

## **The Effects of Multinational Production on Workers' Wages and Working Conditions in Cavite Economic Zone**

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**Workers are a building block for every corporate development-domestic or foreign. The introduction of multinationals in the Philippines has so long been historic in its economic development. The turn of the 21<sup>st</sup> has brought the Philippines new economic challenges, and on how it has propelled its economic amid the implacable financial crisis. Yet the presence of economic zones in the country, particularly the Cavite Economic Zone (CEZ), has helped the nation resurface into an economic breath from among other Asean economies. Together with other specialized zone on the country, CEZ has a great role in the economic development platform of the government, yet its infrastructures have been replete with issues on substandards attention toward workers' welfare. This study sought to determine the effects of multinational productions on workers' wages and working conditions in Cavite Economic Zone. How this people are being compensated and treated in their working environment has undoubtedly great impact in their daily family and working lives in the company they each represent.**

Key words: economic zone, electronic industry, export processing zone, multinational, Philippine export zones, wages & working conditions

### **INTRODUCTION**

Exports are an integral component of any country aiming at greater leaps into economic development. Establishment of specialized commercial zones are a medium for governments to harmoniously expedite exports trade. In the Philippines, Export Processing Zones (EPZ) are increasingly used as a governmental strategy to promote exports. Together with other ASEAN countries, the Philippines projects itself in the global commercial community for its products. These products are processed in specialized economic zones where international standards on quality and assurance are maintained to be the backbone upon which every processing procedure is adhered. Every domestic policy goes on in consonance with international trade-policy making bodies, like the WTO. The country in effect upholds exports credence and brings about sustainable economic development.

Along the process, however, global exports trade has always been challenged by a continuum of domestic labor policies whose concerns often reached the doors of mediation at the International Labor Organization (ILO). Many international investors find it hard establishing a business node or production hub overseas where domestic labor laws are volatile and the manpower is known on staging protests against multinational companies. Thus in order to attract transnational corporations to invest and establish factories in their countries, governments underbid one another when it comes to labor rights and environmental legislations—the least rights and protections win. Yet in many cases the lack of inspections and monitoring prevents the full implementation of existing regulations on basic labor rights.

The Philippines created the Cavite Export Processing Zone (CEPZ) by virtue of Presidential Proclamation Nos. 1980 and 2017 issued on May 30 and September 19, 1980 respectively. CEPZ later evolved into the Cavite Economic Zone (CEZ) when on February 24, 1992 former President Fidel V. Ramos signed into law the Special Economic Zone Act of 1995. Of the 66 Manufacturing

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Economic Zones in the country, CEZ is one of the 28 government-proclaimed territories which also comprise the 202 Philippine Economic Zones as of September 2009. The creation of Cavite Economic Zone attracted exports potentials from across the globe. The main investment countries in the zone are Japan, U.S.A., UK, Malaysia, Singapore, and the Philippines. The main industry sectors are electronics and semiconductors, electrical machineries and apparatus, transport and car parts, chemical and chemical products, Information Technology, medical precision tools, optical products, rubber plastics, garments and textiles. In 2007 the zone's share in the country's total export is 60 percent bringing in for the country a much higher income share than other EPZs in the nation. These investments CEZ garners help the current government propel out of the economic turbulence the country faces during the global crisis.

Once established domestically, companies must comply with all necessary business requirements so the institutions could do business smoothly. This includes primarily the satisfaction of getting the workforce compensated accordingly. Other foreign companies, particularly on the recent need of outsourcing talents, offer double or even triple the basic wage bracket of a Filipino worker. Unlikely, however, is in the case of manufacturing scenarios in economic zones where workers just simply get the basic pay, plus the overtime pay accordingly. Then companies independently operate with their own assets and, therefore, responsible for their own profits and losses. Li (2006) observed that their independent operations ought to be in accordance with market demand for the purpose of raising economic benefit and labor productivity, and to maintaining and increasing the value of its corporate identity.

Companies ought to respect the established international laws on trade unions. Workers should be given free access to a legal medium for their union activities or interests to be heard. Companies ought to abide by the law and subject themselves to regular government inspections or monitoring when conducting its business. They must also observe business ethics promulgated for every worker and

employer to observe. Public supervisory role may be understood as to include supervision by consumers, communities, investors and other stakeholders. Li (2006) added that this takes much emphasis on labor protection—including employee training safety in production, union, consultation and representation on supervisory board. It required that a company protects the legal rights and interest of its employees and strengthen labor protection and realize safe production. A company's worker shall, in accordance with the law, organize a trade union to carry out the trade union activities and protect their lawful rights and interest.

