# An Economic and Labor TOR for an Integrating Asia*

Rene E. Ofreneo, Ph.D.**

*Abstract*

*This paper argues that the twin labor demands for universal social protection and a just Asian floor wage must be linked to the demand for the full observance of core labor rights as well as the campaign for balanced and sustainable development for all in a post-GFC world. Without binding governments and transnationals (TNCs) to these intertwining demands, global companies will simply go on with their merry-go-round program of hopping from one country to the other in search of cheap and union-free production oases. The experiences of some unions to force full company compliance with the declared CSR programs of their TNC partners have led to closures and job losses instead of social and labor upgrading because the TNCs simply decide to look for new production sites. On the other hand, one major weakness of the ILO's Decent Work campaign and Global Jobs Pact program is their failure to articulate more forcefully the inter-linked issues of universal social protection, global/Asian floor wage and people-centered*

* First presented at the "Asian Regional Roundtable of Social Security 2011: Asian Minima in Practice", organized by the Chiang Mai University, Asia Monitor Resource Center, HK Polytechnic University and HK Social Security Society, August 22-23, 2011.

** Director, Center for Labor Justice and Faculty, UP SOLAIR.

*development framework. The point is that the Race to the Bottom (R2B) can and should be transformed into a Race to the Top.*

## Introduction

### *Debating the rules for a post-GFC global economy*

In 2009, the world was at the vortex of the worst global financial crisis (GFC) to hit the global economy since the Great Depression of the 1930s. Exports, jobs and GDP in many developed and developing countries shrank ominously. With the IMF-World Bank group unable to cope with the GFC and the World Trade Organization (WTO) stalled in its decade-long Doha Round talks, the Group of 20 (G-20), composed of the 20 biggest economies worldwide, virtually became the world's economic committee with a self-assigned mission of putting some order in a chaotic global economy. The G-20's mandate to address the GFC was questionable; however, this was hardly questioned by many public commentators because the world was literally at the cliff of a financial and economic Armageddon.

And yet, something positive emerged out of the 2007-2009 GFC and the ensuing series of G-20 meetings: an almost universal recognition by policy makers -- in Asia and in the world -- that unregulated finance capitalism and unbridled economic globalization of society are unsustainable. Some G-20 leaders like the former UK Prime Minister Gordon Brown openly proclaimed that economic neo-liberalism or free-market fundamentalism, which is at the roots of the GFC, is dead. Overnight, almost all the G-20 leaders became Keynesian and engaged in what is now popularly called as "stimulus spending", or deficit spending aimed at saving big banks and big industries in their respective countries. Also, a key item in the G-20 agenda meetings was the formulation of the new rules to tame global financial speculation and the toxic hedging industry it has spawned.

Meantime, across the Pacific, at the US heartland, an ashen former Federal Reserve Chairman Alan Greenspan sheepishly admitted to the US Congress that he was wrong in pushing for and presiding over financial deregulation, which gave birth to disastrous toxic products such as collateralized debt obligations (CDOs), derivatives, swaps and varied hedging instruments. The US Congress itself formally inquired into the

GFC and debated what should be the new rules of financial and economic globalization. In early 2011, the US Congressional Financial Crisis Inquiry Commission released a voluminous report, The *Financial Crisis Inquiry Report*, which contains findings that did not surprise anyone. One of the Commission's major conclusions (p. xvii) reads as follows:

> "**We conclude this financial crisis was avoidable.** The crisis was the result of human action and inaction, not of Mother Nature or computer models gone haywire. The captains of finance and the public stewards of our financial system ignored warnings and failed to question, understand, and manage evolving risks within a system essential to the well-being of the American public. Theirs was a big miss, not a stumble. While the business cycle cannot be repealed, a crisis of this magnitude need not have occurred. To paraphrase Shakespeare, the fault lies not in the stars, but in us."

*And yet today, post-GFC rules still being debated and recovery burden being shifted to workers*

And yet today, the world is still debating the rules for a post-GFC world. In America, the regulatory reform known as the "Dodd-Frank rules" has become a "disappearing act" (Braithwaite and Duyn, 2011). This is so because the financial team of Timothy Geithner and Lawrence Summers has been implementing the reforms in a gingerly fashion, meaning not forcing the big errant banks to abandon the old ways of speculating. In fact, the trading of toxic hedging financial instruments has remained, subject only to some rules. In the G-20 as a whole, the financial regulatory reforms are focused mainly on how to increase the reserve requirement of banks to minimize risks, not to abolish these toxic financial products.

