Contributions of private investment in post-conflict Guatemala: evidence from socially responsible Maquiladoras

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Contributions of Private Investment in Post-Conflict Guatemala: Evidence from Socially Responsible Maquiladoras

Jeana L. Flahive has completed the requirements for Honors in International Studies.

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**CONTENTS**

**Thesis:** Under certain conditions such as the use of increased corporate responsibility and Codes of Conduct, the benefits of the maquiladora industry are maximized while the costs are minimized.

### Chapter One
**INTRODUCTION: Guatemalan Maquiladoras**

### Chapter Two
**FOUR WEEKS IN GUATEMALA**
- The Beginnings
- Interviews
- Experiences and Interviews at the Maquilas
- Non-Governmental Organizations Involved in the Industry
- Constraints in the Project Research
- Conclusions on the Information: The Best Practice Cases

### Chapter Three
**FOREIGN DIRECT INVESTMENT IN GUATEMALA**
- International Investment Growth
- Guatemalan Labor Market Profile
- Investment Opportunities and Incentives
- Why all the Incentive Programs and Desire to Draw Investment?
- Origins of the Industry, Mexico and Guatemala
- The Presence and Role of Women in the Maquila

### Chapter Four
**OPPOSING THEORIES ON MULTINATIONAL INVESTMENT**
- Supporters of Multinational Corporate Investment
- Examples Offered by Supporters of MNCs Benefits
- Critics of Multinational Corporate Investment
- Examples Offered by Critics of MNCs Costs
- Possible Alternative Hypothesis
- The Difficulty in Evaluating the Maquila Industry

### Chapter Five
**SOCIALLY RESPONSIBLE LABOR CODES WHICH LEAD TO THE MAXIMIZATION OF BENEFITS**
- Guatemalan Labor Law: its Existence and Compliance
- Codes of Conduct for Labor Conditions and Standards
- International Response
- Monitoring and Implementation
- Examples of Industries not Operating Under Codes: Sweatshops
Chapter Six
FOUR MAQUILA CASE STUDIES: BENEFITS UNDER CERTAIN CONDITIONS
Economic Analysis of the Maquila: Wage and Price Comparisons
Compensation Systems
Schedules and Overtime Policies
Non-wage Benefits
How Does the Economic Analysis Fit into the Debate?
Labor Standards and Conditions of Guatemalan Maquila:
Guatemalan Code and Monitoring System
Observed Compliance with Guatemalan Law and Codes
Monitoring and Implementation Arguments
Further Benefits of the Maquila Industry:
Alternative Job Opportunities
Technological Advances and Future Expectations
Social Benefits of the Maquila
Influential Alternative Arguments - Removing the Blame from the Maquila
Discussion of the Debate

Chapter Seven
FINAL ANALYSIS OF EVIDENCE
Comparison of Two Groups of Maquilas
Room for Further Improvement
Important Standards for Comparison
Potential Future Benefits of the Maquiladora Industry Are yet to Be Seen

TABLES
Table 1 Net Foreign Investment in Central America
Table 2 Major Foreign Investors from the US
Table 3 Price Waterhouse Monthly Salary Averages 1997

GRAPHS
Graph 1 Foreign Direct Investment in Guatemala (1990-1996)
Graph 2 Number of Apparel Employees Per Year (1988-1996)
Graph 3 Apparel Exports from Guatemala (1990-1995)
APPENDIX

A.1 Foreign Direct Investment (1990-1996) 88
A.3 Number of Factories Created by Apparel Industry (1993-1996) 89
A.4 Apparel Exports (1990-1995) 89
A.5 Economically Active Population Over 18 Years of Age 90
A.6 Extent of US Investment in Selected Industries 1995 91
A.7 Guatemala: Main Economic Indicators 92

ACRONYMS 93

INTERVIEWS 94

BIBLIOGRAPHY 95
CHAPTER 1

INTRODUCTION: GUATEMALAN MAQUILADORAS

Guatemala has suffered through 36 years of civil war. This has torn the country both socially and economically. A Peace Accord was finally signed on December 29, 1996. This Accord brings hope of improvement and development since peaceful conditions are essential for long-term growth. Political, social, and economic instability often scares investment away. Corporations hesitate to invest in unstable areas. Therefore, the signing of the Peace Accord offers the possibility of increased investment. This can be beneficial for Guatemala because official flows of foreign aid and assistance have decreased while private foreign investment has become the primary focus for development.

Multinational corporations (MNCs) are one source of private foreign investors. On a world-wide basis, MNCs establish factories and assembly plants in Third World countries. The factories which they set up are described in a variety of ways, from overseas assembly plants to maquiladoras to sweatshops for some. The maquiladora (or maquila) is the terminology which will be used in this thesis to refer to the multinational factories studied in Guatemala. Under certain conditions of operation the maquiladora industry has brought benefits to Guatemala. These conditions will be explored in later chapters dealing with Guatemalan case studies.

Guatemala has had a growing maquiladora sector throughout the 1990's. Much like the case in Mexico, these maquilas have brought investment, foreign currency, technology, and job opportunities for the poorest. Supporters of MNCs identify with these gains and believe that MNCs can aid in the development of a country. Despite these possible gains, negative media images of maquiladoras are prevalent. The stories focus on
the human rights abuses, terrible conditions, poverty level wages, and long hours. Critics of multinational involvement in the Third World concentrate on these aspects as well as beliefs that MNCs bring inappropriate technology, harm the indigenous production base, and do not train or promote the local populations. The reputation which maquilas have developed as a result of this negative focus, leads to the automatic assumption that all maquilas have sweatshop conditions. However, maquilas are not necessarily harmful. Given the decrease in official aid, it is important to identify the conditions under which advantages of the maquila industry prevail. The possibility of increasing the gains and decreasing the costs does exist. The examination of the conditions under which this is possible should not be prevented by the public image of overseas factories.

Some corporations are sensitive to the costs of horror stories of dismal conditions revealed through mass media. This press coverage can cost them reduction of sales, loss of reputation, boycotting of their product, or legal suits. The transparency of conditions because of global information systems offers MNCs an incentive to create better working conditions. As a result of this transparency MNCs have greater accountability for their actions and have evolved into a new phase of corporate responsibility.

The public awareness of abuses and conditions in assembly factories has prompted action to improve the situation. Non-governmental organizations (NGOs), human and labor rights agencies, the White House, and even many large corporations have begun working together to find an answer. The result has been the creation of Codes of Conduct which establish labor standard and treatment principles. While many programs are still in the beginning stages, a business organization in Guatemala, AGEXPRONT, has written a Code which is currently in use by many maquiladoras. The Codes of Conduct and other reforms have created a new atmosphere for multinational investment (MNI).1

1The United States is currently working on a Code of Conduct, the Apparel Industry Partnership. Many individual corporations have their own codes or systems for monitoring factory conditions also.
Is it possible that the new corporate attitude of responsibility and pressure from Codes of Conduct could create a situation where the benefits of the maquiladora industry can be maximized while the costs are minimized? Results from four best practice, responsible maquilas in Guatemala will be considered in this thesis. The maquilas used as case examples, Intraexa, Esdisa, Koramsa, and Cardiz, all share similar standards of operation. They are all in compliance with Guatemalan labor law; some even go beyond what the law requires. Each of the factories is certified as complying with all of the principles in AGEXPRONT's Code of Conduct. The gains of these maquilas is documented in the following text on the basis of wages, benefits, weekly schedules, alternative employment opportunities, and general observations. The labor standards and conditions are also examined by reviewing the type of implementation and monitoring systems which the maquilas use and their compliance with the Code of Conduct. Through the examination of these four maquilas the opportunity to compare their present behavior with the history of exploitation and the stories of other maquilas' abuses arises.

Background information to contextualize the maquiladora industry in Guatemala as well as an examination of four case study maquilas will be presented in the following chapters. This information and data serves as evidence that under certain conditions the maquiladora industry can benefit the workers as well as the country. Chapter two outlines the process of research in testing the hypothesis. The majority of the research took place in Guatemala during the month of January 1998 in the form of interviews, tours, and observations. The constraints met throughout the project are also considered in this section. Chapter three describes Guatemala's strategy in attracting foreign direct investment (FDI). It provides a statistical as well as historical background of foreign direct investment in Guatemala. Incentives offered to investors, the reasons many Third World countries want to draw foreign investment, and an introduction to the maquiladora industry is also discussed. Chapter four outlines the controversy regarding MNC presence, specifically its effects on labor. The chapter describes the debate on the industry.
arguments laid out are from two contrasting sides, those who oppose MNC presence and those who promote it. Examples illustrating cases that demonstrate their argument are also given.

The fifth chapter of the thesis deals with Guatemalan law, compliance with the law, and the Guatemalan labor market. It addresses issues such as the need for a Code of Conduct and problems which accompany that, such as effective monitoring and implementation. An important section of the thesis is present in the discussion of four maquilas which are not operating under labor standards. These maquilas are present in Central America as well as the United States. Chapter six focuses on presenting the evidence which was obtained from the research done in Guatemala. Labor conditions within the maquilas such as wage, compensation, benefits, and work schedules, are considered. Also the Guatemalan Code of Conduct is discussed in terms of compliance, monitoring, and implementation. Additional benefits of these particular maquilas are also presented. The final chapter analyzes the evidence and information. It also points out important standards of comparison and discusses the future improvements and potentials of the maquiladora industry.

All of the chapters work together to present a coherent argument in defense of the hypothesis. The information in each chapter has relevance to the thesis whether through direct evidence or information needed to fully understand the subject matter. The end result provides evidence that there are some socially responsible maquilas currently operating which are benefiting the workers. Pressure from the international community and consumers will most likely force more corporations to ensure that their factories are operating under labor codes and standards. Maquilas operating in a socially responsible manner will create a situation in which the benefits of the industry can be maximized, as will be shown in the argument presented on the Guatemalan case studies.
FOUR WEEKS IN GUATEMALA

The Beginnings

Certain conditions such as, corporate responsibility and Codes of Conduct can be the principal factors in maximizing the benefits and minimizing the costs of the maquiladora industry. This hypothesis was tested in Guatemala using four maquilas as case studies. The opportunity to conduct research in Guatemala on a first hand basis enhanced the ability to make comparisons and weigh the costs and benefits of the industry. Four basic questions framed the research. First, what are the economic benefits and costs to the working poor that are employed by the industry? Second, what are the conditions within the factory? Third, have Codes of Conduct been designed and implemented? If so, the fourth question follows as what changes have they caused? The overall purpose, was to examine the costs and the benefits of the maquila industry to assess how they could be changed.

The fieldwork portion entailed three solid weeks of formal and informal interviews, on site tours and observation time. The main objective given the short time period was to interview as many people as possible and also visit at least one maquila. Understanding the complexity of the maquila industry required interviews with maquiladora owners, managers, workers, and other outside organizations which have a role or interest in the industry. The next section describes the interviews with this array of actors in the maquila story in Guatemala.
Interviews

The first contact was with the FUNDESA organization. This well respected organization promotes investment in Guatemala. The FUNDESA office was used as a base to conduct phone calls, arrange appointments, and work on written reports. At FUNDESA, the opportunity arose to interview Kenneth Dill. Dill is an expert on Guatemala's history and recent transformations. The insight and personal opinions of Dill added a great deal to the understanding of the country.

The first professional interview was conducted with Ernst & Young International (E&Y), a world-wide accounting firm. The firm has a very integral role in dealing with the Code of Conduct issue in Guatemala. Ernst & Young is the leading, in fact the only, firm that presently performs Code of Conduct monitoring in Guatemala. This is a task that began recently in order to certify maquilas under the Gremial.

The Gremial is a non-profit, private organization which presents the businesses of Guatemala to potential international investors or clients. Due to this integral role in the representation of businesses, the Gremial offers a certification process to ensure to MNCs that Guatemala's maquiladoras are complying with basic labor standards. To begin this process the Gremial, with input from various organizations, constructed eight basic principles by which the maquilas had to comply. The principles were then given to Ernst & Young to create a manual which could provide a detailed explanation of each principle, and the Guatemalan law that has a bearing on it. The manual was completed by September of 1996, and E&Y began the certification process in December of 1996. After only one year, by 1997, the accounting firm had already investigated twenty-eight maquilas; sixteen were certified. The remaining twelve are currently implementing changes to reapply for certification. There is already a project planned for 1998 to investigate twenty-five more maquilas. The Gremial therefore establishes Guatemalan standards, and an international organization monitors performance to enhance transparency and compliance.
The interview with E&Y was very important because it offered the opportunity to clarify some lingering questions regarding the investigation and certification process. The knowledge of the principles gained in this interview proved to be very helpful while visiting maquilas. Shortcomings of the compliance process surfaced during the interview. While acknowledging that there are presently some holes in the process, it is also necessary to keep in mind that the project is relatively new and discussions regarding auditors and systems of monitoring are still on-going. Despite any problems, it is an achievement that the program is up and running, an achievement beyond many other countries, including the United States. Time will allow for the chance to note shortcomings and implement changes to correct them.

Experiences and Interviews at the Maquilas

The second contact was with the Cardiz maquila which contracts work from Philips Van Heusen (PVH) in the United States. Cardiz is located in Guatemala City, as were all of the maquilas visited in this study. It is one of the oldest maquilas, and the first to be certified by the Gremial. The Cardiz maquila resembles a large warehouse. There are two floors which are separated into the sewing machines on the top floor and quality inspections, small corrections, packaging and shipping on the first floor. Cardiz employs five hundred workers, of which 30-40% are men. This is a contrast to the popular literature which characterizes only a small percentage of the workers in apparel maquilas as male, and also to many other maquilas that were visited where 90% or more of the employees were women.

Four separate visits to Cardiz and extensive conversations with the owners and managers supplied the project with useful information and provided a basis for comparison in tours of other factories. The first interview was conducted with the operations manager, Alejandro Arias, and entailed an extensive tour of the Philips Van Heusen factory. During this interview, Arias explained the production process step by step, introduced the floor managers and engineers, and explained the maquila business. Between interviews at
Cardiz, there was time to walk around the factory and observe the conditions and atmosphere. A second formal interview with the head manager, Carlos Arias Jr., provided key insights to the maquila industry.

Unfortunately, as contact with the factory increased, Carlos Arias Sr. became suspicious of the project and Cardiz's role within it. This was understandable due to the negative image that many people from the United States have portrayed of the maquila industry and especially because of the recent focus on reform. Due to this suspicion, interviews with workers and managers along with detailed information on wages and benefits were not possible. Some information on average wage and benefits was obtained, but not to the extent that had originally been expected. The opportunity to speak at length with Carlos Arias Sr. regarding his role in workers' rights and labor standards was also lost.

Apart from Cardiz, visits to three other maquilas, Esdisa, Koramsa, and Intraexa, were possible. These maquilas are well-suited for the project as they vary widely. The size differences range from a very small factory of 100 workers to an enormous five plant factory of 8,000 workers. The name brands range from very popular Levi's, to smaller name brands such as Jansen. The employer/employee relationships are unique in each factory. The cleanliness and organization of each maquiladora also varies. Having this diversity offers a more complete view to the project and demonstrates differences even within a group of maquilas operating under similar standards.

One maquila in particular was very helpful in providing information for the project. The Esdisa maquila, which contracts work from Avon, is a very small factory which employs 160 to 200 workers. Esdisa was the least well kept and most unorganized factory seen during the three week research, but the owner's relationship with the employees was the best. This was impressive along with the maquila's willingness to allow interviews with the employees. The interviews at Esdisa involved the workers, instructors, and floor managers. The major constraint faced in speaking to workers was time, due to the
schedules that most workers hold. Most of the employees of Esdisa are women with families. Therefore, they arrive very early and leave in a rush to catch transportation home. This only left time to speak with them as they worked. For the vast majority of the workers, this was not a problem. They actually seemed to enjoy some conversation and distraction as they worked.

The interviews with the workers at Esdisa were conducted without any manager or the owner present. The first set of interviews involved twenty-five machine operators, twenty-three women and two men. The second set of interviews involved fifteen workers from machine operators and cutters to supervisors. Conversations included information on the type of work, pay, expenses, and treatment. The more talkative women aided the project by also stating personal insights to the type of skills they have gained, their relationships with the management, and their jobs. The benefit of researching at this factory did not end with being allowed to speak freely with the workers; the owner offered insightful opinions about the United States apparel industry during our interview, which added a new twist to the debate on maquilas.

The Levis operation in Guatemala is the largest maquila in Central America. The factory, Koramsa, alone supplies 50% of Levi’s products that come from Latin America. The Koramsa factory showed some extremes of the industry in terms of size, cleanliness, medical plans, benefits, and equipment. The factory has five separate plants and 8,000 employees all in one large complex. Koramsa was the most technologically sophisticated maquila of the four visited. Besides the usual sewing operators’ machines, there were large washing machines used for stone washing and pre-shrinking the jeans. These were enormous, self-programmed machines which added the proper mixture of chemicals, used the correct water temperature, and washed for the right amount of time. There were also large pressing machines with safety mechanisms instead of the old, steam irons seen in the other maquilas. The maquila was enormous, immaculate, and very well organized.
The last maquila that time allowed for was, Intraexa. This factory contracts work from the Jansen corporation and employs 200 workers. It offered a distinct insight because the factory has a quite different atmosphere from that of both Esdisa and Cardiz. Intraexa is a very small, clean, and organized maquila but there is a tension in the air. Interactions between the workers was noticeably limited. Also, while the maquila complied with all the Guatemalan laws and codes of conduct, it did not go above or beyond that minimum. This maquila is an example of how important the management or owner is and how much they affect the maquila.