As is embodied in local and international labor laws companies shall, therefore, provide their trade unions with conditions necessary for carrying out their activities. Labor laws also require that a company hears the opinions of workers and invites worker representatives to related meetings when deciding upon matters which affect workers' interest, such as their wages, benefits, production safety and labor protection, and labor insurance. If all goes well with the workers' vested interests and required institutional benefits companies can do business without much intervention that usually hamper production output. This should be given much emphasis in establishing a strong workforce on a domestic commercial entity operated in an economic zone by a foreign investor. Workers' rights are an inherent human rights of every person engaged in any labor. It is in this unified body of laws that a worker is fully protected at all circumstances in conducting for or against the institution while one is working in.

Technology, as we know it, updates its component every second to help humans keep abreast with the fast pace of modernity. It is believed that technology, particularly the Information Technology sector, helps much in lifting up the ideals and existence class of every human. Almost all aspects of human endeavor technology is seen as the core to economic development. In an industry setting technology leads to an understanding that workers' labor conditions and wage health are likely to be increased. The improvement in technology must, argues Graham (2000, appendix A), raise wages. The raise in productivity technology brings ought to help

augment workers' welfare but they are, however, paid just their marginal product which will be larger as a result of the improved technology. It might not be modest in some aspect that workers' wages are dramatically increased far greater than their competitors' compensation packages. Yet the help of technology in workers' productions help ease the agony of intermittent salary imbalance offered by most firms, particularly in the economic zones.

Thus a competitive industry with an improved technology will expand output and employment until the value of labor's marginal product equals its wage. But this could happen in several ways: by a fall in the price of the good, as output expands relative to demand; by a fall in the marginal product of labor, as employment expands relative to other factors such as capital; and by a rise in the wage, as workers are induced to leave other industries or to give up leisure. Only the third of these mechanisms entails an increase in the wage, and it will not happen at all in some contexts, such as that of factor price equalization (FPE). There really is no assurance that an improvement in technology due to foreign direct investment (FDI) will raise the host country wage at all. It will depend on the circumstances, just as did the effect of a capital inflow above. Likely so in the CEZ where workers usually get a day's basic pay according to government salary bracket. Though the zone is laid upon technological framework workers are not assured of much higher pay hike, but only that which is as mandated by the government.

Wage compensations often are the cause of workers' unhealthy relationship with the company they work. Also the burgeoning effect of a worker's housing condition to work health often jeopardizes the day's work output. With this Moran (2002, chap. 4, 10–12) has pointed out the extraordinary complexities involved in calculating a living wage to satisfy a worker, much more one who is working in an exports processing zone. These complexities include the following:

There is a need to determine the nutritional standards, types of housing, expenditure categories, savings, and provisions for contingencies to be included in the living-

wage formula and to make allowance for inter-country differences in purchasing power parity and macroeconomic conditions; and estimates of family size as a basis for wage adequacy may be arbitrary and discriminatory since average family size may vary, and there may be differences among wage earners depending on their age, gender, and family relationships. Yet using South Asia as an example, Srinivasan (1998) also questions the relevance of attempting to calculate and administer a living wage. He notes the following:

In South Asia, over half of the labor force is self-employed and the proportion of regularly employed wage-paid workers is small; Workers employed by multinationals are generally well paid, unionized, have legal protection of their rights, and receive mandated benefits; Focusing on paying a living wage to workers employed by multinationals diverts attention from the far more serious and relevant problem of poverty and from the need to promote rapid economic growth to help eradicate poverty;

The goal of the living-wage proponents would be better served if they would lobby to eliminate barriers in developed countries on imports of labor-intensive manufactures and on other trade barriers more generally, and to relax immigration restrictions on unskilled workers. By the same token, efforts should be made in developing countries themselves to eliminate bureaucratic corruption, remove barriers to trade, and dismantle domestic policies that are inimical to the poor. While living-wage proponents may grant many of the foregoing objections, they commonly argue nonetheless that multinationals can well afford to pay higher wages to workers in developing countries because those wages are typically but a tiny fraction of the selling price of the product. Filipino workers in economic zones receive wages according to what has or to be mandated for regional salary compensation packages. It might be possible having higher wages for those working in economic zones,

but companies just observe on what is mandated for workers even if they know the conditions of their workers at home.

With the increase of technological breakthroughs in almost all aspects of human development issues, debates, and trends regarding labor unions and workers' rights propagate across continents. Diverse literatures on workers' rights continue to rise in almost all sectors of industrial society. The Developed Countries (DCs) and the Least Developed Countries (LDCs) are alike beset with labor challenges whose production or manufacturing hubs are located overseas. Labor rights movements or gatherings outside corporate premises are a continuous threat to not only production yields but to security stability. With this the work on FDI and workers' rights has been criticized on two counts. Martin & Maskus (2001), in particular, note the problems with relying on International Labor Organization (ILO) conventions as ratified and the Freedom House indicators of democracy. Alongside technological development there had been labor problems documented in the Philippines and reviewed by the United Nations Economic & Social Commission for Asia and the Pacific (UNESCAP).