Worse, some of the rules being debated and proposed today totally ignore or trifle with the truths about the root causes of the crisis. The rules being advanced by "born-again" conservatives in many parts of the world seek not only to preserve the hegemonic and unhampered rule by the big TNCs but also, and terrifyingly, to shift the blame for the GFC on the so-called "entitlements" of the working peoples. These "entitlements" happen to be the basic right of the working people to have a fair share of the fruits of their collective labor through the exercise of their basic rights to form unions and negotiate collectively for better terms and conditions of work. These "entitlements" also include the basic right of workers to social security and decent life in old age. Thus, we are witnessing in America how one Republican state after the other is dismantling the rights of public sector employees to conclude collective bargaining. In Europe, we are witnessing how the European leaders are pushing for a so-called "austerity solution", which meant downsizing of the social security system, in the PIIGS countries (Portugal, Ireland, Italy, Greece and Spain) and even in the non-crisis countries like France.

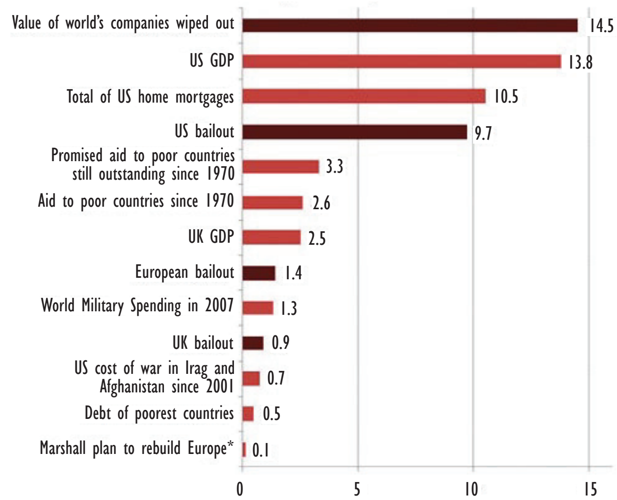
In Asia, we are witnessing how governments have been enacting laws or adopting rules aimed at emaciating and further marginalizing the trade union movement. For examples, South Korea withdrew the right of full-time labor leaders to be in the payroll, obviously to isolate the leadership of the trade union movement from its members. In New Zealand, where labor law reforms reversing the deregulation policy of the 1990s are still being institutionalized, the government sought to please Warner Brothers by interpreting in a one-sided manner that actors and screen writers cannot form unions because they are independent contractors.

Clearly, the challenge to push governments everywhere for the universal recognition and affirmation of the basic rights of workers everywhere has never been so urgent. The present campaign of trade union and civil society organizations for Asian governments to accept the "Asian social minima" in the areas of social security and minimum wages are at the center of the broader campaign for the universal observance of the basic universal rights of the workers. This makes a lot of sense because the GFC is primarily due to the R2B or Race to the Bottom (R2B). So the solution is how to reverse this R2B, not how to deepen it, as what some neo-cons seem to be doing in Europe and America. Second, the Asian clamor for universal social protection and an Asian minimum wage floor are indeed the social minima needed to stop and reverse this R2B. And third, these minima require an accompanying campaign for respect for the right of Asian workers to enjoy fully freedom of association and collective bargaining.

### *Global race to the bottom is at the roots of the GFC*

No tortured documentation of the disastrous impact of the Great Recession of the New Millenium is needed. In 2009, Bloomberg (cited in Nand, 2010) summarized in figures the world's 2008 losses from the GFC in the context of other indicators, e.g., US GDP and so on (see Figure 1). It is indeed the biggest financial crisis of all times.

Figure 1. Global Financial Crisis: Losses and Bailouts
for US and European Countries in Context
($ trillon)




*Adjusted for inflation
Sources: BBC, Bloomberg, UPI, globalissues.org, Feb 2009
as cited in Shah, Anup (2010)

No tortured documentation of the GFC's impact on employment is also needed. When the GFC was officially admitted by the OECD in the second half of 2008, the ILO estimated the global job losses would reach over 20 million. This number was quickly dumped as the number of the displaced workers in the United States and Europe rapidly rose by the millions and the total for the officially dislocated in China alone reached 20 million. Thus, in January 2009, the ILO raised the projected total job losses to reach over 50 million worldwide. Today, the job crisis has deepened in Europe, particularly in the PIIGS countries, where unemployment is hovering between 10 to 20 per cent.