Some contact was also possible with workers of Carnisas Modernas. This maquila also contracts work from Philip Van Heusen. Interviews were with members of the only union in the maquila industry, STECAMOSA. Eight members of this union were interviewed on two separate visits. The conversations took place after the workday as the workers were on their way home. These were valuable interviews for two reasons. First, the interviews were away from the factory so workers had the chance to speak more freely. Second, these workers were not only union members but had just recently won their victory for a contract. Therefore, of all the workers, they were more critical or at least most informed about management, the work, and the overall conditions. Also, since it was a new contract, the union members were in a position to talk about the changes they have seen take place and those that they are expecting in the future. The meetings were well received by the workers who were excited that other people, especially citizens of the United States, knew about them and were interested in their plight.

Interviewing with STECAMOSA members provided important insight to the workers' understanding of the Code of Conduct. The reaction of a group of four women, regarding questions about the factory's Code of Conduct, was shocking. When asked how familiar they were with the Code, the entire group of workers was completely perplexed and silent. It was amazing that even the union members were not familiar with the code. Finally, one young woman remembered that it was a piece of paper that hung near the
water faucet. That was all that was known about the Code. This interview was also critical in understanding the process of unionization and the struggle Guatemalan workers are going through now and in the past. While other smaller unions do exist, STECAMOSA is currently the only contractually recognized union. After six years of struggling, STECAMOSA reached the point of negotiating a contract with help from FITTVCC (The International Trade Secretariat for Textile, Garment, Leather, and Shoe Workers) and other international labor organizations. The union members expressed gratitude for the international support they received during their struggle. STECAMOSA and FITTVCC are both covertly helping workers from other maquilas organize and negotiate a contract.

All the workers spoken with agreed that outside of the maquila industry there are few to no other job options and, therefore, the industry is truly beneficial in terms of providing employment. Along with this, many of the workers stated that employment in the industry has helped or increased their family's income. They all also agreed that they have not witnessed any abuses and are not forced to stay for overtime. However, many said that the Korean factories have reputations of treating workers badly and often do force overtime.

The benefits from visiting each of the maquilas are countless. Beside providing first hand observations, the factories also helped in testing the hypothesis because each one operates under a Code of Conduct. The variation between the maquilas was also helpful because each one offered a unique insight to the industry. The interviews and time spent at the Cardiz factory offered clear and precise explanations of how the maquila business and the factory itself operates. Esdisa allowed the crucial opportunity to speak with workers. Levis served as an example of a large maquila and how this changes the quality and level of machinery in the factory. Intraexa provided insight into the differences in management and how this affects the work atmosphere of a factory. Contact with STECAMOSA members from Camisas Modernas was important in demonstrating the amount of knowledge which
workers have of the Code of Conduct. These primary insights obtained from experiences at each of the maquilas was important in the evaluation of the hypothesis.

Non-Governmental Organizations Involved in the Industry

Interviews with non-governmental organizations supplemented conversations with factory workers and managers. Interviews were completed with Bob Perillo of USGLEP, the United States Guatemalan Labor Education Program. USGLEP is working to achieve independent monitoring of maquiladoras which would improve enforcement of the Code of Conduct. USGLEP's focus within the Code is to strengthen the right to organize principle. They feel this is the necessary lever to ensure the upholding of the seven other principles in the code. According to Perillo, if workers form a strong union, then they will have the power to negotiate with the factory to operate under the other principles. Perillo also provided a contact within COVERCO, the only group presently forming an independent monitoring plan.

COVERCO (Commission for the Verification of Corporate Codes of Conduct) has formed in order to be ready in the case that independent monitoring becomes a reality. The interview with Dennis Smith, a Presbyterian Missionary, was important because it gave a positive view of the changes that would be occurring in the future. The organization is set up in an interesting way. COVERCO consists of six professionals from different disciplines including, a human rights lawyer, a doctor, a sociologist, a labor lawyer, a Presbyterian missionary, and a social worker/teacher. This multidisciplinary group can be contracted to monitor compliance with conditions in the corporate Code of Conduct, and the national and international law. They will hire other professionals from diverse backgrounds to conduct broad-based investigations. The organization is referred to as an independent monitor because it is and will be independent of all national and multinational corporations, unions and governments. In this way they try to provide unbiased reviews and to relate fairly to all the actors involved.
Interviews at the Gremial, the designer of the Code of Conduct, were conducted with Luisa Fernanda Migoya. The Gremial is divided into departments which pertain to different sectors of the economy. AGEXPRONT is the department which focuses on the export industries, such as maquiladoras. AGEXPRONT sends information to corporations in the United States to promote business with Guatemalan factories. The business transactions of the maquiladora industry can seem complex at first. The factories reviewed in this project will serve as examples for explanation. The actual warehouse is owned by a Guatemalan. This owner then contracts work from an apparel corporation in the United States. Assuming that the factory meets all the criteria, the corporation sends all the necessary machinery and cut pieces of cloth to the factory for assembly. The factory is thus working for the US corporation and hires Guatemalan workers to do the labor. All of the clothing which is assembled, perfected, and packaged is then shipped back to the United States for sale. The maquila must meet all of the US corporation’s deadlines and quality standards or it will lose the contract. While the Guatemalan owners may own the actual location and manage the business on a day to day basis, they are “owned or managed” by the MNC. Besides labor, all of the resources and technology which goes into the factory is owned and sent by the US based corporation.

In stressing the benefits of the maquila industry, Fernanda stated that the minimum wage had just gone up on January 1 by 12%, and thus was now 19.71Q/day not including the bonuses and benefits. This means that a highly qualified operator would make about 40Q/day. Luisa Migoya also pointed out that underemployment in Guatemala is currently approximately 40% and would drastically worsen without the employment provided by maquilas. She also stressed that maquilas have not only helped workers, but also the Guatemalan community. Since these jobs arrived in the last ten to thirteen years, more restaurants, theaters, malls, stores, and entertainment has grown in the area. The level of schooling has also increased as more people can afford to send their children to school. These three points that she brought up are very important within the context of this paper.
Of course a representative of AGEXPRONT would promote such views; the study examines the degree to which they can be corroborated by the facts. AGEXPRONT also provided the name of a Korean owned and managed factory to contact. This was extremely important since up until that point contact with a Korean factory had not been possible. Almost every person with whom formal and informal interviews were conducted said that the Korean factories were where the abuses and horrible conditions occurred. To tour a Korean factory would have added a much more well rounded view to the project. Unfortunately, this opportunity fell through on the day of the interview as the owner left the country for a week and the research trip was cut too short to reschedule. Attempts to call visit Korean factories were in vain. An interesting future research project would be to compare the performance of Korean and US based firms.

This fieldwork trip was full of opportunities as each interview led to another and each person offered a fresh perspective. The interviewees offered a fair range of opposing views on the topic, from the maquila owner to the poor worker, from the labor unions to the trade organizations. Along with all of these more formal interviews, informal interviews were also conducted with Guatemalan acquaintances. The overall consistency in opinions was amazing. Every person pointed to the fact that maquilas offer jobs where otherwise there would not be any and that Korean factories are the problematic ones giving a bad name to the industry. An opposing view to these general statements was not once heard -- quite interesting given the range of people that the project involved.

Constraints in the Project Research

One problem with such a short time period and small range project is that there is room for many holes. It was not possible to visit the majority of the maquilas in Guatemala or speak to more actors inside and outside the industry given the time period. Speaking alone with workers outside of the factory also proved to be very difficult for two reasons. One, employers did not want their workers talking to a researcher from the United States.
Two, many of the workers were too tired or in a rush after work. Another major constraint in this project was distrust and suspicion. Many people were hesitant and nervous about what exactly the project entailed. It is quite probable that the problematic introduction of a student from the United States resulted in the loss of some interviews, particularly with the Korean factories.

Another constraint of the project is that there are many subtopics that have not received full attention such as, the politics behind the maquila industry, the role of MNCs on a global level, trade liberalization, and the fight for unionization. Also the role of women within the industry is an important topic which was side-stepped slightly in order not to stray from the original objective. There are also anthropological focuses which were not thoroughly researched such as, the migration of workers to the urban areas, the loss of culture and traditions, and the presence of the very "Westernized" culture of Guatemala city. For all of this to be studied extensively would necessitate a much longer time period and an entirely different paper.

The original methodology for this project envisaged a price/wage index to demonstrate the economic benefit of leaving a poor village to work in a maquila. Unfortunately, in order to do this many conditions were required. First there was the hope of obtaining detailed information on exact wages; this was not possible. Second, there was the assumption that within a factory there would be a large number of workers from a particular rural area. This was only true to a limited extent. Not only was there not a large percentage or workers from the same area, but many had been born in the city. Third, was the assumption that these workers had held a job in another sector prior to maquila employment to provide a basis for wage comparison. This was completely discredited as it was found that none of the workers interviewed had ever worked outside of the maquila sector. A few women had been housewives and many workers had moved around in other maquiladoras. Since these factors to calculate for the price/wage index were not present, other areas for comparison were sought.
Average wage information was made available through interviews at Esdisa, through a small amount of information from Cardiz, and also through the average wages calculated by AGEXPRONT. Information regarding the necessary basket of goods bought on a weekly basis was collected through a small survey conducted in Esdisa and also in a project completed by AGEXPRONT. The comparison of wages with other sectors in Guatemala was possible using the Price Waterhouse average wage information that has been calculated for various jobs in the Guatemalan society. This would be an interesting comparison instead of trying to compare maquila wages with those in the United States.

Conclusions on the Information: The Best Practice Cases

The maquilas chosen for study are all cases where the industry is doing well. Each of the maquilas complies with both the Guatemalan Law and the Gremial's Code of Conduct. The people interviewed also have more positive views of the industry because they are involved with maquilas which do operate under decent conditions. While this may seem to present a lopsided view of the argument, the goal is to establish the gains under the best practice cases. These cases can then be used as a best case policy standard to improve practices in other maquilas.
CHAPTER 3
FOREIGN DIRECT INVESTMENT IN GUATEMALA

Information regarding the type and levels of investment flowing into Latin America, more specifically Guatemala, is necessary to demonstrate the importance of it in the region. This particular project focuses on FDI in the form of maquiladoras in Guatemala. The process of examining this industry and weighing its costs and benefits requires an understanding of the broader backdrop of international capital flows, foreign direct investment, and the maquiladora industry. This chapter will lay out the strategy which Guatemala has pursued in attracting FDI.

International Investment Growth

There has been a surge in international investment throughout the world driven by competitive pressures, new technologies and more open investment policies by governments. This surge grew 40% in 1995. US and other multinational corporations invested a record $315 billion in all foreign affiliates in 1995 and they are predicted to invest even more with each year. Thirty-nine thousand multinational corporations operate around the globe with about 270,000 affiliates, representing more than $2.7 trillion in assets. Annual sales by these affiliates easily exceeds $6 trillion. Foreign direct investment is closely linked to output growth, employment, export dynamics and, thus, to the development strategies that countries have adopted under the neoliberal model. The main providers of FDI in the Latin America and Caribbean region are from a limited group.

of developed countries, notable among them, the United States, the United Kingdom, France, Japan and Germany.  

Developing nations compete with each other to attract international investment. In a world of reduced foreign aid and assistance, private capital flows are now five times greater than official flows, and foreign investors seem the best hope of developing nations. The flow of capital to developing countries increased 20% in 1996 to $285 billion, as banks, investors and multinational corporations poured money into these countries. At the same time, government loans to aid the poorest nations shrank by $12 billion or 23%. The engine or focus for development has shifted from a concentration on aid to one that involves developing the country through means of foreign investment. Poor countries need plant and equipment, workers who can operate them, and public and private managers who can organize and oversee the work and the ensuing delivery processes. One way developing countries can get equipment is to have foreigners build it, employing technology and skills not readily available in the poor country, and send it to them.

Democratic, authoritarian, and even communist governments are bidding, competing, and offering incentives, to bring investment to their countries. Not only are governments competing for the investment, but the investors, from companies large and small in the US, Korea, and other powerhouse nations, are scouring long-neglected parts of the world previously very restrictive in trade and foreign investment that have now opened up. They are driven by a search for new customers, and cheap and plentiful labor. The result has been an unprecedented flow of money from rich to poor nations with about

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$422 billion worth of new factories, supplies and equipment flowing to developing nations between 1988 and 1995.1

Guatemala is part of this trend or drive for investment in many ways. Guatemala, like other Central American countries, decided to liberalize its trade policy, opening up to trade outside of the region, foreign investment and the benefits that these would bring. Guatemala is drawn by the potential benefits of FDI, including employment, technology and skills. In order to understand the particular case of foreign involvement in Guatemala, it is important to look at the labor market profile, the advantages for investors, and the incentives that have been implemented.

The profile of a labor force is important in determining the presence of maquiladoras and the level of manufacturing. The labor market of Guatemala is one which appeals to some kinds of MNCs. The majority of the labor force is unskilled, uneducated, and poor. The type of work which is required in apparel maquilas does not require skills or education. Also, MNCs know that the wage level of the country is low and, therefore, they will save in production costs.

Guatemalan Labor Market Profile

With a population growing at 3% each year, there is no shortage of unskilled labor in Guatemala. Literacy rates and educational levels are not high and have not increased much over the past years. In 1990, 45% of adults were unable to read or write.8 By 1995 this percentage was almost the same at 44.4%. The average years of schooling for the population over twenty-five years of age in 1995 was 3.2 years.9 Skilled manual workers, management, and information processing professionals are at a shortage in the Guatemalan laborforce.

Unemployment rates are not extremely high, however, underemployment reaches rates close to half of the workforce at times. Unemployment in 1990 was 6%. This percentage was the same in 1993, but underemployment in 1993 was 33%. There was a reduction in unemployment in 1994 to 4.9% and an increase in underemployment to 30-40%. The rate of unemployment in 1996 was also 4.9%. In the very beginning of 1998, AGEXPRONT sources said that underemployment was as high as 40%. Given such high levels of underemployment, the Guatemalan economy is in need of jobs, particularly jobs which require large quantities of unskilled labor. The factories which are set up by MNCs in Third World countries often meet this requirement. This is one of the reasons that MNC presence is seen as desirable to the Guatemalan government.

**Investment Opportunities and Incentives**

Private investment is the force driving the Guatemalan economy. The prospects are especially promising in the textile and apparel sectors, non-traditional agricultural products, shrimp farming, and tourism. Net foreign investment in Guatemala has increased from $48 million in 1990 to $75 million in 1995.

<table>
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<tr>
<th>Central America:</th>
<th>Net Foreign Investment (millions of dollars)</th>
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<tr>
<td>Costa Rica</td>
<td>48</td>
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<tr>
<td>Ecuador</td>
<td>70</td>
</tr>
<tr>
<td>El Salvador</td>
<td>6</td>
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<tr>
<td>Guatemala</td>
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<tr>
<td>Honduras</td>
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<td>Nicaragua</td>
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<td>Panama</td>
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Source: ECLAC, on the basis of figures from the International Monetary Fund (IMF).

Guatemalan foreign direct investment has increased $86 million dollars in the time period of 1990-1996. FDI has had a positive growth throughout the 1990s hitting $152 million.

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13ECLAC, on the basis of figures from the International Monetary Fund.
dollars in 1994. After 1994 the amount decreased to $133 million in 1995, but then experienced positive growth again in 1996.\(^\text{14}\)

\hspace{1cm} \textbf{Foreign Direct Investment by Year}

![Graph 1, FUNDESA research, 1997. See appendix A.1.]

This growth in investment can be attributed to the incentives the government and also the natural advantages Guatemala offers to investors. Guatemala has developed infrastructure and proximity to major markets. These are two major advantages for growth, especially export-led growth. Besides location and a large labor pool, Guatemala also enjoys preferential access to the US market through the Caribbean Basin Initiative and the Generalized System of Preferences.

Given the need for foreign investment in Guatemala, the legal framework attempts to welcome international capital. The incentives involve the way investors are treated within the country, the government’s policy towards industry development and maquiladoras, and the ease it allows multinationals in setting up companies. The Guatemalan law specifically promotes investment and guarantees private property rights equally for investors and nationals. All sectors of the economy are opened to foreign investment with restrictions only on the areas considered to be of strategic importance such as telecommunications, defense, and some forms of transportation. Investors are generally afforded national treatment and joint ventures are welcome, however, most foreign firms operate as locally incorporated subsidiaries.

\(^\text{14}\)Graph 1, FUNDESA research, 1997. See appendix A.1.
Registration of a company in many LDCs can often be a long and painful process with many delays and red tape. Often investors find themselves visiting many different industries and running around to get the proper papers and qualifications. Guatemala has done its best to remove this hassle by consolidating registration procedures in a "one-stop-shop" for investors at the Ventanilla Unica de Inversiones. Establishing a local company is a simple and quick procedure. It takes about two weeks for provisional registration and a maximum of four months for final registration. A company does not have to wait for the final registration to go all the way through before it can begin operations. Registration requirements are minimal. There must be a minimum of two persons, individual or corporate. There is no requirement for local participation in a Guatemalan company and no restrictions are placed on foreign participation. No limitation exists on the number or percentage of foreigners serving on a board of directors of a Guatemalan company.

Government policy towards industry is focused on stimulating the development of labor-intensive, high technology industries, especially those showing good export or import substitution potential. Many incentives are offered to these industries, including all those already available in the Central American Common Market (CACM), such as the generous import duty exemptions. Designed to encourage industrial development, incentives include one hundred percent tax exemption for eight years for non-traditional capital goods producers (or two years for traditional capital goods producers) and one hundred percent tax exemption for six years for non-traditional consumer goods producers.¹⁵

The major Guatemalan incentive program, The Drawback Industry Law, is aimed at maquiladoras. Incentives include suspension of all import duties and value added taxes on imported machinery and production inputs. Investors are also given a 10 year income tax

holiday and a real estate tax holiday of varying length depending on the type of investment.\(^\text{16}\)

**Why all the Incentive Programs and Desire to Draw Investment?**

Incentive programs, changes in Guatemalan policy, and the peace that is in progress, make for a very interesting situation in Guatemala. The macroeconomy is affected by the large increases in investment, particularly FDI. Foreign direct investment exports from Guatemala grew by 6%, this tells a small part of what the industry is doing for the macroeconomy.\(^\text{17}\) However, the changes on a macroeconomic level do not describe the situation on a microeconomic level or the changes for the poor population. The benefits for the economy as a whole offers an explanation as to why Guatemala is interested in promoting FDI. The challenge is then creating a situation in which the microeconomy, specifically the working poor, can gain from FDI as well.

