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## **Ethical Dilemmas Surrounding Manufacturing Offshoring: Assessing the Morality of Offshoring Decisions Through a Utilitarian Viewpoint**

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# **Ethical Dilemmas Surrounding Manufacturing Offshoring: Assessing the Morality of Offshoring Decisions Through a Utilitarian Viewpoint**

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## **ABSTRACT**

The purpose of this paper is to assess the ethical dilemmas that exist when American companies offshore manufacturing work to cheaper labor markets abroad through a utilitarian perspective. The paper will explain what offshoring is and what has driven American companies into engaging in this practice. Next, the criteria for the utilitarian assessment will be explained. After, I will examine the effects on the U.S labor force, U.S economy, and the foreign labor force through two case studies: the Bangladeshi apparel industry and the Mexican maquiladoras industry. Finally, the paper will offer some suggestions for making this practice more ethical in the future.

## **INTRODUCTION**

The world is currently experiencing a wave of globalization, where new technologies are leading to greater interconnectivity across national borders. Companies are no longer constrained to domestic markets and increasingly target foreign consumers to turn a profit. Similarly, companies are increasingly moving their business processes abroad to foreign labor markets where the costs of operating are significantly lower than the United States. This allows them to maximize the efficiency of the production and gives them the ability to compete on price. However, this phenomenon has caused considerable controversy in both the U.S and other western countries where the multinational companies that conduct offshored operations were formed, and the countries where these operations are being run. The first ethical question that arises is whether it is okay for American firms to seek to maximize profit abroad at the expense of American workers. Many people believe it is immoral to lay off these capable workers and move their jobs to other countries simply

because these foreign workers work for cheaper wages. The loss of American jobs has created an increasing nativist sentiment, with many in favor of more stringent immigration policies, and protectionist trade policies like tariffs on goods being imported (Ray,2011). The second ethical dilemma that arises is whether it is right for American companies to conduct business in countries with lenient regulations. The reason that labor in some countries that Americans enter is so cheap is because of lenient labor and environmental regulations, making the factories operating there ripe with human rights abuses. Many fear that the strategic decisions by American firms to enter these countries is incentivizing a “race to the bottom” in developing nations, where the nations compete on how many regulations they can cut to attract the most business (Rudra, 2008). This paper aims to analyze offshoring from a utilitarian perspective, looking at the consequences for both Americans and the citizens of the countries where offshoring occurs, specifically through a case study on the apparel manufacturing industry in Bangladesh. I will argue that offshoring in its current state is not ethical from a utilitarian framework and will offer suggestions on how the practice can be made more ethical.

### **DEFINING OFFSHORING**

To understand the ethical dilemmas surrounding the term, one must first understand what the term means. Despite there being much debate about the term, there doesn't seem to be a universal definition for it. A good starting point for explaining the phenomenon is sourcing, which is where an organization that provides goods and services conducts its value adding activities. Sourcing can be done either within the firm or outside of the firm; the former is referred to as insourcing while the latter is outsourcing. National boundaries

create a further distinction between intra or external firm production done domestically or internationally. Although the terms offshoring and outsourcing are often used interchangeably, they refer to different phenomena. Outsourcing refers to when a firm allocates or reallocates business activities from an internal source to an external source, irrespective of national boundaries. On the other hand, offshoring refers to either moving services to a subsidiary abroad (insourcing), purchasing services from another firm abroad (outsourcing), or a combination of both (Gordon 2009). Thus, offshoring can be more broadly defined as moving business activities to a foreign country (Schniederjans 2005).

## **REASONS TO OFFSHORE**

### *Reduced Costs and Increased Margins*

The number one goal of any company is to make a profit. The company's ability to create a profit often determines how successful they are in attracting new investors to fund the capital necessary to create value. In today's globalized marketplace, companies are facing increased pressure to sell products at a competitive price. This drives them to search for ways to reduce the resources it takes to produce their products and to bring these products to market more quickly. Offshoring low-skilled jobs to cheaper labor markets abroad is one method that companies have chosen to reduce costs. Rather than run an operation in the United States, companies have chosen to move processes to India or China where they can get the same labor for less than one fourth of the cost (Aspray, 2010). Although there are significant overhead costs when running operations

abroad, especially if there are language or cultural differences, doing so is financially rewarding in the long run due to the lower labor costs.

### *Access to Skills*

Companies often choose to offshore their labor to tap into skills that are not adequately provided by the U.S labor market. Many countries such as India, Russia, Israel and several Eastern European countries have large numbers of high-skilled technical workers that have supplied U.S companies with services. For example, during the dot-com boom, many American companies looked at these countries for java programmers who could design their online marketplace and help them compete (Aspray, 2010).

### *Experience*

Sometimes, American companies look abroad for experience that they cannot locate domestically. This could mean more experience in a certain technology. For example, China and India have more cell phones in use than the United States, so conducting research and development on wireless market in those countries might be more beneficial for an American company. Companies also move abroad when they are creating products to target consumers in that country. Moving processes to these countries helps incorporate local cultural values into the planning which provides a business advantage for the company. Other times, the movement to other countries could be due to strength in a scientific field, such as Israel's knowledge in computer security or Russia's strength in physics.

### *Time Shifting and Time to Market*

Another reason that American companies choose to run operations abroad is that they can coordinate shifts more effectively. In theory, a company could have an office in Asia, one in Europe, and one in the United States. The Asian office's shift would begin and end first, the European shift would begin after, and finally the American shift would begin after that to allow the firm to cover the 24 hours of the day. This shifting of labor could give the American firm the advantage of entering products into the market more quickly. In theory this tactic could be extremely beneficial, however, these time shifting operations are extremely difficult to coordinate and so there are relatively few in practice. The most notable examples include private hospitals that have medical tests read overnight by Indian doctors so that American doctors have the results the morning after, and companies that have 24 hour customer service by having call centers in both the U.S and India.

### *Market Access*

Offshoring also allows American firms to establish themselves in international markets. Having centers in countries whose market they wish to enter helps a company create more appropriate local offerings and to have faster problem resolution system. Additionally, personnel from the region will have a better idea of what different target segments need and can also navigate regulations more efficiently.

### *Overflow Work*

American companies that rely heavily on contract work, such as those in the technology or engineering industries, often face fluctuating workload. This often entails periods where there is a shortage of contractors and periods where there is a surplus of contractors. Rather than having to hire extra contractors during shortages and then firing them once projects are completed, many companies opt to offshore their short term projects abroad.

