

INT-0587

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CEPAL/CARIB (0587)

7 March, 1989

ORIGINAL: ENGLISH

ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN  
Subregional Headquarters for the Caribbean

CARIBBEAN DEVELOPMENT AND CO-OPERATION COMMITTEE



EXPORT INDUSTRIALIZATION AND WOMEN



## EXPORT INDUSTRIALIZATION AND WOMEN

### INTRODUCTION

In the 1960s a new form of industrialization emerged. Horizontally and vertically merged companies stepped across developed country borders and established factories in developing countries for the manufacture of certain parts or the assembly of imported parts of their products, the final output of which was for export. These enterprises could be moved to another developing country at any convenient moment.

The nature of these companies can to some extent be inferred from the names they have been given: among others, transnational company, export-oriented industry, export-assembly line, global factory, country hopper, island hopper, or runaway industry. They are welcomed by third world countries which increasingly focus their development strategies on export.<sup>1</sup> In addition, production in the potential host countries is largely labour-intensive. Consequently, this form of industrialization appeals to those developing countries which set great store in employment generation and export led growth. It is noteworthy that the majority of the labour force consists of young women.<sup>2</sup>

This paper presents a global description of these industries as regards the production activities, the kind of products, the conditions of establishment, and the location of factories.

#### The world oriented industry (WOI)

The process of investment from the developed to the developing countries has had various formats. The first important process was specialization in the production of raw materials which enabled developed nations secure access to these materials. The second process arose as a result of import substitution policies devised by the developing countries, whereby foreign companies either took over local ones or established a subsidiary in a developing country to produce for the local market. Either way they evaded national protectionist measures. The third process which will be the main subject of this paper has been different.

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<sup>1</sup>This section is based primarily on the works of Van Klaveren, Van Houten, Trajtenberg etc. Please see list of references.

<sup>2</sup>For an account of the absence of women in the earlier industrialization processes, see Esther Boserup (1970) and various articles in Signs (1977, Vol. 3, 1).

Those who have studied the rise and development of the world-oriented industry (hereafter WOI), although building their analysis on the crucial issue of low wages, nevertheless maintain that WOI is a complex phenomenon, and that a low wage in itself does not sufficiently characterize it. To distinguish WOI from other forms of industrialization a basic combination of factors have been identified which include: (a) cheap labour, (b) exclusively world-market oriented export, and (c) facilities and privileges such as specified in UNIDO recommendations. Facilities include: fiscal and financial incentives such as a 10-15 year tax holiday on corporate profits; customs privileges, such as duty free imports of components and machinery; good infrastructure such as factory buildings at no cost or at substantially reduced rentals and, appropriate policies such as freedom to repatriate profits.

In most sectors in developing countries labour has been cheaper than in developed countries. This has, therefore, been an attractive consideration in the first two phases of industrialization. For WOI it is also a major determining factor. Thus, it is also important to study the aspect of wages. In the developing country subsidiaries, assembly is the main industrial activity of these companies. Assembly operations are performed for a number of manufactured products, but also for non-commodities such as special offer coupons. A recent addition to the WOI activities includes massive simple, routine data entry operations in its free zone establishments. An illustration of this is provided in Jamaica. The highly skilled stages of production, including high-tech training, take place in the developed countries, while technically autonomous activities that can be isolated without affecting the final product are being hived off to a developing country factory. The activities in question consist of simple, standardized, repetitive operations, performed to both semi-manufactured and finished products. These operations often include finishing and packaging. Only limited skills and technology are required.

The following manufactured products are commonly found in these factories: parts for electronic devices, electrical appliances, transistors, semi-conductors, integrated circuits, computer memories, telecommunication devices, parts for cars, radios, and television tubes; semi-finished or finished leather products, wood carvings, plastic and synthetic footwear, clothing, sports goods, and toys.

The most important geographical locations for the WOI are: South East Asia, Latin America and the Caribbean. The plants are set up either within or outside a free-trade zone. The last possibility is only opted for if there are available premises and a satisfactory infrastructure. Moreover, the conditions should be as favourable as those obtaining within a free-trade zone. There seems to be a preference for settlement close to the intended market or near ports on important navigation routes. United

States' companies, for instance, concentrate on the Caribbean and the Mexican borderland. Japanese companies largely settle in South East Asia. Because of their location as well as conducive domestic policies and attitudes the ports of Dominican Republic, Singapore, Hong Kong, South Korea, Sri Lanka and Taiwan have also been favoured. Establishments in Curacao (Netherlands Antilles) lasted from 1968-1976. Establishments have increased in Jamaica and declined in Haiti in recent years. Other Caribbean experiences include Antigua and Barbuda, Barbados, Dominica, Montserrat, St. Kitts and Nevis and Saint Lucia. The WOI is a global phenomenon and its locations move and shift across the globe.

Establishment is closely connected with low cost of wages in the developing countries. The reasons for cheap labour in developing countries will not be analyzed here. However, it may be concluded from the literature that developing countries have moved into types of industrialization which have reached a stage in which it is more advantageous to continue production on a labour-intensive basis, rather than to increase mechanization or automation. Of course, this alternative has to be as profitable as possible to the enterprise hence the pursuit for the lowest possible cost of labour.

In most of the third world countries where these companies have settled, labour is extremely cheap and can vary from one fifth to only one tenth of the wage in the developed countries. In those Caribbean countries with expanding free zones, wages are usually a fraction of those of American workers in comparable sectors of industry. Yet, the WOI is not based solely on static, occasional comparisons of wage levels. Instead, nominal wage levels of both the home country and the country of settlement are constantly monitored in order to maintain positive differentials. Wages can be increased in the countries of settlement, as long as the absolute differences remain equal or grow. The exchange rate is the indicator most often used to monitor and determine the differential. The low wage strategy includes built-in disabilities against possible negotiations related to wage demands. Even though wages paid in the third world subsidiaries are sometimes higher than in other local factories, there is no evidence that this has led to improved living conditions or opportunities for development. Several reports have shown that in general these wages are still too low and even insufficient for the costs of reproduction of the labourers concerned.

