Vulnerability, Exploitation and Migrants

Insecure Work in a Globalised Economy

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Introduction

The globalisation of production is the most significant, dynamic and transformative development of the neoliberal era. Its fundamental driving force is what some economists call 'global labour arbitrage': efforts by firms in Europe, North America and Japan to cut costs and boost profits by replacing higher-waged domestic labour with cheaper foreign labour, achieved either through emigration of production to low-wage countries ('outsourcing', otherwise known as 'offshoring') or through immigration of workers from those countries. Reduction in tariffs, removal of barriers to capital flows and advances in telecommunications and transport technology have facilitated the migration of production to low-wage countries, but militarisation of borders and rising xenophobia have had the opposite effect on this migration – not stopping migrants altogether, but inhibiting their flow and reinforcing their vulnerable, second-class status. As a result, factories freely cross the US–Mexican border and pass with ease through the walls of Fortress Europe, as do the commodities produced in them and the capitalists who own them, but the human beings who work in them have no right of passage. This is not globalisation but a travesty of globalisation: a world without borders to everything and everyone – except for workers.

Global wage differentials, largely resulting from suppression of the free movement of labour, provide a distorted reflection of global differences in the rate of exploitation (simply, the difference between the value workers generate and their wages). The southwards shift of production processes signifies that the profits of firms headquartered in

Europe, North America and Japan, the value of all manner of financial assets derived from these profits and the living standards of their citizens have become highly dependent on higher rates of exploitation of workers in so-called emerging nations. Neoliberal globalisation must therefore be recognised as *a new, imperialist stage of capitalist development*, where 'imperialism' is defined not by its territorial form but by its economic essence: the exploitation of southern living labour by northern capitalists.

The chapter begins with a panoramic view of the global shift of production and the accompanying transformation of the international working class, arguing that migratory flows from low-wage countries to Europe and North America, and class stratification within countries, must be understood within this broader context. It then identifies and analyses the prime driver of these processes – global wage differentials – and singles out two of their most important features and trends for special attention: labour's falling share of national income and increasingly unequal distributions of this share. As a result, widely touted statistics on per capita GDP and average wages obscure the reality of increasing vulnerability and deteriorating social conditions endured by a growing majority of working people on both sides of the North–South divide. The concluding section considers what this means for workers, farmers and youth in the new era of chronic economic crisis and political disorder.

The globalisation of production . . . and of the producers

The globalisation of production is reflected in an enormous expansion of the power and reach of transnational corporations (TNCs), predominantly owned and controlled by capitalists resident in imperialist countries. The United Nations Conference on Trade and Development (UNCTAD) estimates (2013: 135) that 'about 80 per cent of global trade (in terms of gross exports) is linked to the international production networks of TNCs'. This heightened activity takes two basic forms: in-house Foreign Direct Investment (FDI) and 'arm's-length' relations between 'lead firms' and their formally independent suppliers. South–North trade as a whole is not so much 'trade' but a manifestation of the globalisation of production. This in turn should be seen not as a technical rearrangement of machinery and other inputs but as an evolution of capitalism's defining social relation, the relation of exploitation between capital and labour, increasingly between northern capital and southern labour.[1]

Export-oriented industrialisation: Widely spread or narrowly concentrated?

Export-oriented industrialisation (EOI, or 'outsourcing' viewed from a northern perspective) is the only capitalist option for poor countries not blessed – or cursed – with abundant natural resources,[2] yet it is a widely held view that growth in the South's industrial proletariat is highly concentrated in China and a handful of other low-wage countries. Thus Ajit Ghose, a senior International Labour Organization (ILO) economist, argues (2005: 12–14) that 'what appears to be a change in the pattern of North–South trade is in essence a change in the pattern of trade between industrialised countries and a group of 24 developing countries', with the rest facing 'global exclusion'. Yet these 24 developing countries include nine of the ten most populous Southern nations, home to 76 per cent of its total population, while many smaller nations host manufacturing enclaves that exert a powerful and distorting influence on their economies (Figures 2.1 and 2.2).

