

Can National Competitiveness Strategies Include Decent Work?



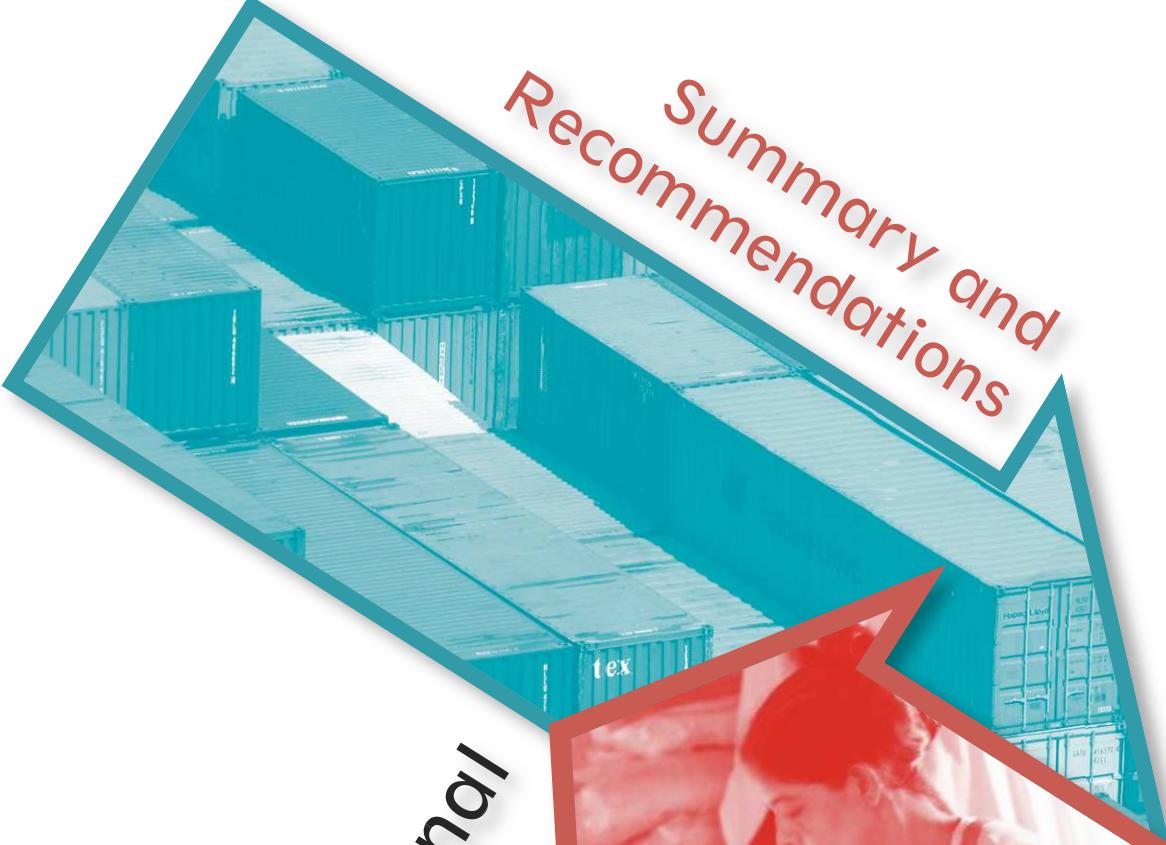
A comparative study of the garment export industries in Nicaragua and Honduras

Moquila Solidarity Network

Independent Monitoring Team of Honduras
Professionals for Corporate Social Auditing

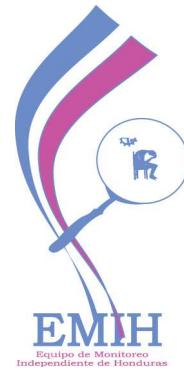
June 2012

Summary and
Recommendations





Maquila Solidarity Network (MSN)
Toronto Ontario, Canada
www.maquilasolidarity.org



Honduran Independent Monitoring Team (EMIH)
San Pedro Sula, Honduras
emihnl@yahoo.com
<http://emihonduras.org/>



Professionals for Corporate Social Auditing (PASE)
Managua, Nicaragua
pasenic@yahoo.com

The full 98 page report is available at: www.maquilasolidarity.org/competitiveness-decent-work.
The recommendations to brands were published as a separate document but are included in this summary for easy reference.