### *Extending Venture Capital Money*

After learning from the failures of the dot-com era, venture capitalists have tried to control the “burn rate” on the money they award start-ups to make the capital last until the start-up introduces its first product into the market. Many venture capitalist firms require that start-ups offshore their technical work to lower wage labor markets abroad before they invest in the company.

## **ASSESSING OFFSHORING FROM A UTILITARIAN PERSPECTIVE**

There are many ethical perspectives from which this practice could be assessed. One of the most common frameworks in ethical literature is utilitarianism. Utilitarianism provides a vision which holds that the common interests of humanity are of the utmost importance when making a moral decision. In the utilitarian viewpoint, the moral correctness of an action can be determined by analyzing the balance between the positive and negative consequences of the action (Duignan, 2017). If the action produces more positives than negatives, then the action is ethical. Conversely, if the action produces more negative consequences than positive ones, then it is considered to be unethical. Therefore, the best actions under this framework are those that produce the greatest benefit to the

greatest number of people. Utilitarianism takes into account the consequences of all affected by the decision, not just the consequences for the entity who made the decision. In this ethical framework, intention is irrelevant to the morality of the decision, only the outcome matters.

Another common framework in ethical literature is the Kantian deontological ethical theory. The main proponent of this ethical framework, Immanuel Kant, believed that an action morally is judged by its adherence to universal laws, irrespective of time, circumstances, and culture. (Guzman, 2016). The premise is that by judging all actions on unconditional criteria, subjectivity is avoided. Under a Kant's deontological framework, the only intrinsically good thing is good will, therefore, when judging the morality of an action, the most important factor is the actor's intention rather than the consequences of the action (O'Neill, 1983). Kant also stressed that one should never treat others means to an end, but as means themselves. Therefore, lying, murder, and stealing are prohibited under all circumstances because they treat people as means to an end.

Both ethical frameworks have their merits, however, I believe that the utilitarian perspective serves as a better measure for business ethics. The first reason is because it is much easier to objectively measure the consequences of the action, rather than knowing the intention of the actor required to judge the action under a deontological framework. For example, let's explore the hypothetical that an American company contracts a foreign firm who then hires child laborers to carry out work. In this situation, it's difficult to determine whether the American company knew this would happen and

purposely chose to contract this firm with the intention of cutting cost, or whether the foreign firm made the decision unbeknownst to the company. Under deontology, the former would be considered unethical and the latter, despite the clear harm to the children, would be considered ethical. However, without empirical knowledge of the company's intent, it's difficult to determine whether its ethical. In contrast, under utilitarianism, both scenarios would be considered unethical because they both resulted in the same harm. Not only is it easier to measure the consequences the company's decision in this hypothetical, but I believe that trying to produce the best consequences should be the ethical standard that we hold businesses to. Regardless of the American company's intent, it was their decision that directly lead to the harm of the children, and therefore they should hold some responsibility. Although it can be argued that it is unfair to view their decision as unethical if the harm was happening unbeknownst to them, the utilitarian standard would require the company to do their due diligence when assessing business partners abroad to ensure this harm wouldn't happen.

Additionally, under a business setting, deontology requires adherence to a contract, even if that adherence leads to harm (Bowie, 2002). Returning to the hypothetical above, let's say that an employee at the American company becomes aware that the company is indirectly hiring child laborers. He would like to alert the authorities; however, his employment contract forbids him from disclosing company secrets the hiring of child laborers is considered a company secret. Under a deontological perspective, when the employee signed the contract, he promised the company that he would adhere to it. As such, breaching the contract to alert the authorities would be considered a form of lying,

and therefore that action would be considered unethical. In contrast, the ethical decision under the utilitarian framework would be to let authorities know so that the harm would be stopped. This situation highlights a major weakness in the deontological framework; that it doesn't consider the circumstances around the situation. Adherence to your contracts are always mandatory, even when adherence perpetuates harm. 'White lies' are always unethical, even if their usage could avoid unnecessary harm. Conversely, the utilitarian framework doesn't rely on absolutes, judging each decision individually, considering all the circumstances surrounding.

Lastly, utilitarianism fits business better as an ethical framework because business often transforms culture and society. Business shapes our cities, work environments, regulations, politics, and many other aspects of our contemporary lives. It plays essential functions in our lives through providing societies with jobs and wages, goods and services, tax revenues, and technological advancement (Gustafson, 2013). Due to the impact that business has on our lives, I believe the ethical framework used to judge businesses should reflect the consequences of decisions, rather than the intentions of the actors. Therefore, when assessing the ethics of the decision to offshore, I will be looking to answer the question: *Are the decisions to offshore leading to the greatest amount of good for the greatest amount of people?* In my analysis I will look at the four main stakeholders: U.S workers, U.S citizens as a whole, foreign workers, and foreign citizens. I will then provide suggestions for making offshoring more ethical from a utilitarian viewpoint.

## **EFFECT ON U.S LABOR MARKET AND ECONOMY**

The first dilemma that arises when looking at offshoring is whether it is ethical for American companies to take jobs away from American workers in order to make a profit. In recent years, there has been an increasing perception that foreign workers are taking American jobs. This has led to many protectionist policies implemented by the current administration, such as tariffs on countries like China, Canada, and Mexico in an attempt to protect American workers and companies (Swanson, 2019). It's true that in this new wave of globalization, many jobs that once belonged to American citizens have moved abroad to cheaper labor markets. Manufacturing jobs certainly make up a smaller percentage of U.S GDP, however, measuring the impact of globalization has been difficult due to the different effects that offshoring labor has. The first is a "displacement effect" which is when offshoring the production processes reduces the demand for American labor. The second is a "productivity effect" where the cost savings associated with employing foreign workers increases the efficiency of the production process and increase the demand for American labor. Although the U.S has lost 5 million manufacturing jobs to outsourcing since the year 2000, studies show that offshoring not only benefits American companies, but American workers as well (Guilford, 2019). A study conducted by three economists from the London School of Economics Center for Economic Performance tracked the 58 industries that make up American manufacturing from 2000 to 2007. In this study, the economists found that in most cases, offshoring increases the efficiency of the production process and reduces costs, which can prompt firms to expand domestic hiring enough to offshore the jobs lost to workers overseas (Khim, 2012). The authors say "Offshoring has no effect on native employment in the

aggregate. While offshore workers compete directly with natives, their employment generates productivity gains that 'increase the size of the pie' leading to an overall neutral impact on native employment." (Ottaviano, 2012) In their research, they found that every one percent increase in offshore jobs leads to a 1.72 increase in overall U.S employment of Native workers, though they describe the effect of offshoring as neutral because the .72 increase is not large enough to be statistically significant. They found a similar result when studying the effect of hiring immigrants. Every one percent increase in immigrant jobs increased aggregate employment for American workers by 3.9 percent. They also found that the offshored work and immigrant jobs tended to be in less skilled work, while the increases in native born employment due to the displacement tended to be more complex jobs with better pay. Overall, manufacturers with a greater degree of offshored work fared better in terms of native employment than those who didn't.