'Developing nations' share of global manufactured exports began its long ascent in the 1970s (see Figure 2.1, solid line), rising from around 5 per cent in the pre-globalisation period to nearly 30 per cent by the beginning of the millennium. Figure 2.1 also shows (broken line) that

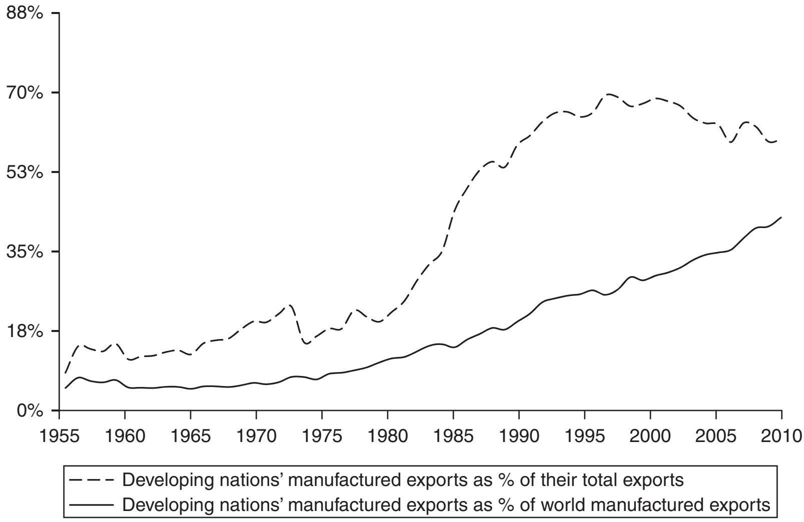

Figure 2.1 Developing nations' trade in manufactures
Source: UNCTAD, *Statistical Handbook*.

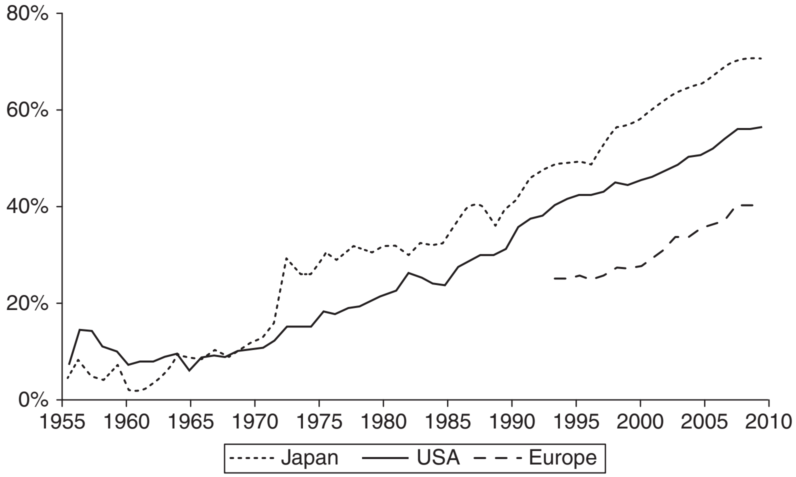

Figure 2.2 Developing nations' share of developed nations' manufactured imports
Source: UNCTAD, *Statistical Handbook*.

the share of manufactured goods in their total exports tripled in barely 10 years, stabilising in the early 1990s at over 60 per cent. Figure 2.2 shows this dramatic transformation from the perspective of imperialist countries. In 1970, barely 10 per cent of their manufactured imports came from what was then called the Third World; by 2000, this share – of a greatly expanded total – had quintupled.[3]

The US auto industry vividly illustrates this – in 1995, it imported four times as much automobile-related value-added from Canada as from Mexico, just 10 per cent more in 2005, and by 2009, the latest year for which data are available, Mexico was the source of 48 per cent more value-added than Canada.[4] The relocation of production processes to low-wage countries has been at least as important to European and Japanese firms as to their North American rivals. A study of EU–Chinese trade concluded that 'offshoring the more labor-intensive production and assembly activities to China provides an opportunity to our own companies to survive and grow in an increasingly competitive environment' (Van Assche et al., 2008: 15–16), while 'Japanese electronics companies continue to flourish in American markets precisely because they have moved their assembly lines to China' (*The Economist*, 2007).