The rest of this paper is focused on examining circumstances or conditions under which the benefits of the maquiladora industry are most common and outweigh the costs. As enforcement of the country’s labor laws and Codes of Conduct increase, the maquiladora industry is likely to experience many changes and improvements. In trying to create an environment where the standards would work to maximize the benefits and minimize the costs of the industry, it is necessary to understand the performance of maquilas. Information such as the origins of the maquiladora, the history of the maquila in Guatemala and Central America, and the growth of the industry, is useful in assessing the changes as well as social outcomes discussed in chapter 5.

**Origins of the Industry, Mexico and Guatemala**

To understand the maquiladora industry in Guatemala, it is important to look at the industry’s origins and the example of the Mexican experience. The maquiladora program


had its origin in the private activities of the United States companies and the Mexican landowners. This type of production began at the border of Mexico and the United States. Then in 1970 the maquila strategy was extended to other parts of the country and can now be found all over Mexico. The maquila industry was designed to make foreign investment easy and painless, particularly for US companies. The maquilas in Mexico were predominantly involved in the garment industry. Guatemala has started out its maquila industry much like that of Mexico, due to proximity to the United States. US companies account for the vast majority of foreign investment in Guatemala. For the past five years, FDI as a percentage of GDP has remained approximately 0.9%. However, this is below the average for Latin America, likely due to the thirty-six year internal conflict which recently ended.19

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<td><strong>Major Foreign Investors from the US</strong></td>
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<tr>
<td>Abbott laboratories</td>
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<td>Coca Cola</td>
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<td>Citibank</td>
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<td>Dow Chemical</td>
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<td>TECO Power Services</td>
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<td>ENRON Corporation</td>
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<td>Phelps-Dodge</td>
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<td>Sterling Drugs</td>
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<td>Proctor and Gamble</td>
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<td>Xerox</td>
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19US Department of Commerce - National Trade Data Bank. (16 October 1997).
This list clearly defines a wide variety of US multinational companies operating in Guatemala from clothing to pharmaceuticals to beverage products. The total of all maquila industries in Guatemala grew in 1996 at a strong 28% increase. The garment industry is the most prominent maquila industry in Guatemala. The US clothing market is the most attractive destination for an increasing amount of apparel assembled overseas, much in Latin America. The share of garments imported from Latin America has increased from 3.9% of the US clothing market in 1970 to 16.7% in 1993.\(^{20}\)

The apparel industry in Guatemala has grown intensely since it began exporting in 1980. In 1996 the industry employed 61,700 workers and had 223 apparel factories. Since 1988 41,700 more jobs have been created in this sector alone.\(^{21}\)

Exports of apparel have increased $171.2 million dollars from 1990 to 1995. This is a huge increase for just one industry in a five year time span. The apparel exports have grown increasingly throughout the 1990s without exception each year, reaching $238.8


\(^{21}\)Graph 2, FUNDESA research, AGEXPRONT data, April 1996. See appendix A.2 and A.3.
million in 1995. There is still plenty of room left in the apparel export industry for investment. Although most of the apparel factories are located in Guatemala City, new factories are increasingly opening in the Central Highlands region where an abundant and skilled labor force is in place. The apparel industry along with being marked for export to the US is also marked by the large role that women play in the production operations.

**APPAREL EXPORTS 1990-1995 (millions of US dollars)**

![Graph showing apparel exports from 1990 to 1995](image)

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### The Presence and Role of Women in the Maquila

The garment industry is dominated by women of all ages. Since this project will be focusing on the garment industry, it is important to have an understanding of the overwhelming presence of women. Although the proportion of men in the industry was steadily rising in the 1980s, there are still many more women on the maquila shop floor than men. Though this is unusual for a manufacturing industry as a whole anywhere in the world, it is very common for the export-oriented assembly industry of the Third World. Further information on the effects of women's role in the maquiladora industry is laid out in the next chapter which frames the controversy regarding maquilas.

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22 Graph 3, FUNDESA research, AGEXPRONT data, April 1996. See appendix A.4.  
23 US Department of Commerce - National Trade Data Bank. (16 October 1997).  
24 Sklair, p. 167
CHAPTER 4
OPPOSING THEORIES ON MULTINATIONAL INVESTMENT

The question of multinational involvement in developing countries generates a heated debate. Supporters of MNCs see them as an engine for development while critics see them as distorting development. Those in favor of MNI believe MNCs bring benefits of increased employment, the use of stagnant resources such as labor, the transfer of modern skills and economic organization. Others who oppose MNI point to the high costs in terms of inappropriate technology, destruction of local competition, lack of training and management positions for local populations, and unfair salary advantages. Given the importance of private capital flows and the reduction in official aid, the key policy question is to assess how the negative aspects can be minimized and the positive aspects maximized in order to create a more beneficial experience with MNCs. Such an investigation, however, must take us through the polar opposites to assess gains and losses.

Supporters of Multinational Corporate Investment

Supporters believe that multinational investment is the savior for developing countries because underdeveloped countries are lacking key development tools such as capital, technology, and managerial skills. They believe that multinational corporations bring these factors with them when they invest, therefore they are helping the country in that manner alone. Supporters also believe that development will come from emulation of the North. Therefore, MNCs are positive because they bring influences such as books, advertisements, movies, and products from the US and Europe. MNCs are also seen as a
positive influence since they bring modern skills and values and provide examples of modern forms of economic organization.25

In terms of the effects on labor, supporters feel that MNCs are an important factor for underdeveloped countries, most of which have very high levels of unemployment, because they bring employment to areas that otherwise would not have alternatives. This employment then adds to the development of the area. MNCs also act as a stimulus to use resources of the host countries that are otherwise left stagnant, such as the labor force.26 Supporters see the capital and technology brought to the country as beneficial to not only the host, but also to the laborforce of the host. Technology is appropriate because it is labor-intensive and does not require skills or education. The managerial skills which MNCs bring are a factor which is lacking in local industries and is desperately needed for emulation.

Examples Offered by Supporters of MNC's Benefits

The first example given by supporters is that of the Mexican case. The maquiladora industry originated in Mexico and has brought many benefits to that country. The Mexican maquila sector has positively contributed to the economy in terms of jobs and foreign exchange earnings. In 1988, Mexico had 1200 maquilas employing over 300,000 people and export earnings from the maquila were in the region of $1.5 billion. This is a success story, not an exaggeration. The maquila strategy also rests on great hopes that Mexico could supply substantial quantities of material inputs and backward linkages and that it could derive massive, virtually free, technology spin-offs and genuine technology transfers.27 These hopes are what the supporters believe can come from the maquila industry.

27Sklair, p. 196
Supporters, unlike critics, also look optimistically on the role of women in the apparel industry. The fact that export assembly industries tend to employ mainly young women is well known. The point that is unclear is how this affects women's position in society. Supporters view female employment as a large step forward for women in Latin American culture. They see the important role for women in this industry as a tool for improving women's position and equality in society and in the family. Supporters believe that it allows women more independence and alternative options to marriage. The option of employment for women is also beneficial for female-headed households and families which need additional income. In this way, the jobs can be seen as positive because they give women independence and the chance to attain equality through having there own incomes and being a strong part of the labor force while at the same time improving household incomes.

Opponents of multinational investment take issue with each one of the supporters arguments and examples. Critics of MNCs represent the opposite side of the debate which highlights all the negative possibilities without acknowledging any positive possibilities.

Critics of Multinational Corporate Investment

Although focus and explanation varies, critics of multinational investment see the presence of corporations as harmful. Critics range from Africanists who are concerned with colonial and post-colonial center-periphery relations, to North American sociologists and even to the United Nations. Critics believe that multinational investment only reinforces the dependency of the Third World on the First; dependency based on a type of industrial dependency not colonial dependency. MNCs also displace or destroy local industries which, in turn, has detrimental effects on the entrepreneurial class within underdeveloped countries.

Specifically in terms of labor, critics feel that labor is hurt by the type of capital intensive technology which MNCs bring to host countries. They argue that there is little

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28 The primary critic of multinational investment is the Dependency school.

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technological transfer at all from multinational investment and the technology that is transferred is inappropriate to local conditions. Complaints involving labor issues also focus on wages of the MNCs. Critics state that MNCs widen the national income gap because they pay higher wages, thus their employees enjoy a privileged and increasingly dominant position in society. The middle-level groups, not directly employed, also benefit from the linkages to multinational production as wholesalers, suppliers of local materials and inputs, and marketing agents. Therefore, these groups are also adding to the income gap. Another way that MNCs harm income distribution is because in the last 10-15 years the number of workers engaged in wage employment has been static while the wages have been increasing, thus wages are actually ahead of prices, but only for those employed by MNCs.

A main contention of the critics is that they see Northern MNCs as instruments of exploitation. Critics see the labor relations created by MNCs as exploitative; the owner of a company exploits workers for their labor. This exploitation is perpetuated in the refusal of MNCs to hire and train top management from the host country.30

Examples Offered by Critics of MNC's Harm

Garments produced in Latin America and imported into the United States represent a growing segment of the US clothing market. This development is not accidental. It is the result of a search for higher profits by US apparel companies, Korean-owned contractors, and above all, large clothing buyers such as Wal-Mart and Macy's. This profit is made at the expense of low-wage labor in Latin America. As discussed in chapter 5, the abuses of the workers in the Liz Claiborne and Kathie Lee Gifford factories included the use of child labor, forced overtime, horrendous hours, low wages, lack of benefits, verbal abuse, humiliating treatment, and filthy work conditions. The apparel industry is ferociously competitive. Companies are therefore constantly in search for ways to cut costs and thus, lower the prices of their product. Proximity to large markets saves transportation costs and

29Biersteker, Thomas J., p. 1,7
reduces turn-around time. Stores like Wal-Mart have managed to lower their operating costs substantially more than competitors through organizational innovations such as low-cost inventory-control methods, and through working with contractors who pay less than subsistence wages. As a result, they can offer clothing at a relatively lower price. Since garment manufacturing is labor-intensive, the cost of labor is an important consideration. Reduction in costs is often done by lowering wages.

Another critique highlighted by opponents is the effect of women’s role in the maquila industry. Critics see the fact that the majority of the apparel maquila workforce is women as harmful. In evaluating the role of women in the maquila workforce, the problem arises when the focus is shifted to the types of jobs that women are employed in. According to critics, a new sexual division of labor is being produced through the maquila industry. Full equality between men and women would mean that women have equality of opportunity in employment especially in industrial employment. However, this is not the case since there is marked sexual division in most occupations, especially the manufacturing industry. For example, metalworking employs few women, and needle trades employ very few men. In the history of Latin America, there has been patterns of men's work and women's work. Export processing and assembly industries have reproduced this pattern and some extreme cases can be found in the maquilas. Some critics also point to the fact that few low income households can afford child care and, therefore, the upbringing and parental guidance of children is inadequate.

The argument offered by Critics focuses on the social problems and harms which MNCs can cause in host countries. The argument clearly lays out where they believe MNI is lacking in terms of being a positive element for the promotion of development. On the opposite side of the debate are the supporters. The supporters of MNCs view them as

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30 Lairson, Thomas D. and David Skidmore, p. 310
31 Sklair, p. 168
32 Sklair, p. 168
beneficial to the country in many ways, most specifically in ways related to income or the economy.

**Possible Alternative Hypothesis**

Multinational investment is not a "monolithic phenomenon." There are firms producing in different industries, in different underdeveloped countries, with different nationalities, management, and internal organization. All of this leads to very different consequences from investment. The critics of MNCs do not consider these differences nor do they consider ways in which MNCs or laws could be improved to reduce the costs of their involvement. Critics also do not offer other solutions to the problems of poverty and underdevelopment. At the same time, supporters do not consider negative cases such as, bad conditions of labor, poverty level wages, long hours, and abusive treatment of workers. Possible situations in which a different set of conditions and standards could lead to an increase in benefits relative to costs need to be considered.

A possible counter-hypothesis which will be tested in this paper is how the role of Codes of Conduct can affect the situation of labor in MNCs. This thesis attempts to identify ways in which certain conditions can lead to a beneficial situation for workers in maquilas. Specifically, it argues that dealing with MNCs role in labor conditions and relations is not a black or white debate. The situations described above of labor abuses and women’s role in the industry, do not necessarily have to have a black or white judgment. Examples of how these problems could be considered and possible dealt with are given below.

The abuses of maquilas such as Liz Claiborne and Kathie Lee discussed by critics can be avoided when maquilas are complying with national laws and Codes of Conduct, as shown in the Guatemalan case examples in chapter 6. Due to the intense negative publicity which many large clothing corporations in the US have received, these companies are increasingly working to improve basic conditions and implement a Code of Conduct. With

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33Biersteker, p. 25
the expansion of Codes of Conduct the situation of lowering wages to poverty levels and operating under sweatshop conditions will not be possible in Guatemala. At the same time, there will still be incentives for the maquila to remain in the country and implement changes.

There are a few possible explanations as to why firms will remain in Guatemala rather than move to an area of lower cost labor. First, the benefits of improved reputation may outweigh the costs of higher wages. Given consumer advocacy groups, increasing wages is a lesser cost for the firm than the potential boycott or lawsuit. Second, firms are pressured to remain in the country because of the cost to workers when factories leave. An example of this is presented in chapter 5. Global Fashions tried to pull out of Honduras rather than improving wages, but as a result of strong international pressure, the factory stayed in Honduras and implemented changes.

While arguing over the issue of women's employment, it is important to look at the alternatives available to women. For most young women, work in the assembly industries is their first experience of paid employment and there are practically no other jobs in the manufacturing industry open to them. This issue is addressed in chapter 6 through interviews with female maquila workers. All of the women interviewed have always either been employed in the maquiladoras or stayed at home. They all agreed that employment options are extremely limited for both men and women and, therefore, they are thankful for maquila work.

The Difficulty in Evaluating the Maquila Industry

Assessing the benefits and costs of maquila production is a very heated topic. It is difficult to measure the costs and benefits of the industry because there are so many factors to take into consideration and the industry is still growing, changing and learning from the recent past. The arguments in favor of the maquila industry are simple. Guatemala needs jobs, especially in areas outside of the city where maquilas are beginning to expand. The decline in foreign aid and the need to invigorate the economy after a 36 year civil war make
these demands pressing. The difficulties of creating an indigenous base of manufacturing industries means that the types of jobs brought by MNCs are particularly helpful, needed, and welcome. The country also needs hard currency, as do all developing nations to pay off foreign debt. This argument in favor of multinational presence can be summed up as "jobs, skills and dollars".  

At the same time, it can be simple to point out the negatives of the maquila industry: dirty working conditions, low wages, verbal or physical abuse, long hours of forced labor, and child labor. Examples of cases where these abuses do occur are discussed in chapter 5. Kathie Lee Gifford's sweatshop in Honduras drew a lot of media attention and became a well known case. Maquilas such as these and the horror stories which accompany them are what stands out to the public. Besides the fear of mistreatment of workers, the fear of the power of MNCs is also present in many minds.  

In the context of Guatemala's tortured history, it is understandable why critics would be hesitant of multinational involvement. Guatemala has suffered a long history of peasant exploitation, marginalization, and landlessness at the hands of a small ruling elite. MNCs have been a part of that structure. United Fruit is one extreme example of a multinational corporation from the United States that had an exploitative and controlling presence in Guatemala. United Fruit was present in Guatemala for almost a century and essentially controlled the Guatemalan economy. United Fruit was the largest employer, landholder, and exporter in the country for years. Its power went even beyond that in its control of the International Railway of Central America (IRCA) which owned virtually every mile of railroad in Guatemala. United Fruit also had almost complete authority over Guatemala's international commerce because the company owned Puerto Barrios, the town and almost all its port facilities. This monopoly power over the country put the government

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34Sklair, p. 156
of Guatemala and the peasants at the mercy of United Fruit and eventually the United States.35

This frightening example of the ability of multinational corporations to completely control and monopolize a country is the basis for critics' fear. Supporters, therefore, are looking at Guatemala in an ahistorical, asocial way. They believe that firms are no longer operating in the same way which the old firms at the beginning of the century did. Global transparency and accountability serve as obstacles to the existence of the predatory MNC. This paper will consider if international involvement and Codes of Conduct can make a difference. It may indeed be the case that given the changes in the global political economy, the costs of multinational involvement can be minimized.

CHAPTER 5
SOCIALLY RESPONSIBLE LABOR CODES WHICH LEAD TO A MAXIMIZATION OF BENEFITS

Problems that often accompany FDI are not unique to just one continent or country. Many countries have experienced the same problems or are currently living in the same situation. Maquiladoras set up in developing nations are often marked by very low wages, long hours, tough work, difficult working conditions, and mistreatment of the workers. The ways in which countries and industries differ depends on how well they are able to control or minimize these negative aspects while at the same time gaining the benefits of investment. There are certain conditions, such as the laws of the government and the presence of Codes of Conduct, which can help in this challenge. Some countries do not have constitutional guarantees or laws regarding labor at all. Others, like the case of Guatemala, do have this framework, but experience difficulties in enforcing their constitutions. There are some countries in which there is not a local or national Code of Conduct and others, like Guatemala, which have already installed a Code of Conduct certification system.