Apart from benefits to American laborers, offshoring provides many other benefits to the economy as a whole. One of the most obvious sources of value is corporate savings. For every dollar that American companies spend abroad, they save 58 cents (Baily, 2004). These savings can be used to reinvest into new opportunities or to pay dividends to shareholders, contributing to the health of the stock market. Another major benefit is the fact that American consumers pay less for goods than they would otherwise. Cutting production costs means that manufacturers can produce high quality goods and sell them for less, decreasing the cost of goods for consumers. For example, research has found that the offshoring of components of computer hardware reduced the costs of IT hardware by as much as 30% thereby drastically increasing the demand and contributing up to USD

\$230 billion to GDP from 1995-2000 (Houseman, 2010). Furthermore, offshoring often leads to additional exports for American companies that wouldn't have happened otherwise. When foreign firms agree to do offshore work, they often buy American goods and services as well. This ranges from computers and telecommunications goods to financial, legal, and marketing services. It's estimated that for every dollar spent on offshoring, an additional 5 cents worth of goods are exported abroad, bringing new revenue streams to American companies (Baily, 2004).

#### *Utilitarian Assessment for U.S workers and Citizens*

From a utilitarian perspective, the data suggests that offshoring is meeting the utilitarian goal of providing more positive than negative consequences for American workers and American consumers. Rather than taking jobs away from Americans workers, investing in offshoring is actually replacing less skilled jobs with more complex jobs for Americans to fill. For American companies, offshoring is making the manufacturing more efficient, allowing them to save through lower costs and then reinvest the savings back into their business and to their stockholders. The increased efficiency in production allows companies to sell their goods for less, which increases the purchasing power. Although there has been some job loss due to offshoring, the aggregate effect of the consequences to Americans are positive and therefore ethical in a utilitarian viewpoint.

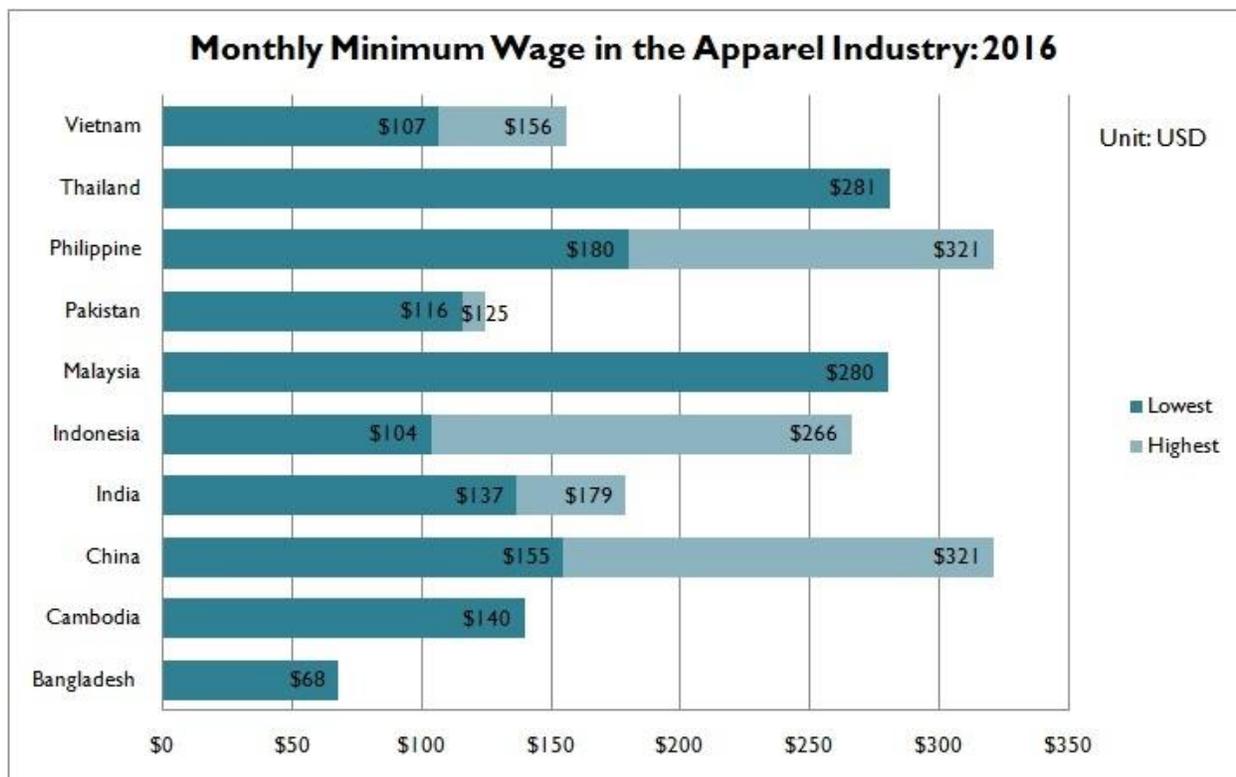
## **OFFSHORING EFFECT ON FOREIGN LABOR CASE STUDY: BANGLADESH APPAREL INDUSTRY**

One of the largest offshoring functions in East Asia is the offshoring of apparel manufacturing to Bangladesh. The Bangladesh garment industry has seen immense growth in the last 30 years. In 1983, there were only 40,000 people employed in the industry. Since then, employment has grown at an average of 17% a year and the industry now employs around 4 million people. Ninety five percent of apparel producing factories are owned by Bangladeshi owners and are contracted by European and American firms to export clothes to western markets (Kohli, 2013). Offshoring in Bangladesh is largely driven by cost reduction, with companies looking to increase their profit margins. In the past, China was the preferred location for American companies to offshore their manufacturing. However, China has recently faced political and social pressure to increase wages and provide stricter safety precautions for workers, causing offshoring costs to increase (Zhou, 2014). Due to this, coupled with stricter environmental regulations in China and India, Bangladesh has emerged as a cheaper alternative for American companies to offshore their manufacturing.

