

## **Globalization's Impact on Compliance with Labor Standards**

**Ann Harrison and Jason Scorse**

### **ABSTRACT**

Many critics of globalization claim that the increase in international trade and multinational activity are undermining compliance with labor standards. This paper uses a panel of manufacturing plants for Indonesia to examine the impact of export orientation and foreign ownership on compliance with the minimum wage. When examining the 1990s, Indonesia makes an ideal case study because the average nominal minimum wage quadrupled, the real minimum wage doubled, and both exports and foreign ownership increased dramatically. If plant or worker controls are excluded, one finds that both exporting firms and foreign plants are significantly more likely to comply with minimum wages. Once one controls for worker and plant characteristics, however, one finds the following: first, foreign ownership is associated with higher compliance with minimum wages, and second, higher compliance for exporters only occurred at the end of the 1990s. At the beginning of the decade, export status was associated with a lower likelihood of compliance, after controlling for plant and worker characteristics. This paper speculates that the increase in compliance for exporters is associated with the increase in human rights activism and pressure on Indonesian firms applied by the United States in the context of the Generalized System of Preferences (GSP). These results are robust to the inclusion of differences in profitability and productivity across ownership status.