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# Can Decent Work and Export Oriented Growth Strategies go together?

Lessons from Nicaragua's Export  
Processing Zones

The International  
Center for Development  
and Decent Work

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## Abstract

The present research paper takes the Nicaraguan Export Processing Zones as an exemplary case to investigate in how far it is possible for countries in the Global South to take steps towards Decent Work despite the pressures caused by export competition. In Nicaragua, export processing zones had a negative reputation for paying low wages and in compliance with trade union and workers' rights. However, a process of Social Dialogue that has resulted in tripartite agreements is seen as an important factor for the sector's successful recovery from the 2008–2009 world economic crises by local stakeholders. The present research study thus looks at the question in how far Decent Work and economic development have been successfully combined in Nicaraguan EPZs Social Dialogue.



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# 1 Introduction

The question of how to improve working conditions in an increasingly globalised economy has often been raised. The latest incidents of massive death caused by factory fires and collapses in Bangladesh's garment industry have brought renewed international attention. However, contributions which have criticised working conditions in labour intensive export sectors based on labour standards and humanitarian considerations, have been usually contested by neo-classical economists who point out that improved working conditions might cause economic harm to developing countries. This is based on the assumption that cheap and abundant labour is the main comparative advantage of developing countries (*cf. Bhagwati 2004: 132–133*).

In the present working paper, I shall instead argue that it can be in the self-interest of developing countries to pursue a Decent Work oriented development strategy, since the low-road strategy to the world market can represent a dead end: On the economic level it gives only limited incentives for development, while it becomes increasingly unsustainable from a political and social perspective.

Here, I shall analyse the case of Nicaragua's Export Processing Zones (EPZ). Hereby, I will focus on the ability and limitations of local stakeholders to take steps towards Decent Work in the context of export competition. I choose Nicaragua for my case study due to its specific political economic context: A government with strong historic ties to the trade union movement that has implemented steps towards Decent Work, but that has also continued free trade oriented policies and reached agreements with the International Monetary Fund (IMF). Nicaragua's EPZ sector is mainly based on labour-intensive export production and has attracted Foreign Direct Investment (FDI) primarily by offering cheap and abundant labour, tax and tariff incentives.

In the previous period of neoliberal governments from 1990 to 2006, the undermining of trade union rights and a weak enforcement of workers' rights were seen as a legitimate way to remain an attractive place for foreign investors. However, the perception of the Nicaraguan EPZ sector seems to have changed in Nicaragua and among international observers (*cf. Córdoba 30.07.2012, ADA 2012, Bermúdez 2009*). Furthermore, economic news hinted at the successful post-crisis recovery of Nicaragua's EPZ sector, especially with regard to employment creation (*cf. Vidaurre Arias 17.01.2013, cf. CNZF 26.09.2012*).

In the following, I will recognise the advances made, but also point out the continuous limitations and deficits of Nicaragua's EPZ strategy with regard to Decent Work. Thereby, the focus of my analysis remains on the sectorial level and on the similarities and differences between the strategies of three consecutive right-wing governments and the FSLN administration, which is in power since 2007. It does not intend to reach conclusion on Nicaragua's general development performance, nor does it provide a conclusive answer in favour or against EPZs as a development tool.

## 1.1 Research Question

The overall research question relates to the challenges faced by developing countries when trying to achieve Decent Work, while being subjected to export competition in a globalizing economy. What causes Nicaragua's ability to combine economic success in EPZs with steps towards Decent Work? To answer this analytical question, the amount of progress, and its limitations must be critically reviewed.

## 1.2 Paper Outline

The ensuing analysis starts by describing the theoretical framework in chapter 2. Thereafter, I quickly point out the research methods that I have used, before I start the empirical part of my work in chapter 3. In chapter 4, I will start my empirical observations focusing on the limitations of low-road approaches to globalisation. Thereafter, in chapter 5, I present the tripartite strategy that has been implemented in the Nicaraguan EPZ sector since 2009. Finally, I shall present my conclusions.

## 2 Theoretical Framework

I will start out with social movement and trade union theory, which shall be used to put into perspective the political struggles surrounding the pursuit of Decent Work orientated policies (2.1). Yet, while this perspective might help to understand the political change towards more labour friendly policies, it does not explain why this has been possible without notable negative consequences in the sector's economic performance. Therefore, economic theory must be taken into account in the present paper.

At this point, insights from institutional economics provide a better understanding of the economic effects of Decent Work oriented policies (2.2). However, while the actions of local stakeholders are clearly