the International Confederation of Free Trade Unions (ICFTU) reports (which tend to be the most pro-labor of our sources) only when the reported violations are cited as credible or are confirmed by outside sources. In a factor analysis of scores generated using a single source (ILO, State Department, ICFTU), all three scores load onto a single factor.

13. Human rights measures include personal integrity rights, physical integrity rights, civil liberties, and political rights. For an overview, see Milner, Poe, and Leblang (1999).

14. The personal integrity rights measure (the Political Terror Scale) categorizes countries on a 5-point scale, using either State Department or Amnesty International annual reports (see Poe et al., 1999). To calculate correlations, we use the average of the Amnesty International and State Department scores, and we reverse the scale. We thank Mark Gibney for updated data.

15. For instance, Cingranelli's (2002) scores, drawn exclusively from State Department reports, are 0, 1, and 2; the OECD (2000) groups countries into four categories on the basis of ratifications of five core ILO conventions and cases heard by the ILO's Committee of Experts on the Applications of Conventions and Recommendations.

16. At the same time, where unemployment is high, firms can more easily repress workers' rights. The economic growth measure, however, has much better data coverage, so we include growth rather than unemployment in our models.

17. For instance, today's ICFTU surveys are approximately five times as long as ICFTU surveys published in the early and mid-1980s. On a similar trend in ILO complaints, see Moran (2002).

18. In alternative specifications, we also include an interaction between trade and NGOs. The interaction term, however, is insignificant and has no impact on other results.

19. Observations from 1985 are omitted because of missing values on one independent variable.

20. Also, Nunnenkamp and Spatz's (2002) study, based on 28 developing nations, suggests that the determinants of FDI do not change much between the late 1980s and the present.

21. Developed nations include Western Europe, Australia, Canada, Japan, New Zealand, and the United States. Transition nations are those in Eastern Europe and the former Soviet Union.

22. In addition, although some authors (e.g., Beck & Katz, 2004) recommend the inclusion of a lagged dependent variable (LDV) in cross-sectional time-series models, others (e.g., Achen, 2000) warn against doing so. Such warnings are based on the fact that LDVs tend to dominate the regression equation, generating downwardly biased coefficient estimates on the explanatory variables and on the atheoretical nature of the LDV. We therefore opt to use an autoregressive-1 AR(1) process but no LDV.

23. Our results are robust to changing this assumption (e.g., with only heteroskedastic disturbances; no contemporaneous correlation across panels).

24. In our sample, the correlation between FDI stocks and flows is quite small, at  $-0.08$ .

25. Kucera's (2002) and Neumayer and de Soysa's (2006) cross-sectional models use data from the mid-1990s; they report no significant relationship between FDI and labor rights.

26. If we estimate the main model reported in Table 1 using random effects (requiring the assumption that error terms are uncorrelated with regressors), we find a similar effect of trade openness. The effect of FDI remains positive, but it is the coefficient on FDI stocks rather than on flows, which is significant. Full results of the random effects model are available on request.

27. A measure of portfolio investment flows, when included, was not associated significantly with collective labor rights; nor did it change our overall results.

28. When China and India (states with large populations) are excluded from the model, this result remains. The only substantive difference in such a model is the reduced statistical significance (approaching a 90% level of confidence) of the FDI inflows variable.

29. Indeed, if we use a quadratic (rather than logarithmic) transformation of the income variable, our results suggest that the impact of income on labor rights is U shaped. Similarly, when we include a measure of the proportion of workers in the industrial sector, its coefficient is negative and significant, and the income variable loses significance. This measure is available for only 40% of our observations ( $n = 487$ ). Full results for these models are available on request.

30. Efficiency versus market-seeking FDI is sometimes termed *vertical* versus *horizontal* FDI.

31. For evidence from China of variation in firm motives and therefore in the treatment of workers, see Gallagher (2005) and Santoro (2000).

32. Multilateral Investment Guarantee Agency, 2002, pp. 16, 30, Appendix 2; Hatem, 1998, reports a similar finding.

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