The essential feature of the globalisation of production is therefore its southwards shift, and this has resulted in a highly peculiar structure of world trade – in which northern firms compete with other northern firms – including a race to outsource labour-intensive production processes to low-wage countries; meanwhile, firms in low-wage countries fiercely compete with each other, all seeking to exercise the same 'comparative advantage', their surfeit of cheap, unemployed workers desperate for work – but *northern firms do not compete with southern firms*. This is obviously true of relations between parent companies and their wholly owned subsidiaries (i.e. of FDI), but it also applies to increasingly favoured 'arm's-length' relationships between Primark and H&M and their Bangladeshi suppliers, and between General Motors and the Mexican firms who manufacture more and more of its components. The relationship is complementary, not competitive, even if it is highly unequal. Important exceptions can be identified; indeed, this peculiar structure is riven with contradictions, but the overall pattern is clear: there is North–North competition, and cut-throat South–South competition reaching race-to-the-bottom proportions, *but no North–South competition* – between firms, if not between workers, who face heightened competition across the global divide, facilitating wage repression and an accelerating decline everywhere in labour's share of GDP.

The southwards shift of the industrial working class

The globalisation of production has transformed not just commodity production but social relations in general, and especially that which defines capitalism: *the capital–labour relation*, increasingly dominated by the relation between northern capital and southern labour. Figure 2.3 shows the enormous growth of the industrial workforce in 'developing' nations, revealing that a third of the world's industrial workers lived in 'less developed [low-wage] regions' in 1950, rising to a half by 1980, and four-fifths by 2010. This huge shift reflects an even bigger qualitative transformation: Southern industrial workers are not only more numerous, but they are now much more integrated into the global economy, producing for world markets rather than protected domestic markets as in the pre-neoliberal era.

In absolute terms and as a share of the global industrial proletariat, the South's industrial workforce has seen spectacular growth since 1980, but its share of the South's total workforce has been more modest, rising from 14.5 per cent in 1980 to 16.1 per cent in 1990, 19.1 per cent in 2000 and 23.1 per cent in 2010 (by contrast, industry's share of total employment in imperialist nations declined from 37.1 per cent in 1980 to 22.5 per cent in 2010). With the partial exception of China –

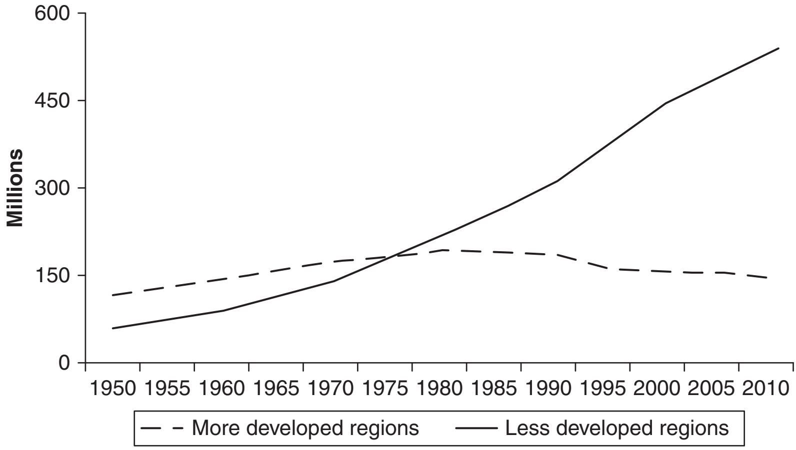

Figure 2.3 Global Industrial Workforce
Sources: ILO, n.d. *Population and Economically Active Population;* KILM (Key Indicators of the Labour Market), various editions.

a special case because of its 'one-child' policy, its extraordinarily rapid GDP growth since 1980 and its as-yet incomplete transition from socialism to capitalism – no economy has grown fast enough to provide jobs to the millions of young people entering the labour market and millions of migrants fleeing rural poverty. Tacitly acknowledging the failure of the EOI development model, senior ILO economist Majid (2005: 3–4) observed that 'the commerce sector [...] is the main employment growth sector in both low and middle-income groups [...this] shows that the expectation on manufacturing leading employment growth is unwarranted' – and this was his verdict on a period of exceptionally robust economic growth in 'low and middle-income' countries. This failure results in structural unemployment, misery and destitution for millions, enormous downward pressure on wages of those able to work and greatly increased migratory pressure.