### *Reasons For Entering Bangladesh*

There were three main reasons why many U.S. companies chose to relocate their activities to Bangladesh. First of all, Bangladesh has an attractive labor force population as compared to other East Asian countries. Out of the 160 million people living in the country, half are under the age of 25, which provides companies with young and motivated workers with a smaller attrition rate than other countries. Additionally, the hourly

wage for workers in Bangladesh is 50 percent lower than the wage in the United States and 10 to 15 percent lower than the wage in China and India. This saves companies thousands in labor costs, as the average Bangladeshi worker only costs USD \$68 for a month of labor. Lastly, Bangladesh has lower infrastructure costs and less stringent regulations, making it easier and less costly for American companies to operate there as compared to other Asian countries. For example, the costs of having an office in Dhaka, Bangladesh is about 20% less than the cost of having an office of equal size in Delhi, Manila, or Shanghai (Kohli, 2013).



Source: (Lu, 2016)

## Top 10 Clothing Exporters, 2005 vs. 2011

2005		2011*	
China	<b>\$74.2 billion</b>	China	<b>\$153.8 billion</b>
Italy	<b>\$18.7</b>	Italy	<b>\$23.3</b>
Germany	<b>\$12.4</b>	<b>Bangladesh</b>	<b>\$19.9</b>
Turkey	<b>\$11.8</b>	Germany	<b>\$19.6</b>
India	<b>\$8.7</b>	India	<b>\$14.4</b>
France	<b>\$8.5</b>	Turkey	<b>\$13.9</b>
Mexico	<b>\$7.3</b>	Vietnam	<b>\$13.2</b>
<b>Bangladesh</b>	<b>\$6.9</b>	France	<b>\$11.0</b>
Belgium	<b>\$6.7</b>	Spain	<b>\$9.2</b>
U.S.	<b>\$5.0</b>	Belgium	<b>\$9.1</b>

\*The most recent year available  
Source: World Trade Organization

The Wall Street Journal



#### *Benefits to the Economy and Workers*

Bangladesh has benefitted a considerable amount in the last decade in economic terms. Bangladesh's total exports for the financial year 2016-2017 was USD \$34.8 billion as compared to USD 14.11 billion in 2007-2008 (Baumann-Pauly, 2018). This number accounts for over 15% of total GDP, making it an essential component of the nation's economy. The apparel manufacturing industry has become the largest employer in the country. Out of 160 million inhabitants, 4 million people are employed in the over 5000 factories in the country, with estimates indicating that this number could rise by another 3 million by 2020.

In a country riddled with poverty, these jobs can be an essential lifeline for Bangladeshi women, who make up 90% of the factory workforce. The life of a factory can often be very

difficult, however, recent studies have shown that working in factories have improved the development outcomes for many workers. One study focused on data on school enrollment, marriage, and childbirth outcomes from 1,395 households and in 60 Bangladeshi villages in year 2009. The economists conducting the study looked at what effect factory exposure had on the age at marriage and on the age of having their first child. What the study found was that girls 12-18 years old who lived in the proximity of a garment factory were 28% less likely to be married than girls in that age range who did not live close to a factory (Heath, 2014). They also found that girls who live next to a factory tend to have an average of 1.5 more years of education than their brothers. These girls also had a 50% increase in educational attainment over areas without a garment factory nearby. Additionally, girls who are exposed to factory jobs when they are 10-23 years old are 79 percent more likely to work outside the home before marriage. Finally, they found that the demand for education generated through manufacturing growth in Bangladesh accounts for more of the educational increase among girls than the Female Secondary school assistance program, a large scale government funded program that encourages education among young women.

The researchers believe that that access to manufacturing jobs leads to better educational outcomes through many different mechanisms. The first mechanism is through improving an area's economy, which in turn makes the returns to education greater. When a factory opens in area, it brings many opportunities and increases that area's marketplace. Whereas older children may be tempted to drop out of school and reap the immediate returns of a factory job, younger children who are not yet old enough

to work at the factory may choose instead to focus on education. The increase in older students choosing to drop out of school creates a shortage in higher-skilled jobs. Younger students understand that there now is a greater return on attaining an education, and therefore are motivated to finish their schooling in order to receive a higher paying job. Similarly, some higher paying factory jobs are also given preferentially to more educated applicants. Data shows that some managers prefer hiring more educated workers who are better at keeping records, learning new tasks, and being able to read instructions. Many higher paying factory jobs administer English and Arithmetic tests to screen applicants (Amin,1998). Furthermore, education is imperative for the best garment jobs, which include supervisory roles and other positions in the Export Processing Zone, which tends to have the best working conditions and benefits of all the sections in the factory. Therefore, when a factory is opened in the area, parents may encourage their children to stay in school in hopes of later attaining a better paying factory job. Lastly, another way in which manufacturing growth directly leads to greater educational outcomes is through a wealth effect. If parents now have greater job security and higher wages due to manufacturing growth, they can afford greater investment into their children's education. Additionally, greater economic security also means less pressure on students to drop out of school to contribute to their family's income.

The manufacturing growth in Bangladesh has had a considerable effect on women's education, work, and marriage decisions; It can be argued that manufacturing has greatly improved their lives. The combination of younger girls staying in school and older girls pursuing wage work in factories have allowed women to postpone marriage and

childbirth. The average age at marriage for women in Bangladesh has risen from 14.6 in 1983 to 17.0 in 2009. In the same time period, the number of children per woman has fallen from an average of 5.9 in 1983 to 2.3 in 2009 (World Development Indicators). As such, Bangladesh became one of the few third world countries to meet the gender equity goals set forth in the United Nations Millennium Declaration (Heath, 2014).