Guatemalan Labor Law: Existence and Compliance

Guatemala has a very long and extensive constitution which states that "all human beings are free and equal in dignity and rights and that the State must protect the life, liberty, justice, security, peace, and development of all Guatemalans." The laws regarding labor are a part of Guatemala's constitution. According to Dill of FUNDESA, "Guatemala has the most forward and modern labor code in Latin America. The wage, for instance, of
any worker includes fourteen salaries per year because of the two extra bonuses.”36

Guatemalan law states that the standard work week is 44 hours. There are two required bonuses, one at Christmas and one in July, both of which have to be equivalent to one months salary. Required benefits include a seventh day bonus of 16.67% of the workers paycheck, twelve paid holidays per year, fifteen vacation days per year, and a severance pay of one month for each year worked or 8.33% of payroll. The law also requires IRTRA, an area for employees recreation, to be paid for by employer contributions. Social security must be taken from the workers and the employers also must contribute.37

Labor laws are present in Guatemala, the problem is in enforcing them. The government is frequently unable to enforce these standard due to inadequate resources, corruption, and an atmosphere of impunity.38 This also overlaps into their inability or unwillingness to interfere in labor problems. The sections of Guatemalan law that are significant for this study are workers' rights, conditions of work, and minimum wage.

There were some positive reforms made in 1992 to try to improve the strength of this legal framework. Workers' rights were improved by facilitating the right to association, strengthening the rights of working women, increasing penalties for violations of labor laws, and enhancing the role of the Labor Ministry and labor courts in enforcing the statutes. Labor courts continued to be generally ineffective even after this reform as efforts to modernize and restructure the labor court system made little headway. The labor court system underwent more reforms in 1997 when the president of the Supreme Court announced the creation of eight new labor courts. However, there is still only spotty enforcement of the Labor Code due to scarcity of labor inspectors, corruption, the lack of adequate training and resources, and structural weaknesses in the system. The Ministry of Labor reorganized the Labor Inspector Corps to permit some complaints to be heard at the


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Ministry of Labor rather than requiring that inspectors travel to each work site. The Ministry has also begun an educational campaign on worker rights, especially the rights of minors and women.\(^\text{39}\)

Laws applying to conditions of work, minimum wage, work hours, and hazardous conditions exist on paper, but are not always carried out. There is a legal minimum wage set up by the government, but many times it is not paid to unskilled or semiskilled workers. The minimum was raised by 10\% in December 1995, and took effect in January of 1996. Under the new rate, industrial workers received $2.93 for an 8-hour workday, this is including the required hourly bonus. Agricultural workers received less, $2.66 per day. The minimum wage was increased again in January 1997 by 12\%, up to about $3 per day for an average maquila worker and $6 per day for a well qualified worker. Once again, little is done to enforce this because of the lack of monitoring, lack of strong regulatory sanctions, and inefficiencies in the labor court system.

Occupational health and safety standards are inadequate and enforcement of the standards that do exist are also inadequate. Although the law does state that workers have the right to remove themselves from dangerous work conditions with assurance that their employment will be protected, few workers are willing to take this risk of losing their jobs. When serious or fatal accidents do occur, no legal steps are taken against those responsible. The Government also does not enforce a requirement of on site medical facilities for companies with more than fifty employees, although most large companies do provide them.\(^\text{40}\)

The Guatemalan law has a very extensive and forward policy in regards to pregnant women. As Carlos Arias Jr. explained,

"pregnant women are very protected. If an employer fires a woman after they already know that she is pregnant, the employer has to pay for a period before and after the baby is born. Pregnant women are given paid leave one month before the baby is born and for thirty to forty five days after the baby is born. They


\(^{40}\) Official US government source. (18 Nov. 1997).
also get out of work early for three months before the due date. Social security pays for all if this unless the employer fires the women, then he must pay. This is more than women in the US receive."

The high law standard to protect pregnant women is especially important in the apparel maquila industry since 70% of the workforce is comprised of women.

**Codes of Conduct for Labor Conditions and Standards**

The situations described above are among some of the most important in terms of conditions of labor in overseas factories. Almost every case has the same problem, lack of resources to enforce or monitor conditions. Without repercussions for their actions, employers will not improve and workers will live within the same framework of hazardous conditions and poverty. However, the labor problems which are not prevented by the enforcement of the law are addressed in the principles of the General’s Code of Conduct and other pending international Codes of Conduct. The importance of these Codes and the positive effect of them is clear when the government lacks the ability to enforce basic labor standards. Codes of Conduct can improve these situations through pressure from the international community, pressure from MNCs, and pressure from local business organizations. Below some of the international response and action is depicted and offers hope for the improvement of labor conditions.

**International Response**

For many factories overseas, the difficulty of the conditions and low wages cannot be denied. However, the recent attention and concern can lead to change. Public opinion is very powerful particularly in an industry such as apparel where consumer sovereignty is strong. The strength of public opinion combined with the press attention aimed at humiliating companies that are not conducting operations in a humane manner, is forcing companies to examine their factories abroad and set up Codes of Conduct.

American public concern has swelled to the point where the White House has intervened. Along with some apparel corporations, it is trying to improve working

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conditions for overseas workers. A group of ten large brand name apparel corporations including Nike, Reebok, Nicole Miller, and Liz Claiborne, have banded together in the fight. They have formed the Apparel Industry Partnership and work in concert with many other local and international NGOs, human rights groups and unions, such as USGLEP and the National Labor Committee. The US National Labor Committee (NLC) has caught the Gap, Phillips Van Heusen, Starbucks, and Disney for allegedly failing to monitor overseas contractors. It was after this and the Kathie Lee Gifford sweatshop issue that a host of companies became very concerned. While this corporate concern is a historic step, just setting a Code does not mean that sweatshops will suddenly be eliminated. Most companies have adopted Codes of Conduct, but these codes have little real meaning without independent oversight and enforcement. It is important to look closely at what the code calls for and how the standards will be enforced.

Monitoring and Implementation

Although the plan for the Apparel Industry Partnership has not been completed as of yet, agreement is close. The problem stalling progress is establishing a monitoring and enforcement procedure for overseas factories. The plan that is under discussion is one the human rights groups say is the best monitoring program now in existence. It is an independent monitoring program which has been used at a Gap plant in El Salvador since 1996. The program is comprised of local church, university, and labor leaders who interview workers off-site and mediate their complaints with management. NGOs, human rights, and labor organizations in Guatemala are fighting to establish this program as well.

The Apparel Partnership does not want to go as far as the Gap has. However, they have agreed that a monitoring association with a governing board of industry, human rights, and labor groups should accredit the auditors while companies themselves can still choose who they want to hire. They have also agreed that firms such as Ernst & Young
must work with local human rights and labor groups.\textsuperscript{44} After exhaustive negotiations, the Apparel Industry Partnership has come to some other policy decisions. Workers can not work more than 60 hours a week and must be given at least the minimum local wage. Membership in the Code is still voluntary, but companies are given the incentive of attaching a "No Sweat" label to their clothes. For concerned consumers, this label will be important.\textsuperscript{45} While these are encouraging advances, monitoring should be brought to a more mandatory level and some type of fine or punishment should also be mandatory for those corporations which do not adhere to all regulations.

**Examples of Industries not Operating under Codes: Sweatshops**

This new sensitivity in the industry is partially due to a series of embarrassing media reports. One example is the Liz Claiborne sweater factory in Honduras that was operating under bad working conditions. The factory was employing 13 year old children working 12 hour days. Workers were earning 65 cents a day for a sweater that sells for $90 dollars in the United States. After this negative exposure, Liz Claiborne has now implemented a system that opens its factories in Honduras to local monitors proposed by human rights, church, and labor groups of Honduras. The company has been the leader in efforts to better factory conditions in the Third World. Liz Claiborne will be the first to use widespread monitoring, beginning in two or three plants and eventually covering all eight of its contracted factories in Honduras. Its use of independent local monitors is an unusually serious approach.\textsuperscript{46}

Another famous case of factories operating under sweatshop conditions involves the Kathie Lee Gifford line of clothing. This particular case, however, is different from Liz Claiborne because Kathie Lee was operating sweatshops not only in Honduras, but also in the United States. The National Labor Committee revealed the conditions of the Honduras

\textsuperscript{44}Bernstein, Aaron. "A Potent Weapon in the War Against Sweatshops." \textit{Business Week}. 1 December 1997.

Global Fashion plant in 1995. In this factory the Kathie Lee Gifford line of clothing was being sewn for sale at Wal-Mart. The labor force consisted of 80% women, 10% of which were between the ages of thirteen to fifteen years old. These women, regardless of youth or pregnancy, were working an average of 75 hours a week. Their schedules were usually from 7:30 am to 9:00 pm, Monday through Friday. Sometimes they also worked right through the night. They were forced to work the hours and overtime.47

Global Fashion was described as a humiliating place to work. The women had to raise their hands to use the bathroom and they were only allowed to use it twice a day. The bathrooms were kept locked to ensure that women did not use them without permission. The degrading treatment did not stop there. Women were not allowed to speak to each other during work. They were searched on their way into work for candy and food which was confiscated. Not only were they not allowed to make basic decisions regarding bathroom use and eating, but they also had to endure the continual screams from supervisors to work faster. Besides abusive treatment the company also broke many labor laws. Global Fashion did not provide health care or sick days. The workers were frequently shortchanged of their proper overtime pay and maternity benefits. Any attempts to organize were answered with threats and illegal firings. As a daily threat and intimidation for the women, the company hired at least four armed guards.

When Kathie Lee and Wal-Mart were faced with the charges and asked to improve the conditions, they refused and moved the work to another factory. Employees who are struggling to provide for their families are only hurt more when a factory leaves. For that reason, Kathie Lee and Wal-Mart were urged to return to Honduras, meet internationally recognized standards, and establish independent monitoring. After being publicly disgraced, Kathie Lee responded by saying that she knew nothing of what was going on. She fought to salvage her reputation by becoming an active advocate for the elimination of

46 Bernstein, p. 17
sweatshops world-wide. She also announced that she would establish a monitoring program for all factories producing her clothing line.

Gifford spoke with a fifteen year old Honduran maquila worker, Wendy Diaz, and leaders of religious, human rights, and labor organizations in a meeting aimed at ending sweatshop abuses. The group agreed that the challenge of eliminating sweatshops can only be met when corporations, governments, unions, and concerned citizens assume their appropriate responsibilities. They also agreed that apparel manufacturers should create an alliance that supports the establishment of a program of independent, third-party monitoring of plant conditions.

**Sweatshops in the United States**

Another sweatshop making clothing for Kathie Lee was also discovered in New York City. When this was revealed, New York's Governor, George Pataki, signed anti-sweatshop legislation to prod retailers and manufacturers to assume responsibility for the conditions under which garments are produced.

Nancy Peñaloza, a worker from a sweatshop in Manhattan released a statement on the conditions under which she has worked for the past nine years. The conditions and treatment she describes are no different from that which has been revealed in Third World sweatshops. Peñaloza is a sewing machine operator in Manhattan’s fashion district. For every suit she sews which sells for one hundred and twenty dollars or more, she gets paid six dollars. Her boss pays her off the books so that he does not pay any taxes or social security. The work schedule of the factory consists of fifty-six to sixty-six hours a week, Monday through Saturday. She is also forced to work, at times, on Sunday and on holidays and never has vacation. She must work the hours her boss assigns or she will be fired. The factory is very hot in the summer, very cold in the winter, and filthy. There are mice and rats which crawl over the workers' feet. There is one bathroom for one hundred
and fifty people and it is very dirty. Along with this the boss constantly screams and Peñaloza is afraid that he will hit her.48

The existence of sweatshops in the United States is sadly not an infrequent occurrence and is not limited to New York. A similar situation, terrible conditions, long hours, and very low pay, was revealed in Los Angeles. Guess garments are sewn under conditions of misery by employees of Guess contractors in Los Angeles sweatshops. Approximately three thousand workers toil in a network of contracting shops in Los Angeles which are filthy, cramped, and overheated. Many of the workers make less than the minimum wage. Their work schedules are all day in the factory and then late into the night in their homes. This practice of homework was banned decades ago because of the high probability of child labor. The workers often do not get paid overtime. They do not get health insurance, sick days, paid vacations, or holidays. In contrast to the workers, the three Marciano brothers who own Guess are each multimillionaires.49 The presence of sweatshops in the US connects US workers to those exploited in the developing world, raising public demands for reform.

Lessons Learned through the Case Studies

The concern and public involvement comes through clearly in the above case examples. The Kathie Lee Gifford case clearly illustrates the power of public opinion. The public was outraged and their demands were met. Gifford has implemented changes in her factory and put pressure on Global Fashion and Wal-Mart to stay in Honduras and change their conditions. She has also, as a result, become an active leader in maquila labor reform. The international community has responded aggressively when sweatshop conditions were revealed. This is also evident in Governor Pataki's anti-sweatshop legislation and the reaction of Cornell University students. The students at Cornell launched the first Students

Stop Sweatshops action in response to the Guess sweatshop. The campaign involved a rally and a petition to Guess signed by over 500 students.

The sweatshops that were exposed in New York and Los Angeles convey a significant point. Labor and human rights abuses are not occurring only in Third World countries which do not have proper laws or the ability to enforce them. These conditions also go on in the United States, probably more frequently than one would think. Therefore, the problem lies with the highly competitive apparel industry which drives corporations to search for low production costs at all expenses.

In the scheme of measuring labor conditions and benefits of the maquila industry to poor workers, it is very important to closely investigate reforms or changes that are impending. The codes and partnerships are all recent enough such that visible changes may not be observable for some time. Their presence is a start. Socially responsible economic development and poverty reduction will take a long time, but the goal can not be met if it is never begun. For this reason, this new corporate responsibility and awareness is an important change. It is a new step forward in the progression to improving conditions in the Guatemala maquila industry. The case examples of Global Fashion and Liz Claiborne demonstrate that US companies must do a better job of monitoring. If Codes of Conduct are to be effective in the challenge to minimize the negatives of the maquiladora industry, then an efficient system of monitoring will be a necessary achievement.

Supporters of the maquila industry do not take the labor abuses which frequently occur into account. They are focused more on the economic advantages and, therefore, do not realize the social problems which can arise. By not taking the social aspect into consideration, supporters do not offer any solutions for the problems. Codes of Conduct or other reforms, which are obviously necessary in cases such as those described above, do not figure into their argument.
CHAPTER 6
FOUR MAQUILA CASE STUDIES:
BENEFITS UNDER CERTAIN CONDITIONS

The fieldwork for this thesis based on the four case studies of maquiladoras in Guatemala are the best possible cases because they are all under compliance with Guatemalan law and the Gremial’s Code of Conduct. For this reason, the benefits and conditions of these maquilas will be much greater than those of non-compliant maquilas.

The maquilas in this project serve as an example of how negative aspects can be minimized and positive aspects maximized under socially responsible Codes of Conduct. The standard for comparison used in evaluating the four maquilas is that they are preferable to the alternative employment options for Guatemalan workers. This relativism argument which will be laid out is an important aspect which neither the critics nor the supporters addressed. There are four main factors which will be used in the analysis of benefits of the industry to the workers: compensation, Codes of Conduct and laws, technological and social benefits, and alternative job options.

The information used in this study is specific to the four Guatemalan maquilas, therefore it can not be used as a basis for all maquilas. The cases are used to demonstrate how MNCs can be beneficial to the working poor and the economy under specific working conditions. The first section of the chapter deals with the most significant aspect of this project, the economic or income differences for the workers of the maquiladora industry. The wages section will involve comparisons and other price information in order to place Guatemalan salaries in the appropriate context. More information about the economic situation of the maquila employees will be revealed in the subsequent sections dealing with issues of determination and calculation of wages in various maquilas, time commitment.
necessary in order to obtain this wage, and the non-wage benefits offered by different
maquilas. The second section focuses on the labor conditions and standards in Guatemala
and discusses the application of Codes of Conduct, the Monitoring system used in
Guatemala, Guatemalan labor laws, and the different arguments regarding implementation
and monitoring procedures. The third section of this chapter focuses on the other benefits
the maquila industry can bring and includes subsections concerning, the limited
employment alternatives, the technological advances and future expectations of the maquila
industry, the social benefits brought by the maquila, and significant viewpoints of the
industry.

**ECONOMIC ANALYSIS OF MAQUILA**

**Wages and Prices Comparisons**

One of the criticisms of maquila industries relates to low pay of workers. The
primary goal of the fieldwork was to put the wages and benefits of the maquila workers in
a context in which it would be possible to study and qualify the economic effects. This
was done by averaging wages from various groups and comparing them. Both the average
cost of buying basic goods and the average pay of other jobs in Guatemala were obtained.
It is of interest to compare the maquila wages with those of educated and skilled workers
and professionals in Guatemala, because often times the maquila workers make just as
much, if not more than, workers from other sectors. Analyzing these figures will identify
the economic advantages to the workers.

In order to understand the income effect of the maquila, a few facts must be kept in
mind. The wages and benefits of the maquila industry can not be compared to those of the
United States as the standard and cost of living are both much higher in the US. Thus,
while wages earned by Guatemalan maquila workers would not suffice in the United
States, they may very well be sufficient to support a family in Guatemala. As the first point
of comparison, the interviews conducted at the Esdisa maquila will be used. Two separate
interview sessions were conducted at this particular factory and were done with the
workers alone. The information and averages obtained did suffer from some shortcomings
due to time and informational constraints. Information about child care and rent costs was for the most part unavailable. Weekly expense averages obtained from the workers did not specify if rent and child care costs were included. Unless otherwise specified by the interviewee, it was assumed that the averages given included all of their weekly expenses. Also, if other contributions to the families' income exist, the amounts and significance are unknown.