'Global labour arbitrage': Key driver of the globalisation of production

By uprooting hundreds of millions of workers and farmers in Southern nations from the land and their jobs in protected national industries, neoliberal capitalism has accelerated the expansion of a vast pool of super-exploitable labour. Suppression of the free mobility of labour interacts with this hugely increased supply to produce a dramatic widening of international wage differentials which, according to World Bank researchers, 'exceed any other form of border-induced price gap by an order of magnitude or more' (Clemens et al., 2008: 33). This steep wage gradient provides two different ways for northern capitalists to increase profits – through emigration of production to low-wage countries, or immigration of workers from those countries. The International Monetary Fund (IMF) (2007: 180) makes the precise connection between outsourcing and migration: '[t]he global pool of labor can be accessed by advanced economies through imports and immigration', significantly observing that '[t]rade is the more important and faster-expanding channel, in large part because immigration remains very restricted'.

Bangladesh provides a vivid example of how, during the neoliberal era, outsourcing and migration have become two aspects of the same wage-differential-driven transformation of global production. According to the International Organization for Migration, in 2012, 5.4 million Bangladeshis worked overseas, more than half in India, with the rest spread between Western Europe, North America, Australasia and the Middle East, especially Saudi Arabia. As Siddiqui (2003: 2) notes, 'the continuous outflow of people of working-age [...] has played a major role in keeping the unemployment rate stable'. Some US$14 billion of remittances flowed into households in Bangladesh in 2012, equivalent to 11 per cent of Bangladesh's GDP. In the same year, Bangladesh received US$19 billion for garment exports, including the cost of imported cotton and other fabrics, typically 25 per cent of the production cost (outsourcing of textile industries and low wages are discussed by Montero and Ferradás in Argentina (Chapter 11), and Delaney and Tate in India (Chapter 17), this volume). In other words, net earnings from garment exports in 2012 (80 per cent of Bangladesh's total exports) approximately equalled total remittances from Bangladeshis working abroad. And while only a small fraction of export earnings are paid in wages, remittances flow directly into poor households. The World Bank reports that, in 2013, Britain's 210,000 Bangladeshi migrant workers sent home an average of US$4,058. In comparison, even after a 77 per cent wage rise in November 2013 won by strikes and street protests, average garment workers' wages in Bangladesh were US$1,380 per year.[5] Thus each (largely male) Bangladeshi working in Britain remits in one year what it would take his wife, sister or daughter three years to earn.

What the IMF calls 'accessing the global labour pool' others have dubbed 'global labour arbitrage', whose essential feature, according to Stephen Roach, is the substitution of 'high-wage workers here with like-quality, low-wage workers abroad' (Roach, 2004). Roach, then senior economist at Morgan Stanley responsible for its Asian operations, argued (2003: 5) that 'a unique and powerful confluence of three mega-trends is driving the global arbitrage [...] the maturation of offshore outsourcing platforms [...] E-based connectivity [...and] the new imperatives of cost control'. Of these, 'cost control' – that is, lower wages – is 'the catalyst that brings the global labor arbitrage to life'. The first two mega-trends, in other words, merely provide the necessary conditions for the third – profiting from ultra-low wages – to express itself. Roach elaborates:

> In an era of excess supply, companies lack pricing leverage as never before. As such, businesses must be unrelenting in their search for new efficiencies. Not surprisingly, the primary focus of such efforts is labor, representing the bulk of production costs in the developed world [...] Wage rates in China and India range from 10 per cent to 25 per cent of those for comparable-quality workers in the US and the rest of the developed world. Consequently, offshore outsourcing that extracts product from relatively low-wage workers in the developing world has become an increasingly urgent survival tactic for companies in the developed economies.
>
> (Ibid.: 6, author's emphasis)

This is a much sharper description of neoliberal globalisation's driving force than that offered above by the IMF's technocrats. We might ask, though, why Roach says 'extracting product' instead of 'extracting value' – capitalists, after all, are not interested in the product of labour but in the value contained in it. The answer, we suspect, is that 'extracting value' would make it even more explicit that these low-wage workers create substantially more wealth than they receive in the form of wages; in other words, *they are exploited* – heresy for a mainstream economist.

Nevertheless, Roach's emphasis on the 'extraction of product' from low-wage workers contrasts with the general rule in academic and business literature, which is to obfuscate this most important point, treating labour as just one factor of production among others, while making glancing references to wage differentials as one of many possible factors influencing outsourcing decisions. UNCTAD's 'Inward FDI Potential Index' (2007: 31ff) is a typical example: the index is a composite of 12 variables, including GDP per capita, real GDP growth rate, exports/GDP, inward FDI, telephone lines per 1,000 inhabitants and spending on research and on tertiary education. The criterion most closely related to the price of labour is GDP per capita – but this is included to indicate the size of the potential market for the firms' products, not the cost of hiring labour.