IN A PERIOD OF TRADE LIBERALIZATION and global economic crisis, competition among apparel companies (brands and manufacturers) and among garment-producing countries has intensified, leading many to conclude that a race to the bottom on price has eclipsed concerns over corporate social responsibility.

In this joint comparative study, the Maquila Solidarity Network (MSN – Canada), the Honduran Independent Monitoring Team (EMIH), and Professionals for Corporate Social Auditing (PASE – Nicaragua) examine whether it is possible in this difficult context to adopt national competitiveness strategies that seek a balance between the needs and demands of foreign investors and buyers and the rights, needs and aspirations of garment workers.

The study assesses and compares the competitiveness strategies being pursued by the garment export industries and governments of Honduras and Nicaragua, as well as how international brands and manufacturers operating in the region perceive the factors contributing to their sourcing and investment decisions in the region. It documents how workers, their trade unions, and civil society organizations advocating for their rights view those strategies and other related developments in their countries, and identifies the priority issues, concerns and needs of maquila garment workers in the current context. It pays particular attention to the specific concerns and problems of women workers who make up the majority of the garment workforce in the region and who bear the primary responsibility to support and care for their families.

Competition between Central America and Asia

Our research leaves little doubt that cost is the central determining factor in the sourcing and investment decisions of international brands and multinational manufacturers in the global apparel industry. The end price of a garment, however, depends on a mix of cost factors, including proximity and speed to market; import duties; transportation and energy costs; wage and benefits costs; efficiency and productivity; skills, experience and training; fabric availability; etc. Manufacturers tend to focus on reducing labour costs because they are the portion of the total cost of production that are easiest for them to adjust, particularly if their employees are unorganized and therefore lack the power to resist these adjustments. That reducing labour costs is the focus of most garment-producing countries' competitive strategies is a result of political and economic choices, not necessity.

No Central American country has lower wages than those found in most Asian garment-producing countries, such as Bangladesh, Vietnam or Cambodia. When we compare the competitive advantages of Central America versus Asia, however, we find that despite having higher labour costs than most Asian garment-producing countries, Central America does have other competitive advantages over Asia, including proximity and speed to market and duty-free access to the US market for some apparel products as a result of the Dominican Republic-Central America Free Trade Agreement (DR-CAFTA).

However, in addition to lower labour costs, some Asian countries, such as China, have additional competitive advantages over Central America, including access to a greater variety of high-

quality fabrics, ability to do a range of styles as well as fine embellishment work, and better customer service. In general, Central America is known as a high-volume basics manufacture with a transportation system that is better than those of some Asian countries, such as Bangladesh, but poorer than those of other Asian countries, such as China.

Given the wide discrepancy between wage levels in Asia and Central America, competing with Asia on the basis of the cost of labour is not a viable option for Central American countries. Furthermore, the Asian experience shows that basing competitiveness strategies solely on low labour costs is short-sighted and unsustainable. Nor would such a strategy differentiate the Central American region's apparel industry from those of other regions that may offer even lower prices in the future. Expecting workers to bear the burden of competition through lower wages and increased labour flexibility ignores the other means of lowering costs, such as improving transportation infrastructure, access to credit, customs processes, work organization and training, and can result in labour instability and on-going conflict in the workplace.

While labour laws and regulations and the labour relations climate are not seen as a determining factor in the sourcing decisions of major international apparel brands, they are factors to which brands pay attention, because they make their efforts to achieve compliance with their codes of conduct easier and lessen the risk of reputational damage caused by exposure of worker rights abuses in their supply chains. The content of labour laws and regulations are seen by compliance staff of brand buyers as less of a problem in Central American countries than is the general lack of enforcement of those laws and regulations.