### *Tragedies due to lenient laws*

The lenient nature of Bangladeshi laws coupled with the states low capacity for enforcement have allowed for several factories to operate under hazardous conditions. One of these tragedies was the Tazreen Factory Fire in the Ashulia district on the outskirts of Dhaka. This factory opened in 2009 and employed 1700 people. The factory mainly produced polo t-shirts, shirts, and jackets for brands like Li and Fung, C&A, Disney, Wal-Mart, and U.S Marines. On November 24th, 2012, an electrical short circuit on the ground floor of the nine-story factory created the spark that began the fire. The fire spread quickly due to the large amount of flammable fabrics in the factory. Within a few minutes, the fire had covered the whole floor and had trapped the workers on the upper floors. The fire was so intense that it took more than 17 hours for firefighters to put it out. In the end, the fire had killed 117 workers and injured an additional 200 (Kohli, 2018). The Tazreen fire epitomizes how profit driven businesses can strategically disregard safety measures to cut costs. Although the fire was unpredictable, the safety measures that were supposed to be implemented in the factory would have helped save lives. To start, the flammable fabrics and yarn on the first floor that caused the fire were being stored illegally. Bangladeshi law requires factories to store such flammable materials in a special room

with the fire-proof walls. However, the factory viewed this standard as being too costly and opted to keep these materials in the open on the first floor, which contributed greatly to the speed at which the fire spread (Yardley 2012). When the fire alarms sounded, floor managers cognizant of production deadlines urged their workers to stay in their stations, causing many to lose precious minutes that could have saved their lives. To make matters worse, the supervisors on some floors went so far as to lock the exit gates on their floors to prevent workers from fleeing. Rather than installing an exterior fire exit, workers on the upper floors were forced to make their way through the factory's stairway. This was extremely difficult due to stairways being too narrow and the harmful smoke that was rising through them. The owners of the factory also failed to install an interior sprinkler system, which would have controlled the fire more efficiently. Furthermore, there was only one exit and one entrance to the factory. Not only would these exits not be sufficient to accommodate 1700 workers rushing to exit the factory, but once these exits were covered by the fire, the workers had nowhere to exit the buildings. Perhaps the greatest example of the state not having the capacity to enforce regulations on profit driven factory owners was the fact that the factory's fire safety license had been expired for two years. Since its last renewal, the factory only had permission to have three floors, however in those two years, an additional six floors were built to meet business demands. Apart from failing to adhere to safety procedures in design, the factory also neglected its fire training obligations. Fire safety information was only taught to 40 employees and probably not as thoroughly as regulations require, as showcased by the fact that none of the fire extinguishers in the factory were used on the night of the fire.

The following year there was another tragedy at a factory that led to the death of thousands of Bangladeshi workers. On April 24th, 2013, The Rana Plaza factory in the Savar suburbs of the greater Dhaka region collapsed, killing over 1200 people and injuring an additional 2500. The factory had been built on an unstable piece of land and the owner, Sohel Rana, did not have permission to build the upper floors of the eight story building. The factory was built with substandard materials and in blatant disregard for building codes according to a government investigation (Manik 2012). The upper floors had large power generators, necessary due to frequent power outages, that would shake the building whenever they turned on. On the day before the collapse, the building began to crack, causing the factory to shake so much that many workers left out of fear. An engineer was called to inspect the building and after inspection, deemed it unsafe for workers. Nonetheless, the factory bosses discounted any concerns about building safety and threatened to withhold a month of payment to any of the workers who didn't come to work the next day. The following day, a generator on the upper floor was turned on and caused the building to collapse. The majority of the casualties were women workers along with their children who were playing in the nursery facility in the building.

#### *American Companies' Response*

After the fire, Wal-Mart, Sears, Disney and other American apparel companies denied knowing that their products were being manufactured there. The global industry aspires to keep a close account of where their products are from the moment they are produced in factories all the way until they reach retail stores. They hire auditing firms to inspect factories for safety and quality of production. If a factory falls below their standard, orders

are not supposed to be sent there. However, many sub-standard factories operate on the margin of this system, and the Tazreen factory was one of them. Much of the factories business came from through opaque networks of subcontracts with local buying houses or suppliers (Yardley 2012). Although Wal-Mart has since fired the middlemen suppliers, many critics question how a company like Wal-Mart, known for their excellence in global supply management, could have not known their goods were being produced at the factory. This is especially hard to believe when factory records show that at the time of the fire 55 percent of the factories production was for Wal-Mart contractors (Greenhouse, 2013), Despite now having knowledge of their products were being produced there, American companies refused to take any responsibility for the fire. When the International Labor Organization, a special agency of the United Nations dedicated to protecting workers rights stepped and created a fund for the victim's families, American companies refused to contribute to it. This is a double victimization of the families of deceased or injured workers, many of whom lost the primary breadwinner in the family.

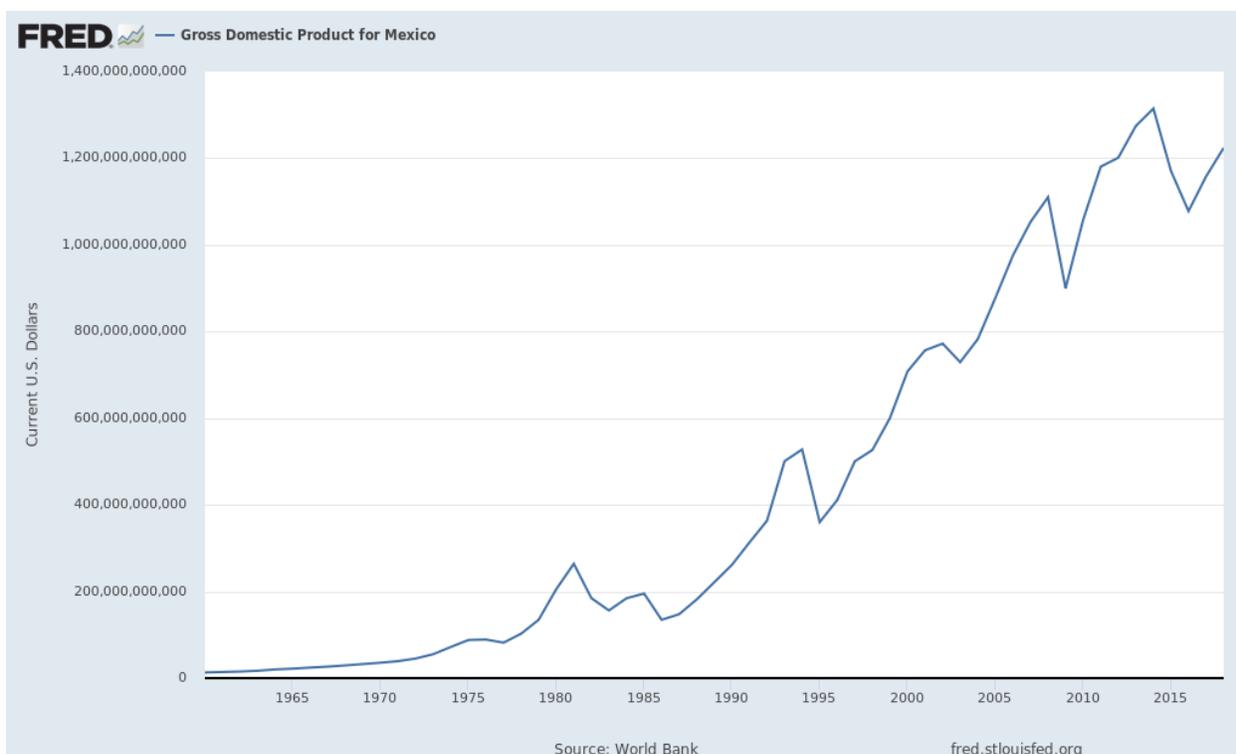
### **OFFSHORING CASE STUDY: MEXICAN MAQUILADORAS MANUFACTURING**