Low wages are the pre-eminent factor affecting outsourcing decisions. Milberg comments,

> [t]he irony is that precisely at the moment computerisation has led to a revolution in the mechanisation of production, the ability to outsource has reasserted the importance of the labour component of production costs. Instead of being inconsequential as the result of technological change, labour costs are now an important determinant in the production location decision. (2004: 10)

What's especially ironic is that instead of replacing labour with machines, capitalists are using new technology to replace labour with cheaper labour, thereby prolonging the life of obsolete production processes. More ironic still, outsourcing is not only an alternative to increasing labour productivity; it allows corporate profits to be diverted into speculation in financial assets, thereby feeding the financialisation of the imperialist economies and deepening their tendency to stagnation and crisis.

The GDP illusion

Roach's observation begs a large question – how do 'companies in the developed economies' 'extract product' from workers in Bangladesh, China and elsewhere? The only visible contribution of these workers to the revenues of firms in 'developed economies' is the flow of repatriated profits associated with FDI. In the case of the increasingly favoured form of outsourcing – 'arm's-length' contractual relations with independent suppliers – there is no sign of any contribution to profits of TNCs. None of H&M's or General Motors' profits can be traced to their Bangladeshi or Mexican suppliers; all of it appears as value-added by their own activities. This conundrum, inexplicable to mainstream economic theory and therefore ignored, can only be resolved by redefining *value-added* as *value captured*; in other words, a firm's value-added does *not* represent the value *it* has produced, but it represents the portion of total, economy-wide value it has succeeded capturing in the (global) marketplace. There is, therefore, no necessary relationship between the value a firm *produces* and the value it *captures* – banks, for example, generate no value but capture a great deal. Since a country's GDP is simply the sum of the value-added of all its firms, the global shift of production to low-wage countries combined with vast mark-ups on production costs means that a significant part of the 'gross domestic product' of imperialist nations is actually generated by super-exploited workers in Bangladesh, China and elsewhere. In this way, GDP data diminish the real contribution of Southern nations to global wealth and exaggerate the real contribution of 'developed' countries, thereby veiling the increasingly parasitic relationship between them. I call this *the GDP illusion* (Smith, 2012).

Growing wage inequality

To bring international wage differentials into focus, two other outstanding features of the neoliberal era need examining: the declining share of wages in national income in both North and South and increasingly unequal distributions of this declining share. The ILO (2008: 29) calls growing intra-national wage inequality 'one of the most important developments in recent years', adding that 'on average, wage inequality is higher in countries with a lower GDP per capita'. Freeman and Oostendorp (2001: 392) also find that the poorer the country, the higher the wage inequality, a fact already 'well known from more limited country comparisons'. This increasing trend is being driven especially by falling wages of the lowest-paid workers, in contrast to rich countries, where the driver is the increasing wages of the highest paid. These represent two distinctly

> different types of increase in wage inequality. The first – the 'collapsing bottom' – refers to the situation where wage inequality is growing as a result of deterioration in the lowest wages. The second – the 'flying top' – is the opposite, where top wages increase faster than in other wage groups.
>
> (ILO, 2008: 26)

Comparing 1995–2000 with 2001–2006, the report added that 'the more developed countries [...] mainly fall into the category of "flying top" wages [...] countries from developing regions are predominantly close to the scenario of "collapsing bottom" '.

Super-wages, bonuses and share options received by employers and managers falsely counted towards labour income partially explain increases in wage inequality, exaggerating labour's share of national income. Anne Krueger, former World Bank chief economist, provides a striking example (2002: 46): '[i]f the owner of the Chicago Bulls, Jerry Reinsdorf, were to pay [basketball star] Michael Jordan an additional US$20 million, and reduce his own salary by an equivalent amount, labor's share would be unchanged because both are counted as employees of the Bulls'. Luckily for Jordan, he didn't rely on Reinsdorf's generosity – in 1998, Nike paid him US$45 million in 'wages' for appearing in adverts, enough to pay the annual wages of 30,000 of the Indonesian workers producing the famous brand's shoes.