In the first interview session at Esdisa, twenty five workers were interviewed. Of these twenty-five, the average number of years of employment at this particular maquila is 2.3 ranging from three months up to seven years. The average weekly wage is $38.14 (234.2Q), the range in wages is from 200Q/wk to 270Q/wk.\textsuperscript{50} On a monthly basis this average is $152.56 (936.7Q). The Guatemalan law mandates that the minimum wage for workers is $3.21 (19.71Q) per day, $19.26 (118.26Q) for a six day workweek. At a ratio of 38.14Q/19.26Q, roughly twice the minimum, Esdisa is not only complying with Guatemalan law, but is paying wages above the legal requirement. A week's worth of expenses, averaged by the amounts given by twenty two workers, is $24.66 (151.46Q). The necessary goods included in this average are sugar, beans, corn, rice, paper, vegetables, coffee, tortillas, bread, bacon, milk, pasta, meat, eggs, oil, and in two cases the rent to pay for a room. The average income of this group is $37.90 (232.73Q) per week, thus allowing them sufficient income to cover their weekly expenses.\textsuperscript{51}

The average years of employment at Esdisa is low. The workers are much less experienced operators, so their wages are much lower than those of more experienced and qualified operators. The Gremial estimated the difference between the wages of a new operator and an experienced operator in any maquila to be $19.26/week and $39.09/week. It must also be taken into account that these workers may be married and have other incomes complementing their own. To account for this, the average of ten married women

\textsuperscript{50}Averages for this section were obtained by adding all the wages and dividing by 25. The exchange rate used for this entire section was 6.14, which was the exchange rate for the month of January 1997.
with children was calculated. The average number of children is 2.7, ranging from one to seven children. Their average income is $39.30 (241.5Q) per week and the average expenses for a one week time period was $30.46 (187Q). Based on the women’s incomes alone, there is a surplus at the end of the week not including their husbands’ income from employment. Even the woman who has seven children made more than she spent, $37.46 (230Q) versus $24.43 (150Q). Out of all twenty-five workers interviewed, only two women, both married with one or two children respectively, said they spend more than they make in a week.52

Four other sources also offer information regarding average wage for employees. From the second interview session at Esdisa involving ten workers, it was determined that the average weekly pay is $37.13 (228Q), or $148.52 a month.51 The Cardiz maquila provided a short computer print out of thirteen workers and their pay for the previous week, which showed that an average weekly pay for these workers at Cardiz is $43.77 (269Q), $175.08/month. The range in pay for Cardiz’s group was from $30.91 (189.81Q) to $57.32 (351.93Q) per week.54 The third source is from an average done by AGEXPRONT which stated that the range in weekly income for workers was from $19.26 (118.26Q) to $39.09 (240Q).55 The fourth source is a 1997 Price Waterhouse publishing listing the average monthly salaries of all types of formal jobs in the Guatemalan community. According to Price Waterhouse, the average weekly pay of a specialized machine operator is $81.31 (499Q), while the average weekly pay of an operator without experience is $58.18 (357Q). These averages are much higher because Price Waterhouse has included all other benefits that workers receive.56

Aside from the average range given by Price Waterhouse ($58.18 to $81.31 which incorporates higher skilled workers), all of the other averages are relatively close -- $38.14 from the first interviews at Esdisa, $37.13 from the second interviews, $43.77 at Cardiz, and the AGEXPRONT range of $19.26 for a worker without experience to $24.42 with some experience to $39.09 for a well qualified worker (the lower being the absolute lowest that a worker could make). These wages seem very low by United States’ standards, however, in terms of the cost of a basket of goods in Guatemala, they seem much more reasonable. AGEXPRONT has averaged of the cost of basic food goods, using the prices from the month of June 1997. Their average for one week for a family of five, using the daily average of 35.41Q, is $40.37.\footnote{AGEXPRONT. Guatemala City, Guatemala. Periodo 1994-1997 While this is slightly above some of the average wages, it is for a family of five people, and the wages calculated are based on averages which do not take family size, experience of the worker, or other family contributions into account.

To put the maquila industry wages into a country-wide context, the average wages of other professions calculated by Price Waterhouse have been collected. It is interesting to compare maquila wages not only with other jobs on a similar skill level but also with jobs on a professional or higher skill level. The chart below offers a wide range of jobs available in most societies. The wages are based on a monthly basis and the exchange rate of 6.14Q/per dollar was used to calculate the dollar value.
<table>
<thead>
<tr>
<th>PROFESSION</th>
<th>WAGE/$US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specialized operator</td>
<td>$325</td>
</tr>
<tr>
<td>Inexperienced operator</td>
<td>$233</td>
</tr>
<tr>
<td>Baker</td>
<td>$214</td>
</tr>
<tr>
<td>Kitchen assistant</td>
<td>$134</td>
</tr>
<tr>
<td>Butcher</td>
<td>$214</td>
</tr>
<tr>
<td>Washer</td>
<td>$143</td>
</tr>
<tr>
<td>Carwasher</td>
<td>$143</td>
</tr>
<tr>
<td>Driver-heavy equipment</td>
<td>$495</td>
</tr>
<tr>
<td>Driver-light equipment</td>
<td>$237</td>
</tr>
<tr>
<td>Supermarket cashier</td>
<td>$212</td>
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<tr>
<td>Cashier</td>
<td>$299</td>
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<tr>
<td>Painter</td>
<td>$181</td>
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<tr>
<td>Electrician</td>
<td>$405</td>
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<tr>
<td>Mechanic</td>
<td>$405</td>
</tr>
<tr>
<td>Specialized technician</td>
<td>$322</td>
</tr>
<tr>
<td>Mechanic shop boss</td>
<td>$782</td>
</tr>
<tr>
<td>Engineer</td>
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<tr>
<td>Automotive mechanic</td>
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<td>$307</td>
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<tr>
<td>Lubricator</td>
<td>$154</td>
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<tr>
<td>Tire specialist</td>
<td>$163</td>
</tr>
<tr>
<td>Office manager</td>
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<td>Executive secretary</td>
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<td>Gardener</td>
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<td>Security guard</td>
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<tr>
<td>Doctor of a business</td>
<td>$1,398</td>
</tr>
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<td>Professional nurse</td>
<td>$435</td>
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<td>Nurse assistant</td>
<td>$357</td>
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<td>Financial analyst</td>
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</tr>
<tr>
<td>Visiting Doctor</td>
<td>$2,124</td>
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The data of this chart offers an important comparison for the wages of maquila workers. A machine operator in a maquila factory that is not very experienced is quoted as making $233 per month. In so doing, this previously unskilled, probably uneducated, worker is making more than bakers, butchers, supermarket cashiers, painters, automobile mechanics, gardeners, security guards, and kitchen assistants. The vast majority of these jobs require skills and education. In order to be a cashier a person must know how to read and write and have some math skills, yet this job makes $21 dollars less a month than an inexperienced maquila worker and $113 less a month than an experienced worker. An automobile mechanic is another example of a job that requires skills, along with some reading and writing abilities. Nonetheless, a mechanic makes $66 to $158 less a month than maquila workers. A specialized machine operator in a maquila makes more than drivers, cashiers, specialized technicians, carpenters, receptionists, office assistants, and messengers. Along with this the qualified maquila worker makes an average monthly wage very close to professional jobs such as, electricians, mechanics, bilingual secretaries, and professional nurses and their assistants. These jobs require not only minimal education levels but extensive training and often university education. Yet, a nurse on average only makes $110 more than a qualified maquila worker in a month. Electricians and mechanics only make an average of $80 more a month. The above listed wages provide a significant point in debunking the attack on the "poverty wages" given to maquila workers. In comparison to a wide range of other jobs in the Guatemalan society, the maquila workers are doing very well.\(^{58}\)

The preceding section can serve as an argument against the critics’ assumption that MNCs harm income distribution. Critics claim that MNCs hurt equality because maquila workers are receiving higher wages and enjoying better privileges than the rest of society. The Price Waterhouse chart can be used as evidence against this because it shows that many different jobs and sectors within the Guatemalan society receive wages which are

\(^{58}\) Price Waterhouse. “Sistema Empresarial de Informacion Salarial. Informe Sobre
very similar, and the average wages supplied in this study include benefits and privileges. Under conditions which allow for proper payment, the pay differentials between professions in Guatemala are not that different. Therefore, the point is made that in order to measure the wages of MNC overseas factories, other wages within that country need to be considered. It may be found that it is not in fact the MNC which is causing an income problem, but rather that the country itself has distributional problems. This argument offers evidence that MNCs and the effect of their presence are not as monolithic as the critical argument may suggest.

**Compensation Systems**

It is important to understand how the workers are paid and why their experience or expertise has such an effect on the range of salaries. For the most part the maquilas' pay systems are the same, but there are some differences in how the owners choose to reward their workers. Esdisa pays new workers the minimum wage and then a production bonus on top of that. Their hourly wage increases the longer the worker is employed and with experience their bonus usually increases due to improved efficiency and speed. The owner of Esdisa said many of the women had been there for all ten years the factory had been open, and as a result were earning very good wages and bonuses. About three fourths of the workers at this factory make over the minimum wage, and some make as much as three times the minimum, according to the owner. There is no set system for wage increases, although they increase it usually every six months to a year.\(^{59}\)

Esdisa's system is different from that of Cardiz where wage increases only come with increased efficiency of production. However, the bonus incentive program of the two is similar. A worker makes a bonus for each dozen that he/she produces in a day, and if he/she finishes more dozens than the day before, there is an additional bonus; if he/she makes more than the minimum number of dozens required, then there is another bonus.

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The drawback of this incentive system at Esdisa is that the production bonuses are not on an individual level, rather they reflect the entire modular groups' accomplishment. A modular group is a cluster of operators working together to complete one article of clothing. Therefore, if one person is slow, absent, or new, the rest of the group receives less of a bonus.

The pay system at Camisas Modernas is much different in terms of production bonuses. According to the members of STECAMOSA, if a worker does not meet the production goal that the factory wants him/her to meet for that day, then he/she does not receive any bonus at all. The women also said that it is very difficult to attain the goal that is required of them. The workers with 100% efficiency can make as much as 100Q extra a week. If a worker misses the minimum production goal a few times, then the factory will switch him/her to a different position. Camisas Modernas is the only factory in which this type of zero sum payment was found out of the five researched.

Koramsa’s pay system is much like that of Esdisa; the workers begin with the minimum wage, and their pay increases the longer they work in the factory. A production bonus is given when the work group meets the goal for the day, and then extra bonuses are given for the amount achieved over the goal. The production goal changes depending on the difficulty of the procedure and that goal must be met by the entire line of workers.

Intraexa had the least beneficial pay system. Workers received the minimum wage regardless of how long they were employed and the production bonus was given only when they met the goal for the day or went beyond the goal. This was an uncommon system because in the other factories mentioned those which had a static minimum wage made up for their lack of wage increases in good bonuses.

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In comparing the compensation procedures of these four maquilas which all comply with labor laws, it is seen that even within such a small group, there are differences. Each of the four maquilas adheres to the basic laws of minimum wage, but due to different systems of bonus payment, there are wage differentials between them. These differences offer evidence that maquilas can vary depending on management, the country they are located in, the laws they must comply with, and the presence or lack of a Code of Conduct.

It is difficult to assess the overall benefit of the production bonus incentive. The system appeared to work well in the four factories which were visited. Workers stated that it allows them to increase their wages and that a truly efficient worker can increase their weekly wages by as much as $100. However, it is possible that these production payment incentives could also be used as a system for exploitation. Critics stated that there is an exploitative relationship between the maquila and the worker. They believe that owner of the company exploits the workers for their labor. These incentive programs could be used to exploit workers for their labor if the maquila is operating in an unjust or corrupt manner. Workers told other stories about maquilas, which they had worked in previously or had heard of, that did not pay the correct amount of bonus at the end of the week or found excuses to take the bonus away from the workers. In these cases, the bonus system is a mechanism for exploitation.

**Schedules and Overtime Policies**

Another factor that is often considered when reviewing the conditions of work is the schedules of the employees. It is very common to hear accusations that maquilas have their workers on 12-14 hour shifts or that they force them to work overtime by locking the factory doors, threatening to fire workers who leave, or even chaining the workers to their machines. No signs of this were observed in the factories visited for this fieldwork. The workers referred to the same schedule and overtime policy as the owners and managers.

In the case of Esdisa, many of the workers said they really enjoyed working there because the schedule was not too strenuous. Employees of Esdisa arrive at 7:30 and work
until 4:30 from Monday to Friday. On Saturdays the schedule is 7:30 to 12:30 for which they get overtime pay and an added bonus. For any overtime, which is very uncommon, they are paid double. In terms of overtime the women sometimes will stay until 5:00 or at times of the year when there is a lot of demand the workers will sometimes stay as late as 11:30. The managers and the workers themselves both said that they are not forced by management to stay for overtime. However, the women receive a lot of pressure from their work modular because if one woman leaves, it is worse for the rest. The workers have paid vacation and receive double pay if they work on holidays, along with a bonus as an incentive to come since it is optional.64

Cardiz’ schedule is from 7:00 to 4:00 Monday through Friday and on Saturday until 12:00 with time and a half. If there is overtime, it usually lasts only until 6:00. This schedule does, however, change if the worker is behind, in which case they leave at 4:00 and return at 8:00 to finish, or if the factory needs to make a quick shipment, in which case there is a night shift.65 The schedule at Camisas Modernas is similar, 7:30 to 4:30 but, only Monday through Thursday. Friday the work stops at 3:30. Overtime pays more, is only at certain times of the year, and is completely voluntary. One older woman started laughing and said if she feels like it, she just leaves. This type of behavior is probably not tolerated in most factories, and may have just been an exaggeration to say that they are allowed a certain amount of freedom.66

The schedule at Koramsa for the machine operators is from 7:00 am to 5:00 pm and overtime never goes beyond 7:00 pm. The washing machine area however has a day shift and a night shift 7:00 am to 6:00 pm and then 7:00 pm to 6:00 am. The engineer explained that although these hours do exceed the limit, the worker, before beginning work, agrees that he wants those hours and will be paid overtime for anything over 8 hours.67

Each of the schedules described above have average work weeks of approximately fifty hours. While this is above the forty-four hour standard workweek mandated by the Guatemalan law, the schedule is still in accordance in other respects. The workers are not forced to work and they are paid overtime for any hours which go beyond their set work schedule. Various sources stated that workers prefer longer schedules and overtime because it adds to their much needed income and also gives them the opportunity to increase their production bonuses. It must also be taken into account that a 50 hour schedule is well below that required of agricultural and often times commercial workers.

**Non-wage Benefits**

Cardiz' medical benefits include a doctor which is on site everyday and has an office at the factory to examine any workers that need medical attention and prescribe medicine. Workers can also go to the Health Institute for Guatemalan Workers (IGGS) to get treatment or medicine. If they need extensive treatment or hospitalization then the payment for this comes from a percentage docked from their pay each week. This social security percentage of 4.25% is taken from every maquila workers' check.68

Esdisa brings a doctor to the factory once a week for free medical care. However, if any employee is sick, they are sent to the IGGS. Esdisa also offers a different kind of medical benefit unique to their factory. Every so often, there are seminars for the employees regarding issues such as AIDS, menopause, and hygiene.69 As far as benefits are concerned, the STECAMOSA members all agreed that they really could not complain, that the benefits offered were good. The workers receive free medical care, free dental care, free laboratory work and there is a doctor and a nurse at the factory that can also be seen for free. The women also spoke of a system that was never even mentioned at other factories, unfortunately they could not be too clear or specific on it. They said that the factory will give workers free tickets for food and loans if they need them.70

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68 Arias, 7 Jan. 1998.
The medical system at Koramsa was one of the best seen, as is more common with larger factories. There is an on site clinic where a doctor is always present, a dental clinic, a pharmacy, and a laboratory. Not only does the worker enjoy these benefits, but also spouses, children of any age, and parents, all for free. Like all the other factories, the employees at Koramsa have 4.25% taken out of their paycheck which goes towards covering any expenses or emergencies they may have at IGGS. Another unique benefit which Koramsa offers is free schooling for sewing or any other skill needed for maquila work. This benefit is not just available for workers, but anyone who wants to attend. On the outside of the huge factory gates is a large sign which lists the hours for this school. Classes are offered at three different shifts throughout the day Monday through Friday so that people who work can find the time that best suits their schedule. Upon completion of the course, if any student is a good operator and Koramsa has an opening, the factory will hire them.71

Intraexa's benefits are also slighter than the others, which may be a cause of the size of the factory. The workers have their social security removed so they are covered at IGGS, but a doctor does not visit the factory. The owner mentioned other bonuses which a large majority of factories offer by law, including the Christmas bonus, the July bonus, and fifteen days of paid vacation. Also, this factory puts up money towards the worker's amusement park. This is apparently a resort like place with a pool and hotel, where all maquila workers can go for free anytime.72

How Does the Economic Analysis Fit into the Debate?

Assuming that the information in the last three sections, regarding wage, hours, and benefits, is all accurate, then it serves as an argument against critics' complaint that MNCs are instruments of exploitation. The wages, hours, and benefits of the factories seen in this study were all within the legal standards, some even going above the legal requirements. Also, all of the maquilas seen were Guatemalan owned, run and managed. This opposes

the critics' idea that MNCs refuse to hire and train top management from the host country. Even Camisas Modernas which is a maquila directly owned by a United States company, has all Guatemalan managers.

Even though the maquilas studied are some of the best possible maquilas, they still serve as cases which oppose the critical view because they prove the possibility of MNI having beneficial effects. Critics classify all MNI into one category and do not recognize the differences which can exist due to specific conditions of each maquila. The four firms examined in this thesis have an incentive to perform in a socially responsible way. They all work for name brand corporations from the United States. Name brand corporations stand out the most to the public and because of this advocacy groups are most likely to bring attention to their conditions. MNCs are aware of this danger and thus, want maquilas which operate under socially responsible conditions. The maquilas, at the same time, want to meet this requirement because work with name brand companies is more dependable and constant.