In recent decades, Mexico has emerged as a desirable destination for American firms to offshore their manufacturing operations for many reasons. The first is the geographic proximity; Mexico sits directly under the United States' southern border, which means that goods can be imported in a comparatively cheap and timely process (Delgado-Wise, 2007). The second reason is, as compared to the United States, labor is much cheaper. The current hourly minimum wage in the United States is USD \$7.25 while the Mexican minimum wage is only USD \$1.05, saving U.S companies USD \$6.20 per hour of labor

(World Population Review, 2019). Investment by American firms into manufacturing in Mexico began in 1965 when the Mexican government created the PRONAF program (Dorocki, 2014). Through this program, the Mexican government granted American companies licenses to foreign companies to import machinery, raw goods, and parts into northern Mexico without having to pay tariffs. The Mexican government did so to boost the Mexican economy and create jobs for those living in impoverished border cities. PRONAF led to the creation of the maquiladora industry in Mexico, which has been the primary driver of cross-border transportation of goods between the two countries (Dorocki, 2014). Maquiladoras are Mexican assembly plants that import raw materials and partially completed parts from U.S. companies that they use to create finished products that are later exported back to the American companies. The maquiladora industry was then further stabilized by the emergence of the North American Free Trade Agreement (NAFTA) economic pact between the United States, Canada, and Mexico in 1994. This agreement eliminated tariffs on trade between the three countries as well as cancelling import quotas on industrialized goods, making it easier to conduct multinational operations within this free-trade zone. It's estimated that the value of goods traded between the three countries has more than doubled since 1994 (Dorocki, 1994).

### *Benefits to the Mexican Economy and Mexican Citizens*

The Mexican economy has benefitted substantially as a direct result of foreign investment into its manufacturing industry after NAFTA. As seen in the chart below, Mexico's economy more than doubled from 1995 to 2000 and, except for a few recessions, has steadily grown since. (World Bank, 2019).



Today, Mexico's GDP is valued at USD \$1.283 trillion, making it the fifteenth largest economy in the world (Bajpai, 2019). The manufacturing industry continues to be a pillar of the economy, contributing roughly eighteen percent to the country's GDP. This makes the welfare of Mexico's economy largely reliant on foreign offshoring interest. Of the nation's USD \$309.6 billion in exports, over half come from maquiladora factories (Dorocki, 2014). When analyzed more closely, the Mexican economy's reliance on American interest specifically becomes more apparent. Roughly seventy four percent of all Mexican exports go to the United States as compared to the second largest destination, Canada, which only account for roughly seven percent (Krause 2012). Mexican citizens themselves have also benefitted from the expansion of offshoring in many ways. First, maquiladoras have provided job opportunities for many citizens who would otherwise be unemployed. The reason the Mexican and American governments

collaborated to pass PRONAF in 1965 was to solve two issues: the rising costs of manufacturing in the United States and the rising unemployment rate in Mexico. Since the creation of the industry, maquiladora factories have consistently provided job opportunities for Mexican citizens. In 1965, there were only 12 maquiladora factories which resulted in the employment of 3,000 people. In 2012 the number of factories rose to 5,055 factories that employed a combined 2,000,247 people, roughly 10% of the total workforce (Dorocki, 2014).

### *Harms to Mexican Workers*

Since the inception of the maquiladora industry, the vast majority of factory workers have been women. Although the number of male factory workers has been slightly rising since 1983, women still make up roughly 70% of the factory workforce (Dorocki, 2014). Most of these women travel north from the poorer southern states out of desperation and lack of opportunity. These women often face many forms of discrimination, especially women of child-bearing age. Prior to employment, women are illegally subjected to pregnancy screenings are turned away if they are pregnant. After the women are hired, some factories require them to take contraceptives as a condition for employment (Richards 2004). Other factories require women ages 16-25 to regularly take urine tests to determine if they're pregnant, and they are terminated if the tests come back positive. Another major issue that maquiladoras perpetuate is child labor. According to a study done by the National Autonomous University of Mexico, 3.6 million Mexican children and adolescents between the ages of 5 and 17 are employed (Nikolau, 2017). This accounts for roughly half of all child labor in Latin America. Although the federal minimum age for

employment is 16, many minors are hired to do dangerous factory jobs. Children as young as 11 or 12 often use doctored identification papers to enter factories and rarely discovered due to lenient oversight (Dorocki, 2014). Child labor is extremely harmful to young children in many ways. First, the children who work in these factories are often exposed to the dangerous conditions of the maquiladoras. These conditions expose children to chemicals that increase their risk of cancer and heart disease, environments that induce unnatural levels of stress, and increases their risk of getting physically injured (Ching, 2001). Additionally, the vast majority of children who work in these factories are forced to drop out of school. This prevents them from getting an education that could help them attain a higher paying job in the future, trapping them and their children in a cycle of poverty. These abuses are illegal under Mexican federal law, yet they're allowed to continue due to rampant corruption that has plagued Mexico for decades. Accepting bribes from wealthy business owners in exchange for political favors are a common practice for Mexican politicians (Morris, 1999). Owners of maquiladoras exert their clout both legally, through lobbying and political donations, and illegally through bribes to pass anti-union legislation and to reduce the oversight from labor agencies. Even when unions do form, they're often "protection unions", often headed by politically appointed leaders who do their best to serve the interests of factory workers and keep wages low. (Johnson, 2012)

### *Promising Signs for More Ethical Practice*

Although the maquiladora manufacturing industry has a history of exploitation, there are promising signs that the ethics of the industry could improve. The first is that over the

years, some firms have taken the initiative of implementing programs that benefit their workers. For example, Plantronics, who manufacture headsets Tijuana, Mexico to ship to their parent company across the border in California has started to invest their workers education (Tyler, 2013). For workers who haven't finished their education, the company pays for tutors who go to employees' homes after work to help them earn diplomas. Their educational program covers classes ranging from primary education to graduate courses. By investing in their employees, the company also is investing in themselves, with many of the employees filling higher-skilled positions within the company and affiliates. Another example is DJO Global, an orthopedic device company running a manufacturing operation in Tijuana, Mexico. DJO global noticed that many of their factory workers paid their utility bills in person, often having to wait in long lines which caused them to miss work and lose out on wages. To make their workers life easier and to increase productivity, they decided to deliver their utility payments on their behalf (Tyler, 2013). Additionally, when they realized that their workers used to spend hours on the weekend doing groceries, often having to take multiple buses to do so, the company negotiated with vendors to organize a market in the factory's parking lot. This way, workers can now purchase their essentials without having to go through additional transportation hassles (Tyler, 2013).