Competition between Honduras and Nicaragua

As a result of the demise of the import quota system in January 2005, periodic downturns in the US economy, and the current global economic crisis, both Honduras and Nicaragua have experienced significant fluctuations in their apparel exports. However, both countries have also experienced relatively sustained growth in exports to the US since 2009. Although Nicaragua has shown stronger growth in exports of some products than has Honduras, and has captured an increasing share of production within DR-CAFTA, there is little evidence of major shifts in production or orders from Honduras to Nicaragua.

Although Nicaragua has lower labour costs than Honduras, the garment and textile industry in Honduras has more years of experience, greater productivity and skills, and access to its own port. Honduras also has a fairly well developed textile sector, though the knit fabrics produced in the country are for basic products that can be assembled anywhere in the region.

In addition to its lower labour costs, Nicaragua also has the competitive advantage of the Tariff Preference Levels (TPL) provision of DR-CAF-TA, which allows it to use some fabrics from outside of the DR-CAFTA region while retaining duty-free access to the US market. However, the continuation of the TPL provision beyond its current 2014 expiration date is not assured.

International brands and manufacturers interviewed for the study identified security issues as a significant competitive disadvantage for Honduras as compared to Nicaragua where the drug trade and gang violence are less of a problem. Although the lack of security affects everyone in Honduras, it is an even more critical issue for maquila workers, and particularly for women workers, who often have to travel in the dark to and from work and cannot afford safe transportation to and from their homes.

While Nicaragua and Honduras are offering similar concessions and incentives to foreign investors, Nicaragua is beginning to also promote itself as a country in which there is a tradition of social dialogue, as well as an improving labour relations climate. Two examples of Nicaragua's focus on promoting and facilitating social dialogue are the tripartite agreements setting minimum wage levels for the sector and offering promises of social benefits for workers, and the country's participation in the ILO Better Work program.

Although the existence of constructive social dialogue is not a guarantee that a country has adopted a socially-responsible competitiveness strategy, it is an indication that key sectors in the country are seeking national consensus on economic, social and labour policies and regulations that impact on competitiveness. The active participation of trade unions, women's groups and other civil society organizations in social dialogue with employers and government is therefore critical to achieving competitiveness strategies that seek a balance between the interests of workers and investors.

Nicaragua's 2010 Tripartite Agreement is attractive to investors and brand buyers, not only because it keeps minimum wage increases at fairly moderate levels, but also because it offers stability and predictability on labour costs. The Better Work Nicaragua program is supported by brand buyers because it encourages their suppliers to participate in social dialogue and also because it reduces the number of social compliance factory audits that need to be carried out by the brands. However, suppliers appear to be sceptical about the concrete benefits of participation in the program, beyond a reduction in the number of factory audits to which they are subjected. This suggests that brand buyers need to offer concrete rewards and incentives to their suppliers for good faith participation in the program and evidence of improved labour standards compliance.

Benefits of social dialogue for workers

Although Nicaragua's 2010 Tripartite Agreement offers workers the promise of social benefits that are intended to compensate them for the relatively low increases in the minimum wage for a three-year period, to date those promises have not been fully realized. The commitments made in the Agreement to provide workers access to housing and basic goods at subsidized prices, among other benefits, are laudable, but those social provisions lack enforcement mechanisms. As a result, the realization of those commitments will depend on the ability of the Nicaraguan unions to mobilize their members to pressure for their implementation. Even if they are fully implemented, social benefits are still no substitute for payment of a living wage.

In contrast, Honduras has only recently resumed tripartite social dialogue after a period of social conflict and polarization that followed the military coup of 2009. Emboldened by the coup, the business sector stalled on minimum wage negotiations, engaged in a media campaign alleging that any increase in the minimum wage would drive jobs out of the country, and pressed for changes in the national labour law to flexibilize employment relationships. In this context, the trade union and broader social movement, which had been actively opposing the coup government, remain sceptical about the willingness of the business sector and the government to engage in good faith social dialogue in order to resolve national problems.