In those countries of settlement investigated, labour productivity was at least equal to the level obtaining in western industrial countries. This result has mainly been achieved by increasing labour intensity. A rigorously supervised high pace of work is common practice. Regulations concerning working hours are frequently breached; a 48- to 60- hour working week is no exception. This, combined with frequent overtime and less holidays, among other things, results in approximately 50 percent

more working hours invested in these third world subsidiaries than in the company's home country.

The low wage strategy benefits from certain conditions which prevail in the host countries. In addition to economic factors, social structures and processes allow for the functioning of the WOI as well. Not just any developing country with a large supply of labour due to mass unemployment, for instance, is a candidate for WOI settlement. The prospective labour force needs to have certain features which allow for a low wage strategy. For example, changes in rural structures in developing countries cause a continuous influx of people who have hardly any experience with labour struggles and social conflicts which characterize processes of industrial developments, but as a result they have less industrial experience, lower productivity and so can only command lower wages.

Similarly, a low wage level does not necessarily make a country eligible. Apart from low wages and a large labour supply, certain other conditions are important, such as, good infrastructure, cheap energy, stable wage levels, secure facilities for foreign exchange transfers, and an attractive and stable business climate. The latter implies an absence of labour unrest and other potential threats to profitability and productivity. In this regard, WOI takes a minimum of risks and takes precautions through a range of settlement modalities such as joint ventures that can be adapted to any area. Direct settlements of subsidiaries occurs mainly in free-trade zones although such investment can occur in countries with a propitious investment climate in the economy as a whole. Free trade zones are usually fenced in areas, literally cut off from the rest of the economy of a country. The names these zones have been given indicate, furthermore, that exemptions from tariff/customs duties are an important inducement to the settlement of WOI, as well. Such names include for example industrial export-free zone, industrial free zone, export-processing free zone, processing free zone, free-export zone, free-trade zone, etc. Customs provisions are among several secondary conditions while the essential concern of WOI is cheap costs of labour. It is, however, the composition of a total package of benefits which forms the determining factor.

Settlements outside free-trade zones usually exist in a variety of co-operative ventures with local or other investors. More often than not these investors produce on a contractual basis. There are specific forms of joint venture for production and/or marketing as well. Within these ventures the subcontractor completes the labour-intensive part of production, and returns the goods to the factory in the country of origin. As a rule the goods then carry the latter's trade mark. Canadian winter-sports goods, for example, are manufactured in Barbados, American "Maidenform" underwear in Haiti. But, as if to underline the fact that only assembly and/or finishing take place in these countries, the goods

are exported, for instance, from Barbados or Haiti as "Maidenform", made in the United States of America.<sup>3</sup>

In general, third world subsidiaries start operating on a so-called tabula rasa basis. From the outset they are usually provided with a combination of the following:<sup>4</sup>

- (a) Industrial site and premises.
- (b) Exemption from tariff/customs rates for a specific period of time on all machines, tools, implements, (raw) materials, and other parts required for production.
- (c) Exemption from income taxes for a 5-10 year period.
- (d) Exemption from foreign exchange restrictions.
- (e) Finance facilities with favourable interest rates in case construction of factory premises is required.
- (f) Special local transport rates between the premises and port or airport.
- (g) Low rent.
- (h) If possible, ready at hand, standard factory and other buildings.
- (i) Availability of canteens, medical services, bank and postal facilities, gas stations, security services, etc., on the premises.

From this initial situation the subsidiaries aim at an unhampered process of production. That is to say, they strive to maintain these advantages, and the low wage level as well. In this connection the co-operation of the governments of both the country where the company originates, the home country, as well as the host country are essential. In the home country this applies to tax legislation and customs policies with regard to the export of parts and the import of the finished article. In the host country it entails not only tax exemptions, but also a guarantee against union activities and a general tolerant attitude towards the way WOI production is organized. In this context the following observations may apply:

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<sup>3</sup>These data have been extracted from Margaret Gill's and Moema Viezzer's unpublished reports on Barbados and Haiti, presented at the IDS/CEREP seminar, San Juan, Puerto Rico, June 1980.

<sup>4</sup>OXIDO recommendations in Frobel et al. 1980:296-7

1. As already stated high productivity in third world subsidiaries is the goal. Although this is to the advantage of WOI, the physical, psychological and otherwise onerous working conditions may lead to the organization of workers, union action and labour unrest. At this stage it becomes the responsibility of the government in question to keep these to a minimum.

2. The high intensity of production leads to a high turnover of workers. In order to maintain the level of production, WOI needs a pool of workers from which to constantly complement or renew its labour force.

3. In many companies working conditions are inadequate. Apart from limitations that are generally associated with factory work, such as poor ventilation, poor lighting, high noise levels and other physical discomforts, there are numerous complaints about chronic eye problems, particularly in the electronics industry, skin problems, auditive impediments, chronic headaches, and occupational accidents, which in wood carving factories frequently involve amputations of limbs or fingers. Furthermore, workers are uncertain about their jobs, there are hardly any social security schemes and safety and security measures are inadequate.

The appearance of WOI in various developing countries has been extensively investigated, from different viewpoints and with different emphasis, both by scholars from the developed and the developing countries. However different, these studies seem to agree that cooperation between the sending and host countries is necessary for the WOI. It is suggested that the desire of the host countries to build up export-oriented economies on the one hand, and the efforts of the WOI to keep production profitable on the other hand, are combined in this form of industrialization to mutual advantage of both parties.



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