In Asia, the recent ILO Report (*Building a sustainable future*, 2011, p. 4) gave the following unemployment/underemployment and displacement data in the region:

> "In many countries, the grim unemployment picture is aggravated by poor working conditions. Many workers

> have low-paid jobs with intermittent and insecure work arrangements, often in informal employment: in 2009, 60 per cent of workers were in vulnerable employment[1]—more than 1.1 billion. Asia and the Pacific also accounts for almost 73 percent of the world's working poor. Some 868 million—around 46 percent of the region's workers—live with their families on less than US$2 per day, of whom 422 million live in extreme deprivation on less than US$1.25 per day."

The most affected countries in terms of GFC-related job displacement happen to be those most directly involved in economic globalization – China, India and the Asian NICs, especially Singapore.

### *Downgrading labor, social and environmental standards*

But back to the root cause of the GFC – the R2B. This is not mentioned in the minutes of the various G20 meetings on the GFC. The R2B means the efforts of the TNCs and big national firms to ignore global labor, social and environmental standards in their blind pursuit of global profit-making activities. Such a downward race explains the terrible weakening of the labor movement almost everywhere as global capital flies in and out of deregulated national markets in search for the cheapest production platforms, which include union-free export processing zones (EPZs). This even pits host countries against each other in their frenzied drive to attract global capital by sacrificing global and national labor, social and environmental standards.

### *Speculation, overproduction, underconsumption*

Eventually, the R2B evolved in the last two decades into excessive speculation-financialization of anything tradable, including the imagined future values of commodities and the bundles of so-called "collaterized debt obligations" or CDOs of faltering borrowers. This phenomenon is facilitated by the neo-liberal SAP program of market deregulation or the worship of unregulated "free markets" dubbed in the 1990s as the "Washington Consensus". Super profits extracted by the few in their Factory Asia and global value chain operations are further invested, Ponzi-style, in leverage or hedging funds.

As the 1997-98 Asian financial crisis and the 2007-09 GFC show, the financial bubbles are bound to burst and hit, domino-like, everyone involved in these intricate and intertwining processes of financialization, speculation and production based on R2B. At the same time, these processes have caused a huge imbalance in the global market for goods. There is global "overproduction" of goods, especially those produced by the TNCs under their Factory Asia in China and other countries. On the other hand, there is global "underconsumption" of the same goods because the workers and farmers producing these goods have declining wages and incomes under an unequal and unjust R2B.

This global overproduction-underconsumption pattern engendered by the R2B is easily validated by the widening gap in many countries between rising labor productivity and labor compensation. Major global reports by the UNDP (1999, 2006), the World Commission on Social Dimension of Globalization (2004) and the ILO's global wage reports all show rising global productivity and GDP, accompanied by deepening inequality, declining share of worker wages in global productivity, rising joblessness in some countries, and weakening unions everywhere.

## Putting People at the Center of Development

Clearly, the post-GFC global economy requires deeper and bolder changes in the global economic architecture and the way it is governed.

A guiding reform principle should be how to put people at the center of development. This means abandoning the neo-liberal framework of economic programming that literally worships on the abstract altar of free trade, on the so-called free interplay of global market forces unmindful of the impact of such interplay on people's lives and jobs and environment. The neo-liberal narrow economic framework is at the roots of the devastating R2B and the GFC. Hence, overhauling or setting aside this framework is necessary if one has to reverse this race.

### *Uncertain and anti-labor global solutions from the G-20*

At this point, however, it should be pointed out that despite a series of meetings from 2008 to the present, the G20 has not come up with any major reform measures. Thus far, the boldest measures undertaken by the major economies are huge fiscal stimulus packages amounting to several trillion dollars. And yet today, governments like that in the United States are debating on whether they should continue with the stimulus package or not. In the meantime, there is no progress on the imposition of tighter financial regulations except for a recommendation by the Basel Committee on Banking Supervision to increase the reserve requirements banks must maintain without making any stand on the toxic financial instruments that were traded widely by the speculators. The Dodd-Frank regulatory reform for the financial sector in the United States has been stalled by the legislative backers of the big banks proposing a scuttling of the new regulations.