LABOR STANDARDS AND CONDITIONS OF GUATEMALAN MAQUILAS
Guatemalan Code and Monitoring System

The United States Apparel Industry Partnership Code is still in the process of formation as discussed in chapter 5. Knowing this, it is interesting to look at one that has actually been created, signed, and currently working. The Guatemalan Gremial realized that as a result of public pressure on international corporations, many are looking to avoid embarrassing and harmful publicity like that of Kathie Lee Gifford and Liz Claiborne. In order to accommodate this need, the Guatemalan Gremial, specifically AGEXPRONT, has reacted. The Gremial created its own code of conduct to complement both the Guatemalan law and the codes of the corporations from whom the maquilas contract work. This was done to protect investment that is presently in Guatemala and also to draw in new investment. If a corporation knows that a maquila has already been certified as operating

under total compliance, this will encourage them to hire that maquila. For corporations that already have contractors in Guatemala, this certification takes pressure off them by assuring that the factories are operating under fair labor standards.\(^{73}\)

The Gremial created a code with eight main principles in September of 1996. This was an added advantage because it came out before many other codes and monitoring programs. The principles are extremely similar to those that the Apparel Industry Partnership has agreed upon thus far. The basic, brief version of the Gremial principles is written out below.

- **no discrimination, full respect for human dignity** will be promoted in order to achieve equality and equity between men and women, preventing all discrimination in the workplace because of race, color, religion, or political opinion (this principle applies more to gender)

- **freedom of association**, workers have the right to join any organizations they choose, and can organize unions

- **equality**, the same wages will be paid for the same job performed under the same conditions, and with the same efficiency

- **child labor**, strict observance and restriction regarding the hiring of minors, as stated in the Political Constitution of the Republic and other laws of the country

- **wages and working hours**, subject to laws in the country, which provide for the payment of a minimum wage, overtime compensation is also provided by law and only on a voluntary basis

- **labor environment**, a safe environment which is in compliance with hygiene and security laws

- **forced labor**, all restrictions regarding forced labor must be respected

\(^{73}\) Fernanda Migoya, 13 Jan. 1998.
conservation of the environment, this is an essential issue, the industry will respect the environmental standards and environmental laws in the country.\(^4\)

These are quite similar to the standards of the Apparel Industry Partnership except that the Gremial’s code goes a few steps further in requiring the equality of wages and requiring proper environmental protection. The two also differ in monitoring procedures. While the AIP’s has not been agreed upon yet, it has been agreed that accounting firms will need input from human rights and labor organizations in order to conduct monitoring. The Gremial’s code on the other hand is monitored by Ernst & Young only, is done on a yearly basis, and the corporation is notified before the firm arrives to inspect.

The manual which Ernst & Young created is call the "Manual for the Compliance of the Labor and Environment Principles for the Members of the Commission of Textile and Clothing Industry."\(^5\) The first thing Ernst & Young does in the monitoring process is find out background information on the maquila, what they produce, who are the clients, where the product is sent.\(^6\) Then they look for an internal organization, such as a human resources department, to begin their investigation. At this office they are supplied with the full list of all the workers, their names and their files. E&Y looks through these to make sure that they have all their documentation, and to see that there is a wide variety of races, sexes, and religions. They take note of how many foreigners, blacks, whites, Orientals, Catholics, Evangelists, etc., work in the maquila. From this list the accounting firm randomly chooses ten, fifteen, or thirty, sometimes more, people to call in the office for an interview. The interviews do take place at the maquila but, it is only the worker, and E&Y present for the conversation. No manager or anyone else is allowed. E&Y asks each


\(^5\) The Code is written in Spanish, “Manual para cumplimiento de los principios de observancia laboral y ambiental de los miembros de la comision de la industria del vestuario y textiles’’.
worker questions pertaining to all of the principles. For example, "what is your religion? Do you feel any problems because of this? Have you had any problems with the management or owners?"  

The next step after conducting the interviews is to go back to the documentation to check on wages, salaries, pay for extra hours, and vacation time information. E&Y checks to ensure that workers are receiving the proper pay when they are let go or fired. This is called the indemnicazion, pay of leave, which the maquila has to give to the workers. It is equivalent to one salary for one year of work. If the workers quit, they do not receive this pay. E&Y also investigates the books to confirm that the social security has been taken from the paychecks. This completes the paper work and the next step involves observations around the maquila regarding employees work, bathrooms, dining areas and clinics (if there is one). The whole time spent monitoring is usually 15 days for a large maquila and three days for a small maquila.

Once the investigation is complete, the next step is to prepare a write-up of the audit. This write-up contains the opinion of E&Y on the maquila, the date E&Y went, the type of work they did, and then states whether the maquila complies with all the principles or not, adding comments and examples to support the decisions. If the maquila does not comply with all the principles, Ernst & Young adds specific notes as to why and what the maquila needs to do to change the problems. The audit is then marked as a no pass. When the paper is finished the auditor shows it to the owner to see if there are any discrepancies and if not, they produce the final report.

In the case that the maquila does not pass, Ernst & Young informs the owner that it will come back in a month or two. The owner then has the opportunity to call the firm when they are ready and the two will set up a second audit to inspect for changes and improvements. For example, if the maquila had minors working then E&Y will return to

77 Asturias, Carlos and Evelyn Treneadad, 6 Jan. 1998.
verify that minors are no longer there. When E&Y goes back to check the second time, the owner has to sign a guarantee that they have changed or fixed the problem areas and are not deceiving the auditors. Ernst & Young can not go to the maquila for a surprise check-up. The maquila knows ahead of time what day they are coming. In response to questioning about this policy, the E&Y auditor responded that, "we can not do more, we are not the police." A later conversation at Ernst and Young with a woman from the human relations department revealed more information on this subject. Evelyn said that Ernst & Young are the only ones who do the monitoring in Guatemala right now and that it is not a mandatory process at all.

"Maquilas do it for clients from the US or wherever so they can say yes, we are certified, we are legal, responsible. But, there is no punishment at all involved if maquilas are not complying. They just will not get certified if they do not change." 

Although Evelyn admitted that codes of conduct and upholding them is not mandatory now, she believes that one day they will be. This point of view was supported by Kenneth Dill who saw it as a future possibility, but was opposed by two other interviewees. A Gremial representative's statements suggested that, a law will not arise since eventually maquilas will do it voluntarily.

"We can not mandate the use and implementation of Codes now because we are not a government agency, and it is beyond what the Guatemalan law calls for. But, by the end, all maquilas will be certified. It will happen little by little because of pressure from the outside." 

This same point was supported by the Operations Manager of Cardiz,

"The Gremial is not a government organization, it is a group of businesses that are joined together under a same interest. The Gremial therefore has no power to get involved with labor rights. Mandatory monitoring and certification won’t happen because it is not a law. This code of conduct is not a law, just a suggestion to businesses to look more desirable to the US companies. You can not mandate what is not illegal."

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78 Treneadad, 6 Jan. 1998.
Cardiz' Operation Manager and the Gremial's representative brought up an important point. Codes of Conduct are not mandatory or enforced by law, MNCs comply solely on a voluntary basis; a voluntary basis as far as the law is concerned. However, compliance is not completely voluntary. Public pressure and opinion mandates that corporations comply with certain standards. As has been stated various times, the international community and the public are becoming increasingly concerned about the conditions under which maquila employees work. As they become more involved, they create more of a threat to the MNCs in terms of loss of demand, drops in sales, boycotting, and law suits. These are not costs which a corporation wants to endure and, therefore, they are increasingly complying with social standards of labor conditions. Although it is not the public which creates or monitors the Codes, it is the public which will determine what products they will and will not buy.

**Observed Compliance with Guatemalan Law and Codes**

The conditions on wage, benefits, and hours discussed in the previous section, indicate that all of these factories are complying with the Guatemalan law, the certification principles of the Gremial, and also with many of the principles listed in the Apparel Industry Partnership. Freedom of Association was displayed by the STECAMOSA union which is in the process of helping other unions which are seeking contracts with their employers. Through the various trips to the maquilas, both announced and unannounced, no child labor seemed to be present. Discussions and interviews with various workers concerning treatment by management all affirmed that, at least in these factories, there is no type of physical or mental abuse or mistreatment. However, each person did mention that these things do happen in Korean factories. Owners, workers, management, or regular citizens all agreed that, all the abuses, bad reputation, and problems of the industry were due to the Korean factories.

The wages, working hours, and overtime compensation are in compliance with those called for. No forced labor was seen or admitted to in any of the investigations of
these factories. In terms of a safe working environment, many of the factories said that they did offer protective wear to those workers who wanted to use it. According to a few managers, the workers in general did not use the protective masks or glasses even though they were available. While touring the factories a few workers were seen with protective wear but, it was not common. The Koramsa factory was an exception; in the stone washing area all of the workers had on protective clothing or masks depending on the type of job they had. The men who ran the washers had on large waterproof boots and aprons and the men who worked with the chemicals had on thick protective aprons, gas masks, rubber boots, and gloves.\(^{81}\)

The labor environment principle also involves hygiene. The cleanliness of the factories varied and really seemed to depend on the size or successfullness of the factory. Koramsa was immaculate. The floors were all clean of scraps and washed, the bathroom facilities and sinks were clean, and the dining areas outside were painted and open air and very clean. No signs of hygiene problems were seen in this factory. Most of the factories seemed to follow this rule, although in lesser degrees. Esdisa however, as the smallest factory, was on a different end of the spectrum. The factory was unorganized and messy. The dining area was not clean and was a tiny, unventilated, and unlit room. The owner said this was because most of the women left for lunch or ate outside. In all though, no conditions that were gruesome or unhealthy were observed in this trip.

Lastly, is the principle of no discrimination, meaning equality between men and women. Questions regarding this were not directly asked and the observations in the four maquilas were not sufficient to pass judgment on this principle. However, no blatant discrimination was seen. Men were seated right beside women with the same type of chair and machine, doing the same type of work. It was also common to see men and women socializing and chatting as they worked or took breaks. Especially in Cardiz and Koramsa

there were many male employees. Cardiz has 30-40% men and Koramsa has about a 50% male workforce.\footnote{Observations, Jan. 1998.} Overall, women seemed to be treated the same as men.

The compliance demonstrated above creates a counter-argument for the critics' stance on MNCs. However, the situation in Guatemala and specifically of those maquilas which have been certified by the Gremial, is more beneficial than that of maquilas which do not have strong labor laws or Codes of Conduct. A Code of Conduct effectively implemented and monitored creates a condition under which it is more likely that the benefits of the industry will be maximized while the costs will be minimized. Results, however, depend on compliance. The recent attention given to Codes and systems of monitoring, will be an effective way of ensuring that the conditions under which maquilas operate are beneficial.

**Monitoring and Implementation Arguments**

Despite the successes in the four cases observed, the monitoring aspect of the Guatemalan Gremial's Code may be considered by many to be lacking and inefficient. According to one Gremial employee though,

> "Ernst & Young is the best option for monitoring since they are separate from the issue all together and more unbiased than say, a labor union who will go in looking for, and always find problems, therefore making compliance too difficult for many factories and also scaring off many maquilas from applying for certification." \footnote{Fernanda Migoya, 13 Jan. 1998.}

As a direct response to this a representative for USGLEP, Bob Perillo, answered, "of course there is some bias from other organizations. A bias towards human beings and not abuse." He also disagrees that accounting firms are unbiased,

> "they are biased because right away they can relate more to the company owners and managers, the for-profit motive is ingrained in them already. Secondly they have little to no training in labor or human rights, proper ventilation, and overall work conditions. Thirdly, as professionals that deal mostly with other upper class professionals it may be hard for them to relate with the difficulties of the working poor. Also, the workers are not going to feel comfortable talking to someone sitting in front of them in a suit and tie." \footnote{Perillo, Bob. USGLEP. Zone 1, Guatemala City, Guatemala. 22 Jan. 1998.}
USGLEP, as a labor organization itself, feels that the most important principle in the Code of Conduct is the right to organize. The USGLEP representative believed that everything else is secondary to the ability of workers to organize because a union can bargain collectively and negotiate any other problems. As far as monitoring of the Code, he feels independent monitoring groups should have one focus; monitor compliance of the Code independently, without obligation to reply to governments, unions, or owners. Another role of the independent monitors is to interpret the Codes since they are general and open for interpretation. A kind of ambiguous role is expected of independent monitors, according to Perillo. They have to be neutral and cannot express any personal views, yet at the same time, they should be worker advocates. Independent monitors are supposed to take the workers' side because of the imbalance of power between management and workers. The ideal independent scenario in Perillo's mind is a strong union in combination with an ongoing corporate campaign to uphold the code.\(^{85}\)

COVERCO (Commission for the Verification of Corporate Codes of Conduct), the only independent monitoring program that is planned and ready to operate as soon as the opportunity arises, also agrees that accounting firms are not appropriate monitors. The reasoning is because they are hired by the company, therefore they already have this prejudice in them. COVERCO is truly independent from the corporation and the labor organizations as their financing comes from various outside sources. The mission of the organization is "to monitor and verify, effectively and independently, compliance with conditions established in corporate Codes of Conduct, as well as pertinent national and international law." They will go in as a completely transparent and unbiased party to inspect the situation of the maquila.

The job of this independent group according to one of the founders, Dennis Smith, is to expose reliable information that is available to all parties and to carefully scrutinize the situation. They are not an advocacy group, therefore their purpose is not to promote a

\(^{85}\) Perillo, 22 Jan. 1998.
labor organization. COVERCO does not see advocacy groups as effective monitors either. These groups can not have truly independent studies because they have a more political agenda or theory. Smith also felt that COVERCO would be more desirable than accounting firms because their data is more reliable and will therefore look better for the maquila that hires them. “Accountants are just looking at the books, this does not allow them to say the Code has been confirmed or that they have reliable data.” Dennis Smith admitted quite honestly, “we feel the owners have the right to be supported by reliable information. We are concerned with the well being of the workers but, corporations that are enlightened will also be concerned with this.”86

The board that makes up COVERCO is from a wide variety of backgrounds and has contacts with local social scientists, anthropologists, accountants, and analysts. These are the people who will be hired to the monitoring. The people COVERCO has already chosen are “perceptive, good listeners, creative, and discreet.” There will be a team of two or three people responsible for covering two to four maquilas. Otherwise, it would not be economically viable or efficient. The teams will be multidisciplinary. The monitors will require training to bring them up to speed on independent monitoring, as well as the specifics of a particular company and its Code of Conduct. The training program will include input from COVERCO members, representatives of industry, labor and government, appropriate specialists, as well as resource materials and documentation related to the items contemplated in the Code. The monitors will begin with an introductory stage which will involve collecting information on the maquila and getting a good understanding for it. After completion of this phase, researchers will carry out interviews with different groups of workers and management. They will also review payroll records and look for any possible safety, health, or environmental hazards in the factory. At the end of this stage, a report of findings will be submitted along with recommendations which

86 Smith, Dennis. COVERCO. Zone 1, Guatemala City, Guatemala. 22 Jan. 1998.
must be improved within a reasonable time period. These findings will serve for a benchmark for future monitoring and verification activities.

COVERCO has also established a rapid response monitoring of alleged violations. Workers will be able to submit complaints, both orally and in writing if they choose, in a locked complaint box. The complaints will be systematized in a confidential report each month and give special attention to patterns of abuses. Along with this, and after the introductory stage, researchers will complete a quarterly diagnostic report to verify compliance and applicable legislation. COVERCO proposes to send this report along with other diagnostic reports to their own files, the Ministry of Labor, local management, the local union (if there is one), and international management.

There is a continual debate regarding effective monitoring systems. However, it is still too soon to evaluate the best outcomes since monitoring procedures are just being formed. Presently, there is not sufficient evidence on varying systems of monitoring to measure which has been the most effective. Time and experience will cause changes and improvements, therefore, the important thing is to begin to implement systems of monitoring and then decide which works and why. The Gremial’s system may change as the program matures but, for right now it is impressive that Guatemala has been a leader in establishing a system.

Methods of monitoring also vary not only within arguments between different organizations but, also in different maquilas. Some maquilas have very strict monitoring while others are more lackadaisical. For example, Koramsa is a certified member of the Gremial’s code and claims to have inspectors for Levi’s which come unannounced every month to check the factory and its conditions. Alejandro Arias at Cardiz also said that abiding by codes is very important. Not only does Cardiz comply with the code from the Gremial but, also large US companies have their own codes which the factory must abide by. Representatives from the US come approximately every six months to inspect conditions of the factory and make sure that the maquila is abiding by the code of conduct.

monitoring is done not only by E&Y but also by the company that they contract with. Jansen, has their own code and has an office in Guatemala whose members visit almost every day to inspect labor conditions and quality. People from the US also come every two months to inspect the factory.

These three examples seem to show an adequate inspection system but, there are many other factories who work for smaller name brands that are inspected much less frequently. Esdisa for example, said that someone comes to inspect every few years and that there is not a set inspection procedure. The US company that they work for does not come at all to inspect. This company, “checks for quality of the goods we produce. That’s what they care about the quality and how fast we can deliver.”

Undeniably, the procedure for implementing and monitoring Codes of Conduct still has many holes. However, it is necessary to consider the short time frame which the programs have had to work out problems. More importantly, it is necessary to consider the alternative if the Codes did not exist at all. In countries where there are not strong labor codes and standards, the situation of maquila workers is strikingly different from that of Guatemala. The Codes and the monitoring procedures offered by the Gremial then can be seen as a more positive option than the alternative and also as a factor which contributes to the working conditions of the four maquilas studied.