Some attempts in reviewing labor literatures have been in the offing in the early 21<sup>st</sup> century labor world. The work of Kucera (2001) has attempted to improve on the existing literature on worker rights and labor costs by using multiple definitions of each type of worker rights. Kucera, first regressed the log of wages per employee on value added per employee in manufacturing, Gross Domestic Product (GDP) per capita, manufacturing share of GDP, the urbanization rate, multiple measures of freedom of association and collective bargaining, child labor, and gender inequality. This was analyzed according to available data from 1992–1997 in a sample of 127 countries, including 27 “high-income economies” and 100 Least Developed Countries (LDCs). First, like Rodrik (1999), Kucera found that wages were positively correlated with all of the measures of political freedom. Surprisingly, the unionization rate had an insignificant negative impact on wages.

However, other measures of free association and collective-bargaining rights had a positive impact on wages. These measures may be more meaningful since they are based on observed rights violations. The evidence on child labor and wages was quite curious. First, wages were positively correlated with labor-force participation rates for ten to fourteen-year-olds. The coefficient on the secondary non-enrollment rate was also positive. Kucera noted that it is difficult to interpret such results. Finally, in countries where the female proportion of the labor force was higher than average, wages were lower than average. However, this effect was not generally statistically significant. Kucera then turned to estimate the impact of worker rights on FDI. In the Philippines, particularly in CEZ child labor has never been a problem to the zone; the zone's human resource systems practice decent recruiting protocols to avoid minors get into the alleys of corporate productions. However, the workers' conditions and wage bracket have been a factor to consider for the more than 65,000 CEZ workers in early 21<sup>st</sup> century, where seventy-four percent of the zone's workforce are female (Boyenge, 2007).

The working Filipino is not however satisfied on the livelihood he or she has. This worsened significantly from 46.31 percent in January 2008 to 64.35 percent in April. Those who answered that their livelihood got better fell from 6.12 percent in January to 4.41 percent in the latest survey of IBON magazine in April 2008. The most tragic factor in the study conducted across various sectors nationwide with 1,495 respondents from April 7 to 16 is the constant concern about insufficient income for the family's daily needs. The respondents (71 percent) said that it is not enough, an increase of almost 10 percent from January 2008. Though the study was not conducted particularly on CEZ this lingering result has been in the pages of Philippine labor literature.

Meanwhile, semiconductor and electronic industry continue to be an export winner for the Philippines. In late 1999 there were 220 companies specializing in electronics products operating inside the 276 hectares of the highly industrialized region of CEZ. And just over a period of three years, CEZ has an average Net

Trade balance of US\$ 246 million. These companies employed about 65,000 management and production workers excluding those employed by brokers, banks, security agencies, canteens, sub-contractors and other offices doing business inside the zone. This industry is, like in any other country, the bedrock of economic development where almost everything is anchored on technology that integrates electronics and semiconductors. But the industry of close to 400,000 jobs has, reasoned Huang (2005) to enhance its competitiveness if it wishes to remain as the major contributor to the Philippine economy. The impact of this industry to national economy is worthwhile that in 2007, according to National Instrument's report, accounted for US\$32 billion of exports or 2/3 of the country's exports or 34 percent of its gross domestic product (GDP).

This study was motivated with controversies on whether or not multinational firms in Cavite Economic Zone are exploiting their workers by paying low wages and subjecting them to coercive, abusive, unhealthy, and unsafe conditions in the workplace. The study was designed to assess the empirical evidence on the effects of multinational productions on workers' wages and working conditions in semiconductor and electronics industry operating inside the CEZ. Areas which would be investigated in the study are: profiles of the electronic company and respondents; and determination of the following: prohibition of forced labor, prohibition of discrimination in employment, wages, working hours, health and safety, values, and aspirations. However, wage is categorical in nature, as there is a need to distinguish low-wage, relatively unskilled-labor-intensive industries, such as apparel and footwear, from industries that employ more highly skilled workers and produce relatively more skill-intensive products, such as electronics and automotive products. Moran (2002)

## METHODOLOGY

The research method used in this study was a descriptive survey. Closed- and open-ended questionnaire was employed followed by

the researcher's personal interviews. The research, with five participants randomly selected from male workers in the Productions Department of Hayakawa Electronics (Phils.) Corp. was conducted in May 2009. The productions manager and the human resources supervisor were also interviewed to supplement the data which could not have been obtained from the five respondents. In addition to the questionnaire and interviews, the available secondary sources of information were the official publications of Philippine Economic Zone Authority, official website of the Philippine Economic Zone Authority, company profile, books, and journal articles were used.