Falling labour share of national income

All income can be divided into income to labour – wages and the 'social wage' – and income to capital – profits from financial assets.[6] This provides the basis for an important metric: *labour's share of national income*, defined as the ratio of total employees' compensation (pre-tax wages and salaries plus national insurance and other social contributions) to total national income. Self-employed workers are also considered to be owners of capital; the convention is to split their income into two parts, income to capital and income to labour. The IMF (2007: 182) bravely assumes that these 'categories of workers earn the same average wage as employees', an especially problematic assumption when applied to 'developing' nations, where a much higher proportion of the economically active population is classified as self-employed, often subsisting on small fractions of the paltry wages paid to those in employment. Wages are recorded pre-tax because it is assumed that workers receive benefits in exchange for the taxes they pay to the state. As a result, most of the 'state's share' of GDP is counted towards labour's share, even that part of it spent servicing sovereign debt, waging foreign wars and tooling up police to attack picket lines. It is little surprise, therefore, that '[i]ncreasing government spending is associated with an increase in labor shares, for both rich and poor countries' (Harrison, 2005: 29).

Figure 2.4 dramatically depicts the global decline in labour's share of the wealth it produces. The trajectory of the graph reveals an *accelerating* trend – labour's share declined as much between 2000 and 2007 as in the previous two decades – and the true extent of this is masked by increased wage inequality and by falsely accounting income to capital as labour income.

How much of a distortion the super-wages received by the top decile of wage-earners can make is illustrated by an analysis of US wages by Elsby, Hobijn and Şahın (2013). The results are staggering. A 3.9 per cent

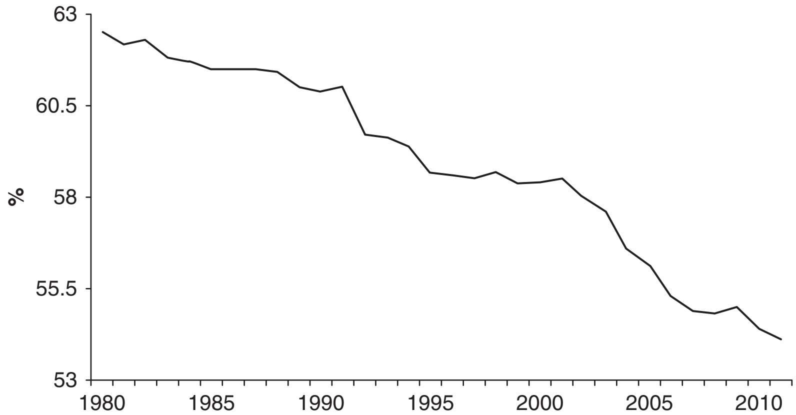

Figure 2.4 Share of labour in world gross output (1980–2011)
Source: UNCTAD (2013), Trade & Development Report, 2013, Chart 1.4.

decline in the share of national income received by all employees becomes a 14 per cent decline when the highest-paid 10 per cent are excluded, their share falling from 42 per cent of national income in 1980 to 28 per cent in 2011. In other words, the share of national income received by the lowest paid 90 per cent of the US workforce during these years fell by a third, explaining how the US grew richer while the majority of its workers didn't.

This is a global trend: in its 2011 *World of Work Report*, the ILO (2011: 58) noted that since the early 1990s 'the share of domestic income that goes to labour [...] declined in nearly three-quarters of the 69 countries with available information. The decline is generally more pronounced in emerging and developing countries than in advanced ones.' Declines in labour's share in low-wage countries were very steep – the wage share in Asia fell by around 20 per cent between 1994 and 2010; moreover, '[t]he pace of the decline accelerated in the past decade [...] with the wage share falling more than 11 percentage points between 2002 and 2006. In China, the wage share declined by close to 10 per centage points since 2000' (Ibid.). Africa's *toilers saw their share of national income decline by* 15 per cent in the two decades from 1990, again 'with most of this decline – 10 per centage points – taking place since 2000. The decline is even more spectacular in North Africa, where the wage share fell by more than 30 per centage points since 2000' (Ibid.). Latin America experienced the smallest decline, its wage share falling by 'only' 10 per cent since 1993. Meanwhile, '[t]he wage share among advanced economies has been trending downward since 1975 [...] [but] at a much more moderate pace than among emerging and developing economies – falling roughly 9 per centage points since 1980' (Ibid.: 56–57). *These estimates take no account of the sharply increasing inequality between skilled/professional and unskilled workers or of income to capital* masquerading as income to labour, effects likely to be at least as large as those reported above for the US.