FURTHER BENEFITS OF THE MAQUILA INDUSTRY

Alternative Job Opportunities

One fact which is essential to remember when reviewing the maquila industry is that there are few jobs available for these workers outside of this industry. This came through in interviews with all different groups involved in the industry and also in conversation with many Guatemalans. It is a fact that right now the country is suffering from very high unemployment which would only be much worse without the assembly industries. Also, since the government does not have any type of social safety net, the consequences of

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unemployment are tragic. The interview conducted with Ernst & Young addressed this as
Evelyn stated,

“the maquila is better than the other options because no experience is necessary. The workers can learn a skill. The work is secure and they earn a set salary. Without maquilas women would be domestic maids and men would sell sweets or other things in the street.”

Kenneth Dill of the FUNDESA organization also agreed with Evelyn’s statement, saying that the only other options would be,

“the informal economy, begging, washing cars, selling food in the street. The pay is not even close to what workers make in the maquilas. Since the economy is not growing at the proportion it should be to assimilate all the people, many are forced into crime. The job market is extremely limited.”

From the point of view of STECAMOSA members, it was stated, “there aren’t any other jobs. You do what you can. It is a matter of necessity — not liking it”. Another group from STECAMOSA while commenting on the role of men said,

“there is not much (in terms of work for men). They can be microbus helpers, which is what they are more than anything, but this does not have any benefits. Or they can be chauffeurs, but also no benefits. Agriculture pays a lot less.”

Out of all twenty five women interviewed in the first session at Esdisa, all twenty five said that they have always worked in the maquila industry or this was their first job. No other type of job or employment was mentioned and when they were asked about other job opportunities the workers just reiterated, the maquila. From yet another perspective of maquila owner Carlos Arias Jr.,

“the maquila is a good job. Most of the workers have not yet graduated from high school or even elementary school and have no skills at all. Here they can learn a skill and increase efficiency and make more money. Maquila is better pay and treatment than, not just agriculture, but also other commercial jobs because of the opportunity to make more all the time and move up and around and get promoted.”

The factory owner of Intraexa had a more negative comment on the situation.

89 Treneadad, 6 Jan. 1998.
"Women, all they can be is maids or prostitutes. Men are vagabonds and thefts. Yes, there is some work in the rural areas but, they don't want it because they like the city more. They come to the city and mostly work in the maquilas or one of the above."\(^{93}\)

Given the alternative of unemployment, hunger, poverty, and starvation, the maquila industry is considered a savior by some families. Many critics of multinationals neglect to address the reality of the country and what the alternative to maquila employment would be. MNCs producing in accord with Codes of Conduct provide more opportunities than a meager living or the informal economy. For the most part, maquilas in Guatemala are managed by Guatemalan natives so that along with offering employment for low skilled workers, they are also encouraging a larger base of local professionals.

**Technological Advances and Future Expectations**

In measuring or considering the benefits of the maquila industry the technological changes or improvements must also be taken into account. Advances in technology do not suddenly appear in a burst of investment, rather it is a slow process as different generations of the laborforce increase in their skill levels. For example, the type of machines used in the apparel industry were previously absent in the country, especially those used in Koramsa, which were the most advanced in the five factories visited, and women were not accustomed to using them. Now however, the workers are learning to use this piece of machinery and are thus increasing their skill level. This is important since it will increase their wages and employment opportunities as they become well qualified operators.

Although the skills of these workers may seem insignificant to an industrialized country, they actually have a very strong impact in the long run. As wages and job opportunities increase with the new skills, many more families are able to send their children to school. This increase in education will create a large boost for the next generation's laborforce. This next generation will also be accustomed to the business system which is something many of their parents had to adjust to. Increased labor quality will draw more investment and more advanced industries such as electronics. Various

workers at Esdisa and STECAMOSA, all agreed that they had learned new skills through
the maquila industry and that now they were more able to send their children to school.
One woman in particular from the Esdisa factory really stands out. When questioned about
her children’s education, she lit up, became very excited, and began talking about her three
children, the levels of school they were in and how smart they were. The pride in her face
was so evident as she bragged about her children’s opportunity to be educated. This relates
to a point that Carlos Arias Jr. brought up.

“The maquila industry has a multiplying effect in many ways. Most of the
workers here are bent on sending their kids to school and they are able to now.
They have pride in having a good job and income and want to give their kids the
opportunities they never had and the opportunities they would not have if the
parents never left, lets say, agriculture.”

Carlos Arias Jr. was very sure to list the benefits and describe his view on how the
maquila industry is aiding Guatemala’s development process in one interview.

“Just the presence of maquilas, especially in rural areas, helps to develop in terms
of moving people into the modern world of money, the market, on-time delivery
and efficiency, all of which are foreign ideas to populations which live to sustain
themselves. They are frequently not familiar with the workings of the modern
market world and if this is what development is, then maquilas will help this.
Families not only have money to educate their children but, also to become better
consumers. This will help in improving the quality of Guatemalan made products
because quality will have to improve in order to satisfy customers whom now
know more about it. As consumer demand and the Guatemalan market increase
this will also help the country.”

Luisa Fernanda Migoya also supported this chain of events in her outlook of the
maquila industry.

“The maquila jobs have changed the community, brought more restaurants, movie
theaters, and stores, because now people have money to spend. It has also
increased the level of schooling. More people can afford to send their kids to
school now and for a longer time. It has also change the role for women. Women
can be with their families, run a home, and make money. The maquila industry is
trying to increase, spread outside the city, but there is not sufficient infrastructure,
no highways, no phones, no schools, no universities. There are a lot of indigenous
people in the maquila industry, it is very difficult to teach them things like a
schedule, coming and leaving and eating at a specific time. Therefore, if the
maquila moves to outside the city it definitely helps. It brings things such as
televisions, radios, and computers; things that these towns did not have before.
Maquilas also bring education and because people have contact with the outside

95 Arias, Carlos Jr., 8 Jan. 1998.
world, they start understanding and wanting things such as money and education. The benefit of the maquila industry is very notable, easily seen. The country starts with maquilas and then moves onto a higher level, like electronics; it is going to increase in technology. The country will leave from the maquila and go onto confection industry. It is ideal to use Guatemalan fabric and products and move onto other sectors.\textsuperscript{96}

Kenneth Dill, while he did see the industry as a stepping stone, was not as optimistic in immediate changes as a result of the industry. Maquilas are not the first step in the development process but, “will be an add on to the movement of development, not the factor in deciding it. I assume the education level has increased because of it, but I have not done any official study and don’t know any statistics off hand about it.”\textsuperscript{97}

The technology brought in by the apparel industry seems to be appropriate for what Guatemala needs. It is very labor intensive and on a level which is a good first step for training and introduction to the local workforce. The maquilas are thus providing the workers with new skills, jobs, and technological experience which can be passed on and increased for future generations. The maquila sector employs a vast number of people. Rather than using capital intensive technology, it is apparently labor intensive, thus challenging the critics’ ideas that the technology is inappropriate and hurts employment. These facts that multinational investment brings modern skills and values and provides examples of modern economic organization, supports the proponents’ expectations of what would come from the industry.

The idea of supporters that development will occur through emulation of the North, seems to be present in Carlos Arias’ and Luisa Fernanda's ideas that the influence of the maquilas is beneficial. They believe that it helps the indigenous on the outside to integrate themselves or change their old ways into the new modern system of on-time delivery, schedules, money systems, modern education, televisions, radios and computers. Almost all of the people interviewed over the one month research seemed to share supporters’ ideas. They were positive about the MNC presence and further investment being the

\textsuperscript{96} Fernanda Migoya, 13 Jan. 1998.
\textsuperscript{97} Dill, 19 Jan. 1998.
necessary factor in developing Guatemala. People such as Carlos Arias, Kenneth Dill and Luisa Fernanda for example, all agreed with supporters that investment would be the savior of the county. Also supporters’ ideas that MNCs bring employment, capital, technology and managerial skills seems to be quite founded by evidence in this project.

This is not to say that the criticisms raised are without merit. However, when the firms are held, through international pressure, to socially responsible production methods, the potential for exploitation is minimized and the gains are maximized.

Social Benefits of the Maquila

Many of the interviewees alluded to or directly pushed the idea that maquilas are very beneficial to the country, the workers, and the general development of towns. As Evelyn from E&Y said,

"maquilas really help the pueblo a lot. They bring better salaries, conditions, and work. For example, there is a large farm way out in the countryside and one maquila moved out there. It benefitted the community greatly because before there was only agricultural work which the men did. So, the women married at 13 or 14 and started having children and taking care of the house. After the maquila came, women could find work outside of the home. This increased family income, so women were a benefit not an extra cost. This then changed marriage patterns because women began to get married only if they wanted to and between the ages of 23-30 years old. There is also a benefit in the city because women could work in the maquila instead of working as a house maid. They really prefer the maquila. The pay is better and they have more freedom. This helps the working poor a lot and gives them the opportunity to send their children to school."

Luis Rodil, the owner of the Esdisa maquila, promoted the benefits of the maquila industry despite the fact that he felt as though the US companies demands and deadlines caused most, if not all, of the maquiladora industries' problems.

"The maquila does have a social benefit because there is work for the people. Even when Korean factories exploit and mistreat the workers, there is still a benefit because it is a job. Most of the machinists here used to be maids. Maids here are like slaves, carried over from the old colonial custom. It is a culture of racism, although it is sometimes hidden, because maids are mostly Indians and the old thought was that Indians were created to serve. They are paid very little and treated like they are dirty or animals. When the maquila began, it not only benefitted the maids who left to come work in the industry, but also the remaining maids because their pay went up due to the large decrease in supply. In the

maquila, the workers are not tied, and don't have to sleep in the house. They have
time to be with their own families and much more freedom. 99

The points discussed by critics that MNCs are harmful and a distortion to
development, can be opposed by the fact brought up by Kenneth Dill that maquilas have
brought foreign exchange and employment. Two hundred and thirty million dollars came
into Guatemala in 1997 for exports and 78,000 people are currently employed by the
industry. It is the opportunity for workers to get a job that involves skills that they
otherwise would not have. And the chance to receive pay regularly. Unfortunately, states
Dill, "there are certain maquilas which have given the whole sector a bad name." 100

This particular section allows the opportunity to consider the social benefits of the
industry, which is an aspect that critics do not acknowledge, and also to highlight all the
different points that were brought up in a number of interviews. Most of the interviewees
all agreed on the same point that the overall benefit is the creation of jobs for people who
would otherwise be unemployed. However, other interesting points were suggested such
as, the chance for women to choose alternative lifestyles to marriage and children, the
opportunity to escape from employment as a maid, the benefit of a set and regular
paycheck, the development that occurs in the area due to the increase in spending money,
the essential point that the number of children that attend school has increased, and the
general pay level is also higher in maquila employment. These are important advantages,
though some may seem small, each adds to the overall benefits that the industry supplies.

Just as the four case studies in this project challenge the absolutist tendency of the
critical debate, the statements offered above could be just as easily challenged with evidence
from maquilas which are not at all beneficial to the community or workers. There is
undoubtedly another story. These cases illustrate best practices of the industry. The
interviewees are from Guatemala, a country which has decent labor laws and which is the
leader in creating a Code of Conduct. Luisa Fernanda works with maquilas which are

contracting with large name brands and are, for the most part, interested in becoming certified. Carlos Arias not only manages a maquila, but his maquila was the first to be certified by the Code of Conduct and also must comply with a Code from PVH. The statements offered by them can then be seen as what the benefits are in the best practice circumstances under which they are working.

Influential Arguments - Removing the Blame from the Maquila

Critics and supporters represent two different sides on the maquila debate. There is, however, a middle ground to this debate which was represented in a few interviews conducted in Guatemala and also in the Kathie Lee Gifford case. Gifford was publicly reprimanded for the behavior of Global Fashions in Honduras, yet the National Labor Committee and others fought to convince this maquila to remain in the country. This apparent contradiction makes sense because it is possible to criticize the maquilas, but also recognize that they are necessary for the continued income and survival of the workers. This is the situation which is currently forcing maquilas to remain in their respective host countries and implement Codes of Conduct.

Luis Rodil, the owner of the Esdisa maquila, seems in his following statement to support the critics argument.

“While maquilas all over the world are being torn apart by requirements and inspections and accusations of sweatshop conditions, the US companies are actually the ones that are causing the problem. Apparel is an extremely competitive industry in which large companies choose their factories according to which can offer the cheapest costs for production. This puts pressure on maquilas to keep wages down since they do not yet have the resources to improve technologically to cut costs. Yet, the same country which these large companies come from are outraged by the slave wages that workers in the maquilas are receiving. The companies also demand quick delivery and on time shipments, sometimes informing maquilas only a short time before or overloading them with work. Yet, again the United States goes crazy accusing maquilas of forced labor and horrible overtime. Maquilas are forced to be efficient therefore the bad treatment of workers is accepted; legitimized because of the education level. You have to find a balance and think of human rights. Also, you need to look at who is benefiting the most from all of this, the retailer. The mark up is incredible, one company marks up 354%. A product like a bra is about $3 to make, including everything, and it sells for about $27. The name brand products are the worst.”

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Rodil points to the competitive and demanding nature of the apparel industry as causing the labor problems within maquilas. In this way, he seems to be affirming that it is the presence of MNCs which are harming the labor. However, in previous conversations he supported the industry by affirming that it offered employment to thousands of workers who would otherwise be without income. He also stated that maquila employment was the best option available to the workers. While seemingly contradicting himself, Rodil is making an important point. The maquilas could have a more beneficial effect if MNCs did not put such extraordinary pressure on them. Rodil is not following the critics argument; saying that the MNCs should be removed from Guatemala, nor is he following the supporters argument; saying that MNCs only create benefits for the workers. Instead, he sees the positive and the negative aspects of the industry. Which is precisely what is necessary to begin the process of reform and improvement through Codes of Conduct.

Carlos Arias Jr. of Cardiz also had some thought provoking statements. While he was aware of the public outrage in the US, he was skeptical of what the real concern was based upon.

“All of the certifications and codes started not with labor standards, but because of two things. One was the Kathie Lee Gifford issue of sweatshops. The US is gullible, they hear about children and it hits a nerve and everyone goes crazy. Secondly, the US unions are losing jobs because factories come down here. So, they start looking and wondering why there aren’t any unions in these other countries and make an issue out of it to try to get businesses and jobs back.”

Arias then went on to basically debunk the organizations that focus on the conditions and create a bad reputation for maquilas on the claim that they are working to help the maquila workers.

“The USGLEP is funded by the AFL-CIO, so you have to wonder where their loyalties lie and what their real purpose is. Human Rights Watch does not get very involved in the real issues and they miss a very important point, the maquila is not a human rights issue, it is a labor issue and everyone confuses and blurs the two. All the talk is about maquilas having human rights abuses, when really if anything, all they are doing is breaking a labor law, not violating human rights. Human Rights Watch does not really do much except sit up on their international pedestal. Corporations only use codes because of the fear of consumer boycotts, not because of any concern for the workers. Some US companies do not give a
shit where it all comes from or how labor is treated. Especially a company that
buys for small stores without a big name. They don't care about where the stuff
comes from as long as they get a good price and good quality.\textsuperscript{103}

In the previous statements, Carlos Arias Jr. underscores an important point.
Corporations and some of the organizations involved in the struggle to establish Codes of
Conduct are not necessarily primarily concerned with the benefit of Guatemala or of the
maquila workers. In his argument he supports the critical argument that MNCs are
considered solely with profit or their own self-interests, regardless of how their exploitative
actions affect the host country. This is where the power of the international public plays an
important role, as seen in earlier cases in chapter 5. Arias himself is, at the same time, a
contradiction to the critics because he is Guatemalan and holds a high management
position. Arias also pointed out the contradiction between the United States' international
focus and what is going on inside the US itself.

"The United States ignores its own poor labor conditions. The sweatshops in
New York are probably worse than anything you can find here. The legal age for
minors used to be fourteen with parental consent and then at sixteen you could
work without parental consent. This made sense because in Guatemala the public
schools carry students through the seventh or eighth grade and then that is it. So,
a student is about fourteen years old when his education is over if he does not
have money to pay for more. If this is the case, what is this kid going to do?
Become a delinquent and make a worse problem. Whereas they could work for
limited hours, stay out of trouble, and put themselves through night school. The
original law was set up with this in mind.\textsuperscript{104}

On the subject of the US getting involved in labor standards at all Arias stated,

"local businesses have a very different set of quality and work ethic ideas. It is
cultural and traditional. You can not put US culture, traditions, and business on to
them or they will not survive. You can not subject all businesses to US
certifications or standards. For example, there are little central markets or tortilla
stands all over Latin America, and a lot of people eat at them. If you tried to put
FDA regulations on them, every single one would be shut down or burned. But,
the point is, the US does not try to do this or care about this because they are not
being affected or hurt by it.\textsuperscript{105}

\textsuperscript{103} Arias, Carlos Jr., 8 Jan. 1998
\textsuperscript{104} Arias, Carlos Jr., 8 Jan. 1998
\textsuperscript{105} Arias, Carlos Jr., 8 Jan. 1998
Both Arias and Rodil bring up important points about the US and MNCs self-interest. They both find fault not only with MNCs, but also with the United States’ reactions to the maquilas. While they are both critical, neither man argues that MNCs should not be present at all nor do they argue that MNCs do not bring in certain advantages. Their arguments seem to point towards the need for an outside influence on the activities of MNCs. This influence can be found in the public and in the international community, both of which are increasing pressure on MNCs to act in a socially responsible manner. Codes of Conduct for MNCs could correct many of the problems addressed by Rodil and Arias. In following Codes, MNCs are still acting in self-interest, however they are also reducing the harm and increasing the benefits of their presence.

DISCUSSION OF THE DEBATE

Throughout the text examples were given which either defended or contradicted the two sides to the maquila debate. This project has identified benefits of the maquila industry, specifically through the four Guatemalan case studies, therefore, to classify MNCs as all bad and harmful, as critics do, is not a fair conclusion. Also, the supporters’ assumption that all MNC investment or involvement will be beneficial is challenged by other case studies which present a negative view of the maquiladora industry.