Despite these challenges, the Honduran labour centrals have taken the initiative to push for a resumption of tripartite negotiations for the maquila sector on the minimum wage and other issues. The result was a controversial January 2012 agreement that, as in Nicaragua, sets minimum wage increases for a three-year period. Although the agreement includes provisions on social benefits and worker rights, most of those benefits

and rights are currently provided for in law, though not enforced. Nor does the agreement include new mechanisms for oversight or enforcement of its social provisions.

Although it is modelled on the Nicaraguan Tripartite Agreement, the Honduran agreement is even weaker on concrete commitments to provide such benefits to workers. On the positive side, the agreement sets an important precedent for the negotiation of national social policy issues at the tripartite table. However, as in Nicaragua, the realization of any commitments made in this and other future tripartite agreements will depend on the ability of the trade union movement, in alliance with the broader social movement, to mobilize for their implementation.

Similarities and differences in workplace issues

Despite the many differences between Nicaragua and Honduras, the two countries share many of the same problems in their maquila factories. These include: wages that are not keeping up with the cost of living and do not begin to meet workers' basic needs; high production targets and relentless pressure on workers to meet those targets; compulsory overtime and failure to pay the legal overtime rate; serious work-related illnesses and injuries and a lack of proactive health and safety measures to prevent them; problems with access to and delivery of social security benefits; lack of economic and social protections when factories close and/or workers are laid off; continuing gender-based discrimination and a lack of attention to women's double day; and continuing violations of freedom of association.

However, there are also significant differences in how these problems manifest themselves in the two countries. Although Honduras' maquila industry is known for higher productivity than the industry in Nicaragua, Honduran workers are paying the price for this high productivity.

Many of the issues raised in worker and informant interviews were attributed to the production process and how production is organized, including high production targets, incentive-based payment systems, including payment by the piece and for meeting individual or group production targets, and 4X4 work schedules.

A key issue raised by Honduran interviewees was the impact of the rapid pace of production and long work days on workers' health and on women's double day working a second shift in the "economy of care." Work-related injuries often displace workers permanently from the paid labour force and push women back into the informal economy. Although similar problems are likely to also exist in Nicaragua, as was confirmed in worker testimonies at the 2012 MEC Colloquium, payment by the piece and for meeting production targets and 4X4 work schedules are less common in that country. As well, serious studies on these issues have yet to be carried out in Nicaragua.

While women in Nicaragua complained of limited access to workplace child care, Honduran women appeared to have no access to such childcare services, despite the fact that workplaces are required by law to provide childcare centres.

Although violations of freedom of association continue to take place in both countries, it appears that progress is being made in Nicaragua, while this remains a systemic problem in Honduras where neither the apparel manufacturers nor the government has shown a willingness to comply with legal and/or brand code requirement or to enforce the law. However, it is worth noting that Honduran workers, in alliance with international labour rights networks, have made some significant advances in winning union representation and collective bargaining agreements at a few large factories. Significantly, when international brands were questioned about the training needs in both Honduras and Nicaragua, they spoke not only about the need for technical training, but also

training on human resource management; labour rights, including freedom of association; and brand expectations regarding freedom of association and other labour rights.

In general, the Ministry of Labour in Nicaragua is perceived to be more actively involved in promoting and facilitating social dialogue than is the Ministry in Honduras. And while there are problems with enforcement of labour laws in both countries, the failure of the Honduran Ministry of Labour to enforce the country's labour laws appears to reflect deeper structural problems in the state that result in impunity at a societal level beyond just the labour relations sphere.

Existing and proposed legislation

While there is considerable debate and contention between employer organizations and trade unions, as well as women's and other civil society organizations, on existing and proposed legislation in both Honduras and Nicaragua, it appears that the legislative agenda is largely being set by the employers in Honduras, whereas trade unions and women's organizations have made some advances in Nicaragua. Although the balance of forces on legislative issues is largely determined by the particular histories and political contexts in the two countries, the changes and proposed changes in labour laws also reflect their different national competitiveness strategies.