Another promising sign is that a growing number of political actors, from both the Mexican and American government, are starting initiatives to revamp Mexico's labor laws to make trade between the two countries more ethical. In January 2019, Mexico's new president, Lopez Obrador, fulfilled one of his campaign promises by raising the national minimum

wage by sixteen percent to USD \$1.10 per hour (Campbell, 2019). This is still an extremely poor wage by all standards, yet it was major win for minimum wage factory workers as this wage is now enough to feed a family of four. To offset the raise, the president gave multinational corporations a tax break. This increase not only has improved the lives of those working at minimum wage, but also has inspired other factory workers to demand fair wages. Many factory workers in the city of Matamoros, Mexico who were earning a wage of USD \$2.50 per hour had a clause in their employment contract that stipulated that they would receive a wage increase proportionate to increases in the minimum wage. However, when the federal minimum wage increase went into effect, the Day Labors, Industrial Workers, and Maquila Industries Unions, who cumulatively represent most of the factory workers in city all refused to raise the wage, citing that the new wage would be too high (Campbell 2019). Therefore, factory workers took matters into their own hands and organized strikes, refusing to work until their demands were met. In the past, oppressive factory owners could rely on the government to disband organized protests, yet Lopez Obrador refused to intervene. As a result, after just over month of striking, 45 factories in the city agreed to give factory workers the USD \$5 per hour wage and the USD \$1,600 yearly bonus they were demanding (Campbell 2019).

Mexican workers have also received help from an unlikely ally: president Donald Trump. In November of 2019, Trump announced that he had reached a trade deal with Mexico and Canada that would replace NAFTA. (Campbell, 2019) The new deal, known as the United-States-Mexico-Canada Agreement (USMCA) includes many labor provisions that

work towards protecting the rights of Mexican workers. Under this deal, the Mexican government has promised to pass laws that will guarantee workers the right to form unions and negotiate their own labor contracts. Although they currently have this freedom, the Mexican government in the past has tacitly given U.S companies and factory owners permission to sidestep regulations, effectively granting them the power to dictate the terms of labor contracts without employee input. Furthermore, the deal also requires Mexico to pass laws to protect the rights of migrant workers who are vulnerable for exploitation (Campbell, 2019). Perhaps the most coercive provision of the USMCA is that forty to forty percent of automobile parts must be made by workers who earn at least USD \$16 per hour by 2023 if they want to avoid tariffs (Kirby, 2019). This will either force American companies to pay their Mexican factory workers eight times what they're currently paying them, or manufacturers will simply have to buy more parts in the United States.

### **UTILITARIAN ASSESSMENT OF MANUFACTURING OFFSHORING**

A utilitarian assessment of the practice of manufacturing offshoring asks the question: *Are the decisions to offshore leading to the greatest amount of good for the greatest amount of people?* Only if the answer to this question is yes can it be said that this practice is ethical in the aggregate. It's clear that offshoring decisions by American companies have produced many favorable outcomes for stakeholders both domestically and abroad. Domestically, offshoring allows companies to cut production costs and use their savings to invest in other opportunities or repay their investors. The lower production costs allow them to sell their products for lower, more competitive prices, which increases the purchasing power of American consumers. Additionally, studies have shown that while

this practice leads to the loss of many low-skilled jobs in the United States, the loss is offset by the creation of higher-skilled, higher-paying jobs that compliment manufacturing.

Through the two case studies on manufacturing in Bangladesh and Mexico, it's also evident that this practice has produced favorable outcomes for foreign parties as well. In both countries, offshoring manufacturing has become an essential economic staple, with the export of manufactured goods contributing a large portion of their GDP's. Factory owners in these countries wouldn't be able to generate their wealth without demand from American companies, and millions of impoverished factory workers, who rely on their wages to feed their children, would otherwise be unemployed. In Bangladesh, studies show that having a factory in the area improves the educational and familial planning outcomes of young women in the area. In Mexico, certain factory receive wages that are nearly double that of the minimum wage and benefits that they might not receive elsewhere.

Although these benefits are vast, they also come at a substantial cost. The offshoring of manufacturing may provide millions of jobs for the impoverished, but these jobs require undertaking an extreme risk for factory workers. Workers know that they are putting themselves in these hazardous situations, but with no other opportunities and with a responsibility to provide for their families, they are forced to take these jobs. The reason why labor is so cheap in these countries is because there is little regulation and oversight, allowing factories to neglect safety precautions to produce goods for as cheap as possible. American companies understand this and strategically make the decision to

move there despite the risk that the production of their products may perpetuate child labor or result in the death of workers .They hire contractors and auditing companies to gauge the general safety of the factories, but fail to really do their due diligence and ensure that these factories are safe for themselves. Even after receiving evidence that their products were being produced in factories where tragedies occur, American companies fail to take responsibility and defer blame to the middlemen. In essence, when making the decision to offshore manufacturing to developing nations, are deliberately sidestepping the high ethical standards they are held to in the United States and exploiting the necessity of the impoverished in developing nations