Certain conditions and cases can be studied where the maquila industry is working as a benefit to the workers and does serve as a better option than their alternatives. However, corporations and any type of business or financial body are interested in profits and advancing themselves. This project is not set up to make the statement that MNCs are contracting with maquilas out of the kindness of their hearts or with the one purpose of helping the poor of Guatemala. They are interested in making the greatest profit possible and that is why they are investing in Guatemala. At the same time, it is possible to minimize the social damages incurred by the pursuit of profit. MNCs can abide by the laws of the country and a Code of Conduct, and thus, have a positive effect. Regardless of whether the MNC itself invests locally, the skills, jobs, training, and managerial skills that
they are encouraging, is creating a type of local investment. The workers who now have income from their jobs invest in their children's education. The workers also invest in local markets by having more money to spend. Smaller maquillas are contracting work from larger ones or turning away from the big name brands. They are using the skills they have learned and local inputs to manufacture products to sell locally.

Through the evidence presented in this thesis, it is evident that no one theory or position is completely correct in its argument. There is both positive and negative evidence available on maquillas. There is sufficient evidence to argue a middle ground; MNC presence is necessary, but there are problems which need to be corrected. As demonstrated by the best case practices, these problems can be addressed and minimized through the use of Codes of Conduct.
CHAPTER 7
FINAL ANALYSIS OF EVIDENCE

This thesis has demonstrated that international pressure can induce compliance with social standards of production. Background information and evidence has been provided to suggest that under certain conditions and factors, the benefits of the maquila industry can be maximized. The primary evidence in this argument has been the four Guatemalan maquila case studies. These maquilas were operating under Guatemalan law and a Code of Conduct. To contrast these examples, four maquilas not operating under a set of labor standards or codes were also described. The areas of comparison between the two sets are in wage, treatment of the workers, schedules, pay systems, and conditions of the factory.

Comparison of Two Groups of Maquilas

Child labor was used extensively in the Liz Claiborne factory and the Kathie Lee Gifford factory. Forced overtime and horrendous hours were realities in the Kathie Lee, Guess, and Manhattan factories. Wage problems were also a commonality in all four maquilas. Liz Claiborne workers were paid 65 cents a day, Global Fashion workers were shortchanged on overtime, Peñaloza was paid six dollars a suit, and workers at Guess received less than the minimum wage. Non-wage benefits were also a large problem. Global Fashion did not provide health care or sick days and did not give full maternity benefits. The factory where Peñaloza worked did not give vacations and did not provide social security. Workers in Guess’s Los Angeles factory also did not have health insurance, sick days, paid vacations, or holidays.

Abuses of basic human rights were also present in the maquilas. Peñaloza had to work under conditions of verbal abuse and the threat of physical abuse from her boss.
Kathie Lee Gifford’s factory had many human rights abuses from the threat of the armed guards to refused bathroom use to verbal abuse. Also, the physical conditions of the factories were awful. The Guess sweatshops were filthy, overheated and cramped. The factory in which Peñaloza worked not only was either overheated or too cold, but there were also mice and rats running around and one filthy bathroom for one hundred and fifty workers.

The descriptions of the labor conditions in these factories are quite different from those of the four Guatemalan case studies. Each of the abuses listed above were a specific principle in the Code of Conduct. Observations and interviews at the factories provided evidence that each of the principles seemed to be upheld. None of the factories visited in Guatemala were filthy. Each had many bathrooms which the workers were allowed to use at any time. The management in these factories was also not as strict or abusive. There were no cases of physical abuse seen or even alluded to in interviews with workers. Each of the maquilas paid at least the minimum wage and had benefits such as, medical, dental, vacation, holidays, and social security. Forced labor was also not a problem and the majority of workers had a work week which consisted of approximately fifty hours. The absence of child labor was one of the principles most enforced as it is very easily seen by monitors and visitors.

**Room for Further Improvement**

Four case studies of maquilas operating under a set standard of labor conditions and four cases of maquilas which did not, offers a fair basis for comparison. In the Guatemalan maquilas the reduction of labor problems can be seen. It would be a fair assumption to say that this is due to the presence of a Code which requires the factories to act responsibly. It is important to also note that the Codes of Conduct being used in Guatemala are fairly new. As time evolves the Codes will improve themselves and lead to even greater benefits. The weaknesses right now which are being worked out, not only in Guatemala, but on an international level, have to do with implementation and monitoring of
Codes of Conduct. As answers to these shortcomings arise, the Codes will become that much more common and effective.

Even though Guatemala has been the leader in forming and implementing a Code of Conduct, there are still shortcomings of the monitoring system. The first major problem is that all the monitoring is being done by Ernst & Young alone without any input from other organizations. Their visits to factories are scheduled ahead of time which gives the management the opportunity to hide obvious problems. If the maquila does not pass certification, the return visit is also pre-scheduled. Another large fault is that interviews with workers are either not done at all or are done on-site at the factory. This creates a situation where workers are afraid to voice their opinions or do not have the opportunity to do so. The last shortcoming which was obvious in fieldwork observations is that workers are not educated on the existence and content of the Code of Conduct. It is not uncommon, in fact, that the Codes are not translated into the native languages of the workers.

In the opinion of many of the involved actors, the challenge of correcting bad conditions in maquilas will be met when corporations, governments, unions, and concerned citizens assume their appropriate responsibilities. It is also agreed upon that a system of independent, third party monitoring will need to evolve. This is understandable just based on the nature of the two sides involved. Workers are interested in good wages, fair treatment, and healthy work space. Management wants to keep costs low and profits high in order to have an edge in such a competitive field. It will be difficult to get these two poles to meet in agreement since for one to achieve its needs, the other must sacrifice. Because of this inherent difference, an outside influence, third party, needs to mediate. Independent monitoring is becoming more of a reality as groups such as, COVERCO form. Many international organizations are also fighting to get independent monitoring started. The GAP and Liz Claiborne in Honduras are already using independent monitoring and Kathie Lee Gifford has sworn to implement it in all of the factories manufacturing her clothing.
Important Standards for Comparison

There are three important standards which must be remembered in trying to evaluate the cost and benefit potentials of the maquila industry. For one, the basis of comparison for wages, cost of living, and work conditions must be within Guatemala itself. It is not possible to hold Guatemalan jobs in comparison with the majority of jobs in the United States. The cost and standards of living in Guatemala are much lower and different from that of the United States. Also, the conditions of jobs whether in the maquila sector or not, are different. For this reason, comparisons must be held between the maquila sector and other employment sectors in Guatemala.

Secondly, existence or lack of alternative options will be an important factor. In Guatemala there are not many options for employment outside of the maquila industry for unskilled workers. Therefore, the alternative to employment in a maquila is unemployment, hunger, and poverty. In a setting such as this, it is necessary to weigh the costs and benefits of employment in maquiladoras against that alternative. Many interviewees stated that any employment is better than none. Thus, what is needed is not to rid of MNCs in Guatemala, rather to find a way in which the positive aspects of the maquila are increased and the problems are decreased.

The third point which has been discovered in research is that sweatshop conditions are not unique to the Third World. Realizing that this also occurs in the United States can help to focus in on where the problem actually lies. The problem is not in the Third World looking to FDI as one mechanism for development. Rather, the problem is in the power and nature of MNCs which has allowed them to hide certain activities. Fortunately, this is changing and improving because of two things. There is global transparency which now makes it very difficult for MNCs to hide their illegal activities from the world. This transparency has led to accountability on the part of the MNCs. The apparel industry seems prone to labor standard abuses, but it is also an industry in which consumers have a lot of power. Corporations are aware of this consumer sovereignty and international
reactions to labor abuses. Thus, they have an incentive to operate under proper labor standards.

**Potential Future Benefits of the Maquiladora Industry Are yet to Be Seen**

The maquilas operating under Guatemalan law and a Code of Conduct do not just offer the benefit of employment, but also health care, training, skills, and education. In the long run, this increases the quality of human capital in Guatemala. The industry does this in the short term to some extent, but more so in the long term. There is definitely an element of time and inter-generational development.

Technology and skills do not suddenly appear. It is a constant continuum which takes time. For example, the technology presently in the maquilas was not there before and the workers did not have the skills which they have now gained before. However, they have now learned these skills and improved upon them so that they could increase their family incomes and send their children to school. Children is where the technological advancement will come from. If they are educated and create a more skilled workforce, this increases the labor quality and attracts more advanced industries. A modest indication of what is to come can be seen based on what is happening today in the maquila industry. The Codes will continue improving and become more prevalent. Education levels and the level of manufacturing will increase.

Also, in judging the potential of the maquila industry, it is important to see the good, such as the cases chosen for this study. In doing this, it sets a standard for what could be so that others can strive for that standard and know that it is a possibility. The Guatemalan cases are not meant to say that employment in the maquila industry is perfect. Rather, in comparison with those chosen from Honduras and the United States, they are meant to show how improvements are possible under a certain set of conditions. As the frequency of Codes of Conduct and higher standards of labor increases, the negative maquila cases will become more and more unacceptable. Thus, putting ever more pressure on corporations to improve conditions of their factories. In the long term, as can already be
seen to some extent in the short term, this will increase the benefits of the maquila and decrease the costs, thus creating a situation of positive investment.

Critics argue against the idea that MNCs bring benefits and are a potential development mechanism. Critics believe that MNCs create an industrial dependency in the Third World and lock host countries into a certain rung of production. If this argument was true, Guatemala would never move beyond the stage of sewing apparel. A three week field study was not sufficient time to make a judgment on this argument nor to document long term benefits. However, evidence to contradict this idea was presented in interviews.

Development, much like underdevelopment, is a process. It is a continual movement in one direction, not a sudden change or realization. The purpose of this project is not to state that maquilas are the answer to development problems in Guatemala. The first step for Guatemala was in the conflict resolution. The state now needs to solve other problems. The maquila industry does, however, add to a changing development model overtime. In increasing employment and improving income standards, it indirectly improves other areas where the state is lacking such as education opportunities, standard of living, and health care.
### APPENDIX A.1

**GUATEMALA: FOREIGN DIRECT INVESTMENT (1990-1996)**  
(millions of US$)

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Source: FUNDESA research, 1997.

### APPENDIX A.2


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Source: FUNDESA research, AGEXPRONT data, April 1996.
### APPENDIX A.3

**GUATEMALA: NUMBER OF COMPANIES IN APPAREL INDUSTRY 1989-1995**

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Source: FUNDESA research, AGEXPRONT data, April 1996.

### APPENDIX A.4

**GUATEMALA: APPAREL EXPORTS (1990-1995)**

*(millions US Dollars)*

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<td>1991</td>
<td>108.6</td>
</tr>
<tr>
<td>1992</td>
<td>134.5</td>
</tr>
<tr>
<td>1993</td>
<td>147.2</td>
</tr>
<tr>
<td>1994</td>
<td>211.5</td>
</tr>
<tr>
<td>1995</td>
<td>238.8</td>
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Source: FUNDESA research, AGEXPRONT data, April 1996.
## APPENDIX A.5

### Economically Active Population Over 18 years old

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>NUMBER</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total labor force</td>
<td>1,509,991</td>
<td>100.00%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>1,509,991</td>
<td>42.30%</td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>5,774</td>
<td>0.20%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>455,843</td>
<td>12.80%</td>
</tr>
<tr>
<td>Electricity, Gas and Water</td>
<td>12,944</td>
<td>0.40%</td>
</tr>
<tr>
<td>Construction</td>
<td>251,530</td>
<td>7.00%</td>
</tr>
<tr>
<td>Commerce</td>
<td>667,413</td>
<td>18.70%</td>
</tr>
<tr>
<td>Transport, Storage and Commun</td>
<td>79,682</td>
<td>2.20%</td>
</tr>
<tr>
<td>Financial Services</td>
<td>45,790</td>
<td>1.30%</td>
</tr>
<tr>
<td>Community, Social and Personal</td>
<td>542,686</td>
<td>15.20%</td>
</tr>
<tr>
<td>Other</td>
<td>2,079</td>
<td>0.10%</td>
</tr>
</tbody>
</table>

APPENDIX A.6

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petroleum</td>
<td>53</td>
</tr>
<tr>
<td>Total Manufacturing</td>
<td>93</td>
</tr>
<tr>
<td>Food &amp; Kindred Products</td>
<td>31</td>
</tr>
<tr>
<td>Machinery, Except Elect</td>
<td>0</td>
</tr>
<tr>
<td>Electric &amp; Electronic eq</td>
<td>0</td>
</tr>
<tr>
<td>Transportation Equipme</td>
<td>0</td>
</tr>
<tr>
<td>Other Manufacturing</td>
<td>41</td>
</tr>
<tr>
<td>Banking</td>
<td>3</td>
</tr>
<tr>
<td>Finance/Insurance/Real</td>
<td>9</td>
</tr>
<tr>
<td>TOTAL ALL INDUSTRIES</td>
<td>155</td>
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</table>

Source: U.S. Department of Commerce, Bureau of Economic Analysis
## APPENDIX A.7

GUATEMALA: MAIN ECONOMIC INDICATORS

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td><strong>Growth and Investment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Gross domestic product</td>
<td>3.9</td>
<td>4</td>
<td>3</td>
<td>3.7</td>
<td>4.9</td>
<td>4</td>
<td>4.1</td>
<td>5</td>
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<tr>
<td>Per capita gross domestic product</td>
<td>0.9</td>
<td>1.1</td>
<td>0.1</td>
<td>0.8</td>
<td>1.9</td>
<td>1.1</td>
<td>1.1</td>
<td>2</td>
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<tr>
<td>Gross national income</td>
<td>4.2</td>
<td>4</td>
<td>2.7</td>
<td>6.6</td>
<td>6.2</td>
<td>3.1</td>
<td>6.4</td>
<td>7.2</td>
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<td>Gross domestic product by sector</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goods</td>
<td>4.3</td>
<td>3.1</td>
<td>2.6</td>
<td>2.8</td>
<td>4.7</td>
<td>2.2</td>
<td>2.1</td>
<td>3.5</td>
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<tr>
<td>Basic Services</td>
<td>4.9</td>
<td>10</td>
<td>6.1</td>
<td>5.7</td>
<td>8.3</td>
<td>5.5</td>
<td>5.3</td>
<td>6.4</td>
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<tr>
<td>Other services</td>
<td>3.4</td>
<td>3.6</td>
<td>2.8</td>
<td>4</td>
<td>4.4</td>
<td>5.1</td>
<td>5.2</td>
<td>5.7</td>
</tr>
<tr>
<td><strong>Contribution to Growth of GDP</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumption</td>
<td>3.7</td>
<td>3.3</td>
<td>1.2</td>
<td>3.1</td>
<td>7.5</td>
<td>4.4</td>
<td>5.9</td>
<td>5.1</td>
</tr>
<tr>
<td>Government</td>
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<td>0.3</td>
<td>0.2</td>
<td>0.1</td>
<td>0.4</td>
<td>0.5</td>
<td>0.3</td>
<td>0.3</td>
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<tr>
<td>Private</td>
<td>3.3</td>
<td>3</td>
<td>0.9</td>
<td>3</td>
<td>7.1</td>
<td>3.9</td>
<td>5.6</td>
<td>4.8</td>
</tr>
<tr>
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<td>-0.2</td>
<td>0.1</td>
<td>-0.2</td>
<td>3.1</td>
<td>4.8</td>
<td>-1.1</td>
<td>-0.1</td>
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<tr>
<td>Exports</td>
<td>1.4</td>
<td>2.2</td>
<td>1.8</td>
<td>-0.8</td>
<td>1.8</td>
<td>2.7</td>
<td>0.8</td>
<td>1.8</td>
</tr>
<tr>
<td>Imports</td>
<td>-1</td>
<td>-1.5</td>
<td>0.3</td>
<td>-1.7</td>
<td>-9.1</td>
<td>-2</td>
<td>-2.5</td>
<td>-3</td>
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<tr>
<td><strong>Gross Domestic Investment</strong></td>
<td>14.7</td>
<td>14.2</td>
<td>13.6</td>
<td>16.1</td>
<td>19.9</td>
<td>18</td>
<td>17.2</td>
<td>17.4</td>
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<tr>
<td>National saving</td>
<td>11.5</td>
<td>11.6</td>
<td>8.4</td>
<td>11.2</td>
<td>14.9</td>
<td>16.7</td>
<td>19.1</td>
<td>17</td>
</tr>
<tr>
<td>External Saving</td>
<td>5.8</td>
<td>4.9</td>
<td>3</td>
<td>2.6</td>
<td>8</td>
<td>7.7</td>
<td>6.7</td>
<td>4.9</td>
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## ACRONYMS

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<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>AGEXPRONT - Gremial</td>
<td>Export division - Non-profit business organization which represents Guatemalan maquiladoras</td>
</tr>
<tr>
<td>CACM</td>
<td>Central American Common Market</td>
</tr>
<tr>
<td>COVERCO</td>
<td>Commission for the Verification of Corporate Codes of Conduct</td>
</tr>
<tr>
<td>E&amp;Y</td>
<td>Ernst &amp; Young International accounting firm</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FITTVCC</td>
<td>International Trade Secretariat for Textile, Garment, Leather, and Shoe Workers</td>
</tr>
<tr>
<td>MNC</td>
<td>Multinational Corporation</td>
</tr>
<tr>
<td>MNI</td>
<td>Multinational Investment</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Governmental Organization</td>
</tr>
<tr>
<td>NLC</td>
<td>National Labor Committee</td>
</tr>
<tr>
<td>PVH</td>
<td>Philips Van Heusen</td>
</tr>
<tr>
<td>STECAMOSA</td>
<td>Camisasy Modernas Maquiladora union</td>
</tr>
<tr>
<td>USGLEP</td>
<td>United States Guatemalan Labor Education Program</td>
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<td>INTERVIEW LIST</td>
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BIBLIOGRAPHY


