Globalization and the “Race to the Bottom”

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<http://ethicalfootprint.wordpress.com/2010/04/19/globalization-and-the-race-to-the-bottom/>

With increasing globalization comes the new economic phenomenon dubbed “race to the bottom.” This concept is a direct result of developing countries’ desires for direct foreign investment to boost their own GDP per capita (gross domestic product per person). According to Dr. Manfra, a professor at SUNY Queensborough, “The current boom in foreign investment… underscores the increasingly important role played by multinational corporations in both developed and developing countries” ([Manfra](http://www.fordham.edu/economics/vinod/docs/manfra.doc)).Another cause of this new trend is the passage of NAFTA and other Free Trade Agreements that “weakened the U.S. trade rules to protect workers” ([USLEAP](http://www.usleap.org/usleap-campaigns/globalization-trade-and-workers-race-bottom)). Global trade rules enacted by the World Trade Organization do not protect the worker ([USLEAP](http://www.usleap.org/usleap-campaigns/globalization-trade-and-workers-race-bottom)). Therefore, the “race to the bottom” primarily deals with the exploitation of workers by multinational corporations.

A Multinational corporation, or MNC, can be defined as “any corporation that has its headquarters in one country and operates wholly or partially owned subsidiaries in other countries” ([Britannica](http://www.britannica.com/EBchecked/topic/397067/multinational-corporation)). There are many multinational corporations that exist today. A few examples of MNCs are: The Gap, Nike and Walmart.

The MNCs and their desire to achieve the highest profits have led to the “race to the bottom” in the third world. According to USLEAP, a group that campaigns for effective global trade rules to protect workers, “Globalization without rules to protect workers who try to improve their wages and working conditions creates a race to the bottom for workers in any industry” ([USLEAP](http://www.usleap.org/usleap-campaigns/globalization-trade-and-workers-race-bottom)).

The corporations seek out countries that do not have strict labor regulations so that they are able to build their factories and quickly begin producing goods for almost nothing. Some countries even offer tax incentives (lower taxes) to the MNCs for a certain amount of time to entice corporations to build factories. Therefore the tax rates paid by MNCs operating abroad varies greatly, depending on what country the corporation is operating in ([All Business](http://www.allbusiness.com/legal/tax-law-income-tax/11582115-1.html)). With these tax breaks or exemptions, the corporation’s overhead costs are cut in that country and therefore it is more inclined to continue producing its product there for a higher profit.

After a certain amount of time, however, the MNC begins to look elsewhere for a place to produce. Countries compete and each government offers the MNC different advantages to operating there. With the arrival of an MNC comes more GDP for the country and possible jobs for its people, and therefore it is desirable in the various government’s eyes to host an MNC. Thus, a vicious cycle begins of lesser-developed-countries promising less regulation for MNCs and therefore worse conditions for workers. Although this “race to the bottom” is highly profitable for the multinational corporations, the workers are continually exploited. In addition to horrible working conditions and low wages, the workers also face unemployment when the MNC decides to take its business elsewhere.

One country in which this “race to the bottom” is especially rampant is China. According to Business Week, “American businesses continually demand lower prices from their Chinese suppliers, allowing American consumers to enjoy inexpensive clothes, sneakers, and electronics.” Politics also plays a role in this economic trend, as “Guarantees by multi-nationals that offshore suppliers are meeting widely accepted codes of conduct have been important to maintaining political support in the U.S. for growing trade ties with China” ([Business Week](http://www.businessweek.com/magazine/content/06_48/b4011001.htm)).

Not only are many multinational companies that deal with clothing exploiting workers, but there have been violations surfacing in, “factories supplying everything from furniture and household appliances to electronics and computers” ([Business Week](http://www.businessweek.com/magazine/content/06_48/b4011001.htm)). This expansion is an indicator of the increasing fraud dealing with the incorrect reporting of payroll for factory workers in China from 46% to 75% ([Business Week](http://www.businessweek.com/magazine/content/06_48/b4011001.htm)).

It is said that this race to the bottom will ultimately lead to “lower wages, weak, poor countries yielding to unreasonable demands from the stronger corporations” ([Manfra](http://www.fordham.edu/economics/vinod/docs/manfra.doc)). As countries compete for investment, they will lower standards like minimum wages, child labor laws, environmental regulations, and regulations on working conditions in order to attract more foreign investment from MNCs.

# Directions:

1. Read and annotate. Make at least five thoughtful annotations.
2. Pick to of the following questions to answer in the Google Classroom assignment. Each answer should be a TEA paragraph.
   1. What is the “race to the bottom”? Explain what this term means in the international economy, using at least one example to support your explanation.
   2. Do you agree or disagree with the statement: “Poor countries need investment and jobs, so it’s a good thing when MNCs invest in them.” Explain why. It’s okay to take a middle position here!
   3. What impact does the race to the bottom have on workers in the USA? In what ways might it affect your life (not necessarily right now, but at some point during your lifetime)?