

# The Contract Supplier System in a Globalized Economy: Where Are We in It?

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The global contract supplier system, made possible by the advances in transportation and electronic communications, presents all of us with a moral dilemma if we care enough to understand what it entails. In this article, we examine the system, follow where the profits accrue, and face the fact that we may have one or more involvements within it.

Design, procurement of raw materials, processing, manufacturing, assembling, packaging, marketing...each step often happens at different global locations. A corporation out-sources, that is, hires contractors to complete the various stages of the manufacturing/assembling processes. In the competitive business world, strong pressures are on the corporation management to keep costs down and profits up, and that pressure in turn is exerted on the contract suppliers.

Behind the pressure on the contract suppliers is the shareholders' demand for ever-increasing profit, the sensitivity of the stock markets, and the desire of consumers for low-cost products. If consumers choose a competitor's product at a lower price, the company loses. If a company does not produce the profits, the stock value goes down, and shareholders lose the profits they have. Corporate management is expected to come up with increased profitability in every quarterly and annual report. The pressure on management is intense.

From a justice point of view, rather than the corporate viewpoint, there are two major problems with the present form of the global contract supplier system. One is that little of the profits accrue in the country or countries where the majority of the work is done. The wages are low because the mobility of capital enables transnational corporations to go where wages are lowest. National and local government leaders offer long-term tax breaks to companies in order to keep them, or to attract them. These tax breaks in turn diminish the tax base of the local community. The local community then has fewer resources for social and physical infrastructure, as the low-paying jobs do not generate sufficient taxable income to compensate.

The other major problem is that accountability for the working and living conditions of the workers is difficult to place. In country after country, we find assembly plants set up in free-trade zones, called by a variety of names, such as enterprise zones, export processing zones, maquila zones, among others. Often these facilities have been established by persons not native to the country where the contracting facility is located. In some cases, workers are imported from a third country.

In February 2001, Vietnam Labor Watch released a report on the conditions of Vietnamese workers in assembly plants in American Samoa. These workers, most of them young women, entered into serious debt in order to pay an intermediary

organization to secure a job in American Samoa. They expected to be able to pay off their debt with their wages, and then earn enough to help themselves and their families make a better life. Once in American Samoa, however, they found themselves in prison-like conditions, subject to harassment and deprivation of wages. If they returned to Vietnam, they faced the formidable task of paying off their debt, or even going to jail for renegeing on their agreement. They were caught in a trap.

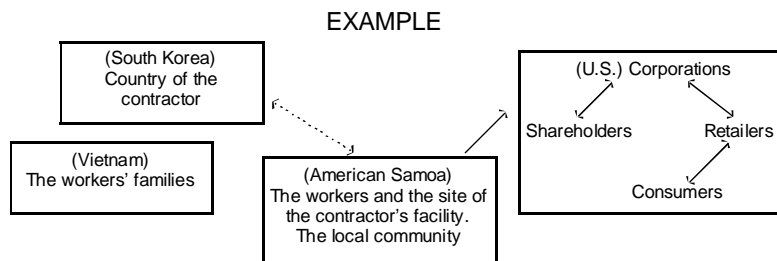
The garments these workers assembled and sewed were sent by contract to U.S. companies such as Sears and JC Penney, with the label "Made in America". Consumers, seeing the label, think that they are "buying American", and avoiding sweatshops.

The Vietnam report is not unique. Two years ago a similar report was made public about Chinese workers in the American territory of Saipan. In 1995 workers from Thailand were found being held in slave-like conditions in a facility in California.

The Vietnam Labor Watch report summarized one of the key difficulties in the global contract/supplier system: accountability.

*“The global demand for Vietnamese labor is first and foremost commercial, driven by profits, not politics; the owners, investors, and operators of a foreign manufacturing facility may span a half-dozen countries, with no single clear and conspicuous accountability for the conditions in which foreign laborers are forced to work .“*

Who is accountable? In this complex contract-supplier system, the responsibility is shared by many actors: transnational corporations and their shareholders, the national and local governments involved, and the consumers. One way to begin to grapple with the complexity is to examine where the profits from this system are accrued. Below is a simplified diagram of the situation of the Vietnamese workers in the facility owned by a South Korean in American Samoa. However, similar diagrams could be developed for locations around the world, with varying nationalities of the persons involved. The arrows indicate the flow of profits.



It is clear that the major share of the profits goes to the shareholders and management of the corporation, and to the contractor, the retailers, and the consumers. The least profit goes to the workers, with little or no profit to the community where the contractor's facility is located.

Where are we of the U.S. in this system? We are present as consumers. American consumers like to buy products at low prices and support store chains such as Wal-Mart that make this possible. Support for those store chains puts pressure on other stores and on the contractors to keep their prices low or they will go out of business. The contractor then looks for ways to reduce his costs, often demanding more overtime from workers and paying less. At the end of this chain are the low-wage workers and their families, with the least power and the most vulnerability.

If we own shares in corporations, we are very much a part of this system. Shareholders need or want to make more money. If the company's profits decrease, they sell those shares and invest in a company that makes more profit. When many shareholders do this, the value of the shares decreases. Major shareholders and boards of directors put pressure on the company management to stop the losses by cutting costs.

Recognizing our involvement in this system is crucial. It can also overwhelm our consciences. The point is not to let ourselves be paralyzed, but to examine our own attitudes and demands, to monitor our own purchases and especially to monitor our investments in corporations. If we make the changes that are possible to us, and collaborate with others in demanding accountability, we will be doing our part to help create a more just global economic system.

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