Global wage differentials

Statistics on wages between nations must be treated with great caution, not only because they count taxes as labour income and ignore growing intra-national wage inequality, but because they often cover only those in the formal sector, because governments and employers have many reasons and opportunities to embroider the facts and because of huge problems of data coverage and comparability. Additionally, the conversion of wages into purchasing power parity dollars – necessary for comparing real wages in different countries – introduces biases and distortions large enough on their own to swamp the weak trends in real wages we are trying to identify.

As noted, average wages veil sharply increased wage dispersal between high-skilled and low-skilled occupations. One way to exclude this effect is to consider international wage differentials *within* occupations, as did Freeman and Oostendorp (2001: 400), who surveyed wages during 'early' and 'late' periods of globalisation (1983–89 and 1992–99) for 137 occupations across 135 countries. The 'key result' of their research was that 'inequality of wages across countries in the same occupation increased over this period despite globalisation, which should have reduced the inequality'. This finding is confirmed by trends in garment workers' wages. Werner International, a management consultancy serving the garment industry, finds no sign of the much-trumpeted convergence in wages between rich and poor countries. On the contrary (2012: 3), '[t]he wage gap between developed and developing countries is increasing and the range from the lowest hourly cost to the highest hourly cost is showing an ever increasing expansion'. This finding was confirmed by the Worker Rights Consortium (2013: 2): 'apparel manufacturing in most leading garment-exporting nations has delivered diminishing returns for its workers. Research conducted [...] on 15 of the world's leading apparel-exporting countries found that between 2001 and 2011, wages for garment workers in the majority of these countries fell in real terms'.

Finally, underlining the vulnerability of all but the most aristocratic layers of the working class in times of crisis, the ILO reports (2008: 15) that 'whereas in times of economic expansion, wages are less than fully responsive to changes in GDP per capita, during the economic downturns wages tend to become overly responsive and fall faster than GDP', adding that 'in many of the countries that suffered from an economic crisis in the late 1990s (in particular some South Asian and Latin American countries) real wages have not fully recovered to pre-crisis levels despite significant economic recovery over recent years'.

Conclusion

During the neoliberal era, racial and national divisions have played an increasingly important economic role, allowing capitalists in imperialist nations to profit from higher rates of exploitation in low-wage countries, from exploitation of their migrant workers and from general downward pressure on wages resulting from heightened competition between workers across the North–South divide. And they have played a no less important political role, undermining solidarity and paralysing the political independence and agency of the working class at national and global levels. This results in increased vulnerability and insecurity for all but the most privileged layers of the international working class.

All these features are intensified by the new era of deflation, stagnation and depression inaugurated by the global economic crisis, a crisis from which there is no peaceful capitalist way out. On the other hand, the southwards shift of the working class and its reinforcement in imperialist countries through immigration, and everywhere through the influx of women into wage labour, mean that the international working class now much more closely resembles the face of humanity at large, strengthening its chances of prevailing in coming battles.

Notes

1. Large companies also of course indirectly exploit workers through the activities of their supply chains, discussed by Phillips (Chapter 1, this volume).
2. The existence of a socialist option is proved by Cuba, whose revolution has survived more than half a century of economic warfare, terrorism and subversion orchestrated by successive US governments. Cubans have paid a high price for their defiance, yet they enjoy a higher life expectancy, lower infant mortality and greater access to education and culture than their US neighbours. For an excellent account of the Cuban revolution's staying-power, see Morris (2014).

3. The trace for Europe, generated by subtracting intra-EU manufactured imports from the EU total, begins in 1995 because data are only continuous since the EU enlargement in that year with the accession of Austria, Finland and Sweden.
4. Mexico's export of value-added to the USA is equal to the gross value of its exports minus the value of imported inputs used in their production. Data from OECD-WTO 'Trade in Value Added' database.
5. This is just 19 per cent of what is needed to provide a worker in Bangladesh, her/his partner and two children with the basic necessities of life (http://www.cleanclothes.org/livingwage/living-wage-versus-minimum-wage).
6. 'The whole annual produce of the labour of every country [...] [is] parcelled out among different inhabitants of the country, either as the wages of their labour, the profits of their stock, or the rent of their land' (Adam Smith, [1776] 1986: 155). 'Land' stands for the feudal aristocracy, which since Adam Smith's day has been absorbed into the capitalist class.

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