In the meantime, the solution being advanced in some countries comes in the form of the so-called "labor reforms", meaning further liberalization of the labor market and downgrading of protective labor rights such as social security coverage. This is Race to the Bottom once again! This is the reason why the American and European trade unions are up in arms -- against the decimation of public sector collective bargaining rights in the United States and the subversion of the pension and social security system in Europe.

These "labor reforms" are non-reforms and run counter to the Keynesian and institutional prescription of more rights for workers to counter the cyclical downturns in the economy and stabilize society. Instead of imbibing the Keynesian and institutional lessons and applying them to the GFC, some politicians want the stimulus spending to be directed to the bailouts of the big banks and the dismantling of the social safety nets.

Hence, the urgency of developing a broader global consensus on sustainable reforms for sustainable global economy and environment.

## *ILO's vision of sustainable globalization*

One package of proposals comes from the ILO's "Global Jobs Pact", which was adopted by the International Labor Conference in June 2009. The pact calls for

1) "building a stronger, more globally consistent supervisory and regulatory framework for the financial sector, so that it serves the real economy, promotes sustainable enterprises and decent work, and better protects savings and pensions of people;

2) "promoting efficient and well-regulated trade and markets that benefit all, and avoiding protectionism by countries. Varying development levels of countries must be taken into account in lifting barriers to domestic and foreign markets; and
3) "shifting to a low-carbon, environment-friendly economy that helps accelerate the jobs recovery, reduce social gaps and support development goals, and realize decent work in the process."

The above ILO declaration is undeniably a good prescription for both the GFC and the global warming threat. The problem is that these general proposals are still ignored by the G20.

On item one, a strong supervisory and regulatory framework for the financial sector is indeed not yet in place. The IMF and the World Bank have not made any clearcut position on this, and has virtually remained silent in the midst of the emerging "currency wars" today. They have also not intervened in the emerging right-wing offensive in Europe against the pension system of the working people.

On item two, there has been a proliferation of free trade agreements (FTAs) at the bilateral, regional and multilateral levels. Both the United States and Europe are keen in pursuing their own bilateral or regional FTAs with the different Asian countries. The latest American FTA initiative is the "Trans-Pacific Partnership" (TPP), which has strong anti-China geo-political overtones as the TPP seeks to involve Asian countries encircling China, e.g., Japan, Taiwan, Vietnam, Philippines and Singapore. Anyway, the problem with these FTAs is that they are generally formulated in a one-size-one-fits-all liberalization framework, with little regards to the flexibility requirements of developing economies and their special and differential needs (as envisioned in the WTO's Preamble).

And on item three, there is virtually no progress as reflected in the failure of the Conference of Parties (COP) in Copenhagen in 2009 and Cancun in 2010 to come up with measurable targets on climate change mitigation and adaptation.

The ILO's Global Jobs Pact has also received limited attention in the international forums. The Jobs Pact itself has been weakened by the diplomatic and vague generalities on decent work, social protection and labor standards. The point is that there is a need for a radical break from the past, which should have happened in 2009, at the height of the global disillusionment with the neo-liberal framework, and yet, this did not happen.

## Towards a New TOR for Sustainable Future

There is clearly a need to have a stronger TOR for a just and balanced global economy. It should contain the following minima:

### *Formal renunciation of neo-liberalism*

The neo-liberal economic thinking should be formally debunked and renounced so that it can give way to the adoption of new economic approaches in global and national economic planning, project design and evaluation, environmental accounting and monitoring and so on. What is happening in many places is that there is widespread implicit recognition of the failure of neo-liberalism and yet economic bureaucrats and technicians still continue the methodologies they have imbibed from the neo-liberals, for example, measuring or assessing the viability of economic projects by focusing on their ability to attract private foreign and domestic investment while ignoring the social dimension of the projects and the possibility of people's informed participation in such projects. In short, political, economic and environmental policy coherence is a must.