One recent change in labour legislation in Honduras has been the passage of the Temporary Employment Law, which allows employers to hire workers on short-term contracts. Although the Law was introduced as a temporary measure, trade unions believe it sets a dangerous precedent that could undermine workers' rights to employment security, social security and other benefits, and freedom of association and the right to bargain collectively. The Honduran government had earlier made concessions to maquila companies to allow the introduction of the 4X4 work sched-

ules, despite the fact that they do not meet the letter of Honduran labour law. Both these measures were undertaken in the name of competitiveness.

In Nicaragua, the government has been a bit more resistant to employer demands for flexibilization of labour laws to accommodate labour flexibility at the workplace. However, it must be noted that current laws already allow employers in Nicaragua to arbitrarily dismiss workers without cause, which may make it unnecessary for employers to seek further flexibility in the employment relationship.

Two positive examples of new legislation that strengthens and expands the rights of workers in Nicaragua are the Law on the Prevention, Rehabilitation and Promotion of Opportunities for Persons with Disabilities and the Comprehensive Violence Against Women Act. Although enforcement of the former has already proven to be a challenge and enforcement of the latter will likely depend on the ability of the women's movement to mobilize its members and supporters, these are two progressive pieces of legislation that have the potential to expand the rights of workers, people with disabilities and all Nicaraguan women.

Challenges for governments and social movements

Both Nicaragua and Honduras see labour costs as central to their national competitiveness strategies. However, Nicaragua has made considerable efforts to seek tripartite consensus on its competitiveness strategy, and as a result trade union organizations have made some gains concerning their right to organize and bargain collectively, as well as commitments from the industry and government to provide workers social benefits to at least partially compensate them for relatively modest wage increases. Although these social benefits are far from being fully realized, they are on the national agenda as necessary components of the country's competitiveness strategy.

In seeking an alternative road to competitiveness that attempts to balance economic competitiveness and equity for workers, Nicaragua will need to build on its experience with social dialogue and attempt to bring international buyers to the table, seeking commitments from buyers to prioritize countries and suppliers that make measurable progress on labour standards compliance. The Better Work Nicaragua program is one place to start this discussion. The good faith participation of manufacturers, trade unions and brands in the Better Work Nicaragua program, as well as documented evidence of progress on labour standards compliance in the sector, could be an important selling point for Nicaragua in its efforts to win support in the US for an extension of the Trade Preference Levels (TPL) provision of DR-CAFTA beyond 2014.

Social dialogue and tripartite negotiations are at a more preliminary stage in Honduras, and the labour and broader social movement remain sceptical of the willingness of the maquila owners and Honduran government to negotiate in good faith or to comply with commitments made in such agreements. However, if the private sector and government make good faith efforts to implement commitments made in the 2012 Tripartite Agreement, such efforts could open the door to genuine social dialogue on the major issues in the maquila sector that are outlined in this report.

Removing wages from price competition

In the end, neither Nicaragua's nor Honduras' maquila workforce or industry is well served by price competition between the two countries. Stronger regional alliances among labour and women's organizations and other civil society groups are needed in order to collectively develop and elaborate national and regional strategies to achieve common demands. Regional and multi-sector consultation, coordination and alliance building are essential in order to counteract the race to the bottom in the region on salaries and benefits, labour standards, and workers' rights.

A major challenge for labour rights movement at the regional and international levels is to remove wages from price competition. To do so, the movement will need to put sufficient pressure on the brands and the multi-stakeholder initiatives to which they belong to transform their stated commitment to the principle that workers have a right to wages that meet their basic needs into concrete action. While garment-producing countries need to develop and promote competitive advantages that don't rest solely on the backs of workers, international buyers need to do their part by ensuring that the prices they pay to their suppliers are sufficient to allow them to pay their workers a living wage.