So, is offshoring leading to the greatest amount of good for the greatest amount of people? From a utilitarian standpoint, I posit that the answer is no and that the practice is therefore currently unethical. Although the practice produces many benefits, I believe that the harms that accompany offshoring cannot be ignored. It is very difficult to weigh the suffering of factory workers against the vast benefits that it brings to many stakeholders in any objective manner. How does one weigh the death of thousands of Bangladeshi workers against one million dollars in profit? How does one weigh the loss of an education for a child laborer against the food he's able to provide for his family? Suffering and benefits cannot be weighed tangibly. Therefore, my argument rests not on a cost benefit analysis, but rather on the utilitarian ideal, which is whether the current practice of offshoring is producing as much good as it could be. In this light, I think its clear that there are many changes that could be made to make the practice produce more benefits than it currently does. I believe that the benefits of this practice fall heavily on the

side of American companies, American consumers, and wealthy factory owners, while only some marginal benefits are granted to foreign workers. If the scales were tipped so that foreign workers were afforded just a few more benefits, I think the positives generated from this would outweigh the loss in benefit from the previous benefactors. Let me put this into perspective with a hypothetical. In this hypothetical, Ford decides to pay their maquiladoras workers double their current wage. To offset the additional production costs, they decide to raise the price of their cars USD \$100 each. This means that every Ford customer that year foregoes USD \$100 of disposable income. Comparatively, for the median American household whose income is USD \$61,937, this isn't much of a loss (Guzman, 2019). However, the doubling of a worker's wage produces a significant amount of benefits for a Mexican factory worker, who now may be able to put their child through school. Therefore, I believe that to be considered ethical in a utilitarian framework, American companies need to invest more resources into monitoring the safety of the factories producing their products and into improving the well being of their workers in general.

### **STEPS TOWARDS MORE ETHICAL OFFSHORING**

It's evident that the current practices in place in offshored manufacturing compromise the ethical conduct of American companies. Certain measures need to be put in place so that the company's goal of making maximum profit does not offshoring work to factories that disregard workers' rights. There needs to be a radical change in the way companies offshore work so that foreign workers can reap the benefits of the opportunities without being subjected to overly hazardous conditions. One way to conduct offshoring more ethically would be to cut out contracting middlemen and auditors, especially in countries

with low state capacity like Bangladesh. As we can see through the example of the apparel industry in Bangladesh, indirect sourcing by American companies that use contractors has created regulatory voids in which workers have neither the effective protection of labor laws nor the benefit of contractual obligations imposed on their employers by rights-oriented corporate customers (Padmanabhan, 2015). In poorer countries like Bangladesh, manufacturers hold considerable influence on the government due to their relative wealth and contribution to the nation's economy. Through professional associations, they're able to lobby and block legislation that would provide meaningful oversight of factory conditions, resulting in the lenient regulation that exists today. Even these lax regulations are minimally enforced as the government lacks labor inspectors to cover the the large apparel manufacturing industry. Additionally, labor inspectors are vulnerable to bribery from manufacturers due to their poor pay. Therefore, simply deferring responsibility to auditors to check on the conduct of contractors is not enough for American companies to conduct business in foreign countries ethically. U.S companies need to take it upon themselves to hire their own inspectors to regularly inspect the factories that are producing their products. Rather than conducting business with middlemen, they need to work directly with the factories so that they have a close account of where their products are being produced. This is much easier said than done however, as doing so would increase the costs of offshoring and put more financial and legal liability on the companies themselves. Therefore, we cannot expect that the companies will take the initiative on their own, so coercive measures must be implemented.

The best way to implement this change would be for congress to pass an act that regulates offshoring manufacturing practice. Although this may seem like a radical approach, a precedent for regulating American companies abroad already exists. The Lacey Act is a federal statute governing the importation of fauna and flora into the United States from foreign nations (Larkin 2014), Through this law, it is illegal for United States Companies to violate foreign laws or to contract foreign companies that violate foreign law regarding plants or animals. For example, the United States Department of Justice found Lumber Liquidators, a flooring retailer, criminally liable for buying wood from a provider who was receiving wood from an illegal source. (Seibler 2017). Lumber Liquidators bought their wood from a Chinese provider, who unbeknownst to them, contracted a Russian timber company that was harvesting more wood from a remote region in Russia than was allowed. The Justice Department was alerted to this practice by an international organization known as the Environmental Investigation Agency. The department argued that Lumber Liquidators failed to exercise due care to uncover the illegal harvesting and the company was ordered to pay over \$13 million dollars in fines (Daughterty 2015)

If this level of protection is afforded plants and animals being imported as a result of illegal practices, then there's no reason why it can't be placed on other imports as well. If Congress were to implement a statute that put the same standard on American companies conducting offshored manufacturing operations, then it would certainly provide an incentive for more careful oversight of their supply chain. Whether American companies would choose to continue using auditors and contractors would be up to them,

however, doing so would no longer shift the legal and financial liability of offshoring onto these contractors. The hefty financial and criminal penalties that American companies would face under the new statute would provide adequate incentives for them to invest more resources into evaluating their contractors and keeping a close account of where their products are being produced. Overall, the effect this statute would have would be to lessen the amount of orders that hazardous factories would be receiving. This, in turn, would also incentivize these factories to improve their compliance to regulations so that they don't lose vital business from American Companies. The statute is also consistent with a utilitarian framework for business as the statute only takes into account actual consequences of business decisions, not intent or knowledge of the consequences. Therefore, implementation of this statute would facilitate more ethical business conduct in offshoring operations.

Another way that the United States government could facilitate more ethical offshoring is by giving developing nations it trades with incentives to create safer working conditions. A perfect example of this is the USMCA trade deal which put coercive pressure on the Mexican government to implement labor laws that guarantee workers' rights to unionize, ensured the protection of migrant workers, and put into place wage increase deadlines for the future. Trade deals like these countries would like to export their products to the United States without tariffs, then they would need to ensure that the labor practices in their country were ethical.

## CONCLUSION

The offshoring of American manufacturing emerged as a rational decision by American companies to conduct their production process in cheaper labor markets abroad. In doing so, they have not only increased their profits, but they have also contributed significantly to the economic development of countries. However, the desire to seek the lowest costs in labor has simultaneously contributed to strategic decisions by factory owners and government officials, as showcased by the case studies into Bangladesh and Mexico. When analyzed through a utilitarian ethical framework where the ideal standard is whether the practice is contributing the most good possible, offshoring fails to reach this ideal. As globalization and the advancement of technologies continuously makes the global economy increasingly interconnected, offshoring decisions are likely to become more common. Therefore, I believe its imperative to address some of the shortcomings of the practice so that when offshoring opportunities arise in other developing countries, American firms will be able to benefit will minimizing the potential harms. Although American companies could take the initiative themselves, I strongly urge coercive actions such as federal statutes regulating American sub-contractors abroad and trade deals that incentivize the revamping of labor laws in foreign countries. Through these coercive measures, the offshoring of manufacturing by American companies can become an ethical and more sustainable practice in the future.

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