### *Extending social protection to all*

Putting people at the center means extending lifelines to all, in particular social safety nets to the unemployed, displaced and the vulnerables and informals, all of whom are the leading victims of the GFC. The primary contents of any economic stimulus package or post-GFC recovery should not only be economic revival measures (which can be jobless) but also the formal recognition and extension of minimum social protection for all. A system of universal social protection means a system which recognizes that no citizen should be allowed to fall in society because of deficiency in income, food, shelter, education and health, especially in times of adversity like accidents and job dislocations (ILO, 2001). As pointed out, the European and global experience in the mid-20th century shows that comprehensive social protection schemes serve as stabilizing as well as sustaining factors in the growth process, for they serve as natural counter-cyclical economic programs in crisis times by arresting the fall in the aggregate demand.

But can developing economies afford universal social protection? Can Asia afford it? An ILO study (Social Security Department, 2008) shows that six per cent of a country's GDP is needed to meet the basic nets – essential health care, basic child benefits, universal old-age and disability pensions and at least 100-day employment a year – for all citizens of a society. The whole point is that no country is too poor not to be able to provide social security for all. In fact, history shows that Europe embraced the concept of universal social security right after World War II, when most of them were in shambles. Of course, a social security floor, monetary-wise, has to be determined nationally. But the general principles have to be universal.

The comprehensive social security proposal advanced in the Asian Regional Rountable on Social Security or AROSS in 2009 – universal social assistance for the poor, a universal flat rate pension at 20 per cent replacement value, and workmen's compensation, minimum wage and unemployment insurance for all – should enjoy the support of all in Asia. This is the right step in reversing the Asian and global R2B.

### *Enforcing universal standards of corporate behavior*

The foregoing campaign for social protection and renunciation of neo-liberalism in policy making and project development should be accompanied by the global enforcement of ethical standards governing the behavior of TNCs and big national corporations. The logic behind the Asian floor wage campaign and the Asian social minima campaign underscores the importance of binding governments and corporations with global cross-border reach to these social and wage minima Asia-wide. For what will prevent one corporation to avoid social and labor obligations if it has the freedom to fly in and out of different production sites in the region as amply demonstrated by the workers' sad experiences in the garments industry?

The well-publicized CSR programs adopted by some big producers and buyers also appear to be selective in application. First, there is a tendency to focus the CSR audit on the physical facilities of a cooperating contractor company, not on the social side, particularly on the employer relations with the workers and the treatment of their right to form union and bargain freely. Second, there is a tendency to focus on the positive-looking segments of global or Asian production, hiding from public scrutiny the bad-looking segments of the whole value chain. In Cambodia, for example, there are factories with no names and no formal registrations that try to be invisible to the public and yet are supplying some of the requirements of companies registered under the ILO's "Better Factory" program. On the other hand, suppliers which fail to pass the CSR audits are simply abandoned by the TNC buyers, which relocate their buying operations in other countries instead of assisting the failing suppliers upgrade their operations.

The point is that there should be one universal code of corporate behavior that should be observed by all corporations. This is a critical element in stopping and reversing the Asian and global race to the bottom. The ILO's Decent Work Agenda (DWA) promoting "productive work" obtained "in conditions of freedom, equity, security and human dignity" is laudable. But this DWA is unattainable if the conditions that fuel the R2B persist and if corporations, especially the big ones, are not bound to a universal observance of universal or basic labor rights wherever they invest or conduct business. There should be no ifs and buts on this.

At the same time, the promotion of the DWA and the universal observance of basic labor rights should not be seen as punitive. Instead, they should be seen as the platform for a new global race, the Global Race to the Top. This Race to the Top should, ideally, be based on the virtuous circle of stronger labor-management cooperation and partnership leading to higher productivity and competitiveness, which, in turn provides greater spaces for higher growth, employment and development for society. In the informal labor markets, the Race to the Top entails assistance by governments, big corporations and civil societies in upgrading the business operations of informal enterprises side-by-side with the upgrading of the working conditions of informal sector employees.

The point is that there is a need to raise the bar of decency everwhere. As Guy Standing (2010) argued correctly, all forms of work, including labor mobility and migration, should be the subject of universal rules of decency. This is so because the R2B is deeply rooted in the ability of corporations -- under globalization and neo-liberal rules of global engagement -- to do away with national labor rules in favor of global, regional, national and industry flexibility, which often leads to downgrading of labor standards.

### *For fair and balanced trade*

The narrow free-trade one-size-fits-all liberalization formula is no development formula and should be abandoned. Asia and the world should cast aside the neo-liberal ideology of unregulated markets in favor of a more flexible, balanced and calibrated program of liberalization and protection in the economy on a sector-by-sector basis as needed, as propounded earlier by Khor (2000) and Rodrik (1997). This, in essence, is the meaning of the "special and differential treatment" (SDT), a proviso in the WTO repeated nearly a hundred times in the founding document. SDT means not all countries are created equally and each has the right to pursue and plan development based on one's level of development. This means trading arrangements should be concluded based on the principle of mutually beneficial exchanges, not an abstract free-trade system or an inflexible zero-for-zero tariff system which benefits mainly the big and powerful. This also means investment programming and campaign for FDI should be based on a country's real development needs for technology, market, value addition, etc.

## Conclusion

The challenge of post-GFC recovery and economic sustainability raise the primal issue of social and labor sustainability. These intertwining sustainability issues can not be addressed in a piecemeal manner without confronting the issues that fuel the Race to the Bottom. In this context, the AROSS social minima campaign is a good initiative to arrest this Race to the Bottom. But this campaign should be linked with the need to enforce basic labor standards in a universal manner and cast aside the neo-liberal dogmatism that persists in the world despite the silence of the neo-liberal prophets today. Clearly, we need a new TOR on global integration, a TOR for a Race to the Top, a TOR to reaffirm our collective humanity.

## Endnotes

[1] Vulnerable employment is defined by ILO as the total of the self-employed (minus the employers) and the contributing unpaid family workers. This statistical concept, a laudable initiative, has one major drawback: it tends to ignore the fact that many wage jobs are also facing varying levels of vulnerability due to endless flexibilization

or casualization measures employed by employers and placement/dispatching agencies.

[2] In response to the Great Depression of 1929, Franklin Roosevelt of the United States and other countries instituted a whole set of reforms giving labor more rights in line with the Keynesian and institutional economic thinking at that time (Kaufman, 2004). This paved the way for the "New Deal" American economic recovery of the 1930s and the establishment in the 1940s and 1950s of a stable system of tripartism, welfarism and economic growth in Europe and America after the end of World War II.

[3] Some producers-buyers can be present in dozens of countries and can have value-chain production involving scores of cooperating companies located in different countries.

## References

AROSS. (2009). Position Paper on Asian Social Security System. Paper prepared for the Asian Regional Roundtable on Social Security 2009, Hong Kong.

Braithwaite, T. and van Duyn, A. (2011). "A disappearing act?". *Financial Times,* p. 7 July 21). London: Financial Times Publishing.

International Labour Conference. (2009). Recovering from the crisis: a Global Jobs Pact. Statement adopted by the ILC at its 98th Session, Geneva.

International Labour Office. (2009). *Global Wage Report.* Geneva: ILO.

International Labour Office. (2001). *Social Security: A new consensus*. Geneva: ILO.

International Labour Office. (2011). *Building a sustainable future with decent work in Asia and the Pacific*. Geneva: ILO.

ILO Social Security Department. (2008). *Can low-income countries afford basic social security.* Paper 3. Geneva: ILO.

Kaufman, B. (2004). *The global evolution of industrial relations: events, ideas and the IIRA*. Geneva: ILO.

Khor, M. (2000). *Globalization and the South: Some Critical Issues*. Penang: Third World Network.

Nand, D. (2010). Global financial crisis: impact, challenges & way-out. *Indian Journal of Industrial Relations*. New Delhi: Shri Ram Centre for Industrial Relations and Human Resources.

National Commission on the Causes of the Financial and Economic Crisis in the United States. (2011). *The Financial Crisis: Inquiry Report.* New York: Public Affairs.

Rodkrik, D. (1997). *Has Globalization Gone Too Far?* Washington: Institute for International Economics.

Shah, A. (2010, 11 December). Global Financial Crisis. Retrieved 10 July 2011 from http://www.globalissues.org/article/768/global-financial-crisis.

Standing, G. (2010). The International Labour Organization. *New Political Economy*, 15(2). London: Routledge Taylor & Francis Group.

United Nations Development Programme. (2006). *Asia-Pacific Human Development Report 2006: Trade on Human Terms*. Colombo: UNDP Regional Centre.

United Nations Development Programme. (1999). *Human Development Report*. New York: UNDP.

World Commission on Social Dimension of Globalization. (2004). *A Fair Globalization: Creating Opportunities for All*. Geneva: ILO.