In addition to seriously addressing the central issue of poverty wages in the maquilas, international brands and manufacturers must also be prepared to seriously engage with the labour and women's rights movements on the many outstanding workplace issues and problems in Central America's maquila garment and textile industry.

Recommendations to Apparel Brands, Retailers and Manufacturers

1 In collaboration with other companies,¹ consult with Central American women's organizations concerning the gender-specific issues and impacts of issues on women workers and how to best address them in your policy and practice.

2 Strengthen the efforts of your company to prevent and remediate gender-based discrimination in the workplace, including paying increased attention to issues and problems associated with women's double day, such as establishing or facilitating access to workplace childcare facilities and breaks for breastfeeding; the impacts of long work shifts and high production targets on women's health, reproductive health and family life; and gender-based discrimination in hiring and promotions.

3 Assess whether the ways in which production, work shifts and compensation are organized – payment by the piece, individual or group production targets and bonuses, excessively high production targets or pressure to meet such targets, 4X4 and other similar work shifts – are contributing to legal or code violations, such as hours of work and overtime pay violations, failure to provide lunch and other legal break periods, verbal and physical abuse, and/or work-related injuries and illnesses. Consult with unions, women's groups and other relevant civil society organizations on possible changes in production, work shift and compensation practices that could help alleviate these problems?

4 Take steps to ensure that all your facilities and/or supplier facilities are making full and timely contributions to social security and other legally mandated governmental social programs in order that all workers have health care coverage and maternity benefits, as well as full severance pay in the event of a factory closure or layoffs. Ensure that local management and/or suppliers fully understand their obligation to allow workers who suffer an illness or work-related injury to leave work to visit a social security clinic, with no deductions or penalties assessed.

5 Work together with other companies, governments and trade unions and other appropriate civil society organizations to seek solutions to the common problem of workers being left without severance pay or other legal benefits when their factories are closed.

6 Pay particular attention to the growing problem of precarious work associated with short-term contracting, use of third-party employment agencies and labour-only subcontracting, including:

- Taking steps to ensure that these practices are not being used to withhold or undercut social security and other legal benefits, seniority rights and/or the right to organize and bargain collectively;
- Eliminating or setting limits on the use of such nonstandard employment, in order to prevent abuse; and

¹ Since a number of companies sourcing and/or investing in Nicaragua and/or Honduras are members of the Fair Labor Association (FLA), these recommendations should also be of interest to the FLA.

■ Effectively communicating to local management and/or your suppliers your company's expectations concerning precarious work, even where government laws and regulations allow for these practices.

7 Support, encourage and facilitate local management and/or supplier participation in labour rights training programs for management personnel and workers, particularly concerning freedom of association and the right to bargain collectively and gender issues.

8 Support, encourage and facilitate local management and/or supplier participation in social dialogue with national trade union organizations and governments in order to seek agreement on critical workplace and social issues. In Nicaragua, become a member of and actively participate in the ILO Better Work program, require all of your suppliers to participate in the program, and concretize your support for the program by offering rewards and incentives to suppliers who participate in good faith and show evidence of improved compliance, such as preference in orders, pricing, and commitments to long-term business relationships.

9 Work with suppliers to put into effect the principle that workers are entitled to wages that meet their basic needs and provide some discretionary income by developing a plan of action to assist your suppliers in achieving compliance with this principle over a set period of time. In addition to examining how productivity improvements could contribute to the payment of a living wage, seriously examine your company's purchasing practices including whether the prices your company is paying suppliers allow for the payment of a living wage.

10 Advocate with host governments on behalf of social upgrading as a competitive advantage, and publicly support efforts to increase legal protections for workers, foster constructive social dialogue and improve labour relations and respect for freedom of association and the right to bargaining collectively.

11 If industry associations to which you are a member advocate for minimum wages that do not meet workers' basic needs and/or reduced legal protections, oppose such positions within those associations and publicly distance your company from those positions.

12 Together with other companies, industry associations, trade unions, women's groups and other relevant civil society organizations, advocate for trade provisions that recognize and support decent work and social upgrading.