**Empirical Results.** In 1989, Hayakawa Densen Kogyo Co. Ltd., Japan was choosing between Malaysia, Indonesia and the Philippines as the location for its first manufacturing facility in Southeast Asia. The company decided on the Philippines because among other factors, the country had an abundance of highly skilled English-speaking workers. Hayakawa Electronics (Phils.) Corp. (HEPC) was established in 1990 and is strategically located in the zone's main avenue of CEZ in Rosario, Cavite, Philippines. Employing 1,800 workers it occupies a total land area of 14,000 square meters and a total floor area of 4,604 square meters. It received its ISO 9002 certification in August 1999, and recertified in February 2004. It received its ISO 9001:2000 in September 2002 and eventually achieved its ISO 14001 certification in February 2004. Categorically ISO 9000 and 14000 addresses "quality and environmental management." The company manufactures mostly wire harnesses for a wide range of products—from car navigation systems to automated teller machines. The company has broadened its product applications in search of new opportunities. The company is engaged in contract manufacturing of automotive parts (53 percent), office equipment (37 percent), car safety devices (9 percent), and household appliances (1 percent). The main markets are: North America, South America, Eastern Europe, Southeast Asia, Oceania, Eastern Asia, and Western Europe.

All respondents are male, and 60 percent of which graduated from high school and 40 percent were college graduates having at least

three years of experience as machine operators. Most of them live near CEZ with their family or rent a very small house or apartment room. Forty percent of them are married and 60 percent are single. All respondents need income to support their respective families. Only one (20 percent) respondent has ever worked with other company under contract employment in the same location in CEZ, while others (80 percent) have been working for three to five years for at Hayakawa only.

Majority of respondents stated that they are forced to work overtime and are required to work fast under tight deadlines to meet the export requirements. The sick one is permitted not to work overtimes. Most workers are willingly working overtime to earn more money due to insufficient salary they earn. The security guard would check every worker leaving the factory during working hours to make sure he or she has permission from respective chief of division and human resources department's approval, as well as making sure none of them would bring out any goods from the factory.

There is no discrimination between male and female workers for the wage rate. Most respondents work under contract from an agency that can be renewed yearly. Only one respondent (20 percent) was hired as permanent employee. All respondents stated that the wages meet regional minimum wage standard. Every week the workers receive minimum of five hours overtime pay and paid according to government law. Monthly wages received by respondents range between PhP 6,500 to PhP 10,000 excluding overtime, bonuses, and 13<sup>th</sup> month pay. The respondents stated that they allocate the monthly income as follows: food and other basic needs (60 percent), shelter (30 percent) and leisure (10 percent).

This monthly salary, according to respondents, will not be enough to finance all the needs of the married workers even for the minimum daily needs. Borrowing from each other between or among workers is a normal practice, and loan from the government's Social Security Systems (SSS) or Pag-Ibig Fund for housing is the last source of fund if wages is not enough to cover their basic needs. The respondents spend a normal 40 working

hours a week with average five hours overtime, and as needed by the export requirements they are usually required to work on Sundays or national holidays. Normal day-off is Sunday. The respondents would prefer to work overtime to earn more income and so cover their cost of living, help their parents, or to pay for their siblings' educational expenses.

Hayakawa, however, provides a health clinic with stand-by doctor and nurses during the working days. Health and safety tools such as mask, hand gloves, boots, helmet, first aid box, ear protectors, and fire extinguishers are available. The toilets are clean and enough for all workers. Verbal abuse by supervisors can normally occur when respondents make mistakes or caught working slowly. But respondents agreed that they have wholesome working conditions under safe working environment as evidenced by many awards and international certifications the company has so far received.

However, majority of the respondents prefer to work abroad to get better knowledge and skills and to earn higher income. Only one (20 percent) respondent would like to work longer in the company and expect of getting higher position and so earn bigger income. The respondents dream of having multi-machine operating skills in using advanced plastic injection machineries, and learning computer skills for office positions. These have become their daily motivation for work toward their future. All respondents are very proud if they can contribute part of their income in helping their parents and siblings. They are also proud of working with a world-class company which also contributes to government revenue through taxes and employment opportunities.

## CONCLUSION

Multinational commerce brings in domestic job opportunities and help better national economic development. Yet workers in the Cavite Economic Zone in particular are not all well treated under foreign firms; others relatively got better treatment on the working environment but with low compensation package. Working conditions and wage factor cause workers to prefer working abroad for a better job and a better pay. They believe it is

only working overseas they could attain a high standard of living and so uplift the conditions of their respective families. Though they are proud of working with a world-class company, having a higher income is more compelling for them to work somewhere.

With these outlaying scenarios, corrective measures should be taken by the government in conformity with domestic and international laws. It is necessary therefore for the government to adapt domestic policies that will better workers' welfare and skills enhancement through continuing education, and so better the conditions of their work and attain economic sustainability. As a theoretical matter, it is true that multinationals can have an array of both or either positive or negative impact on host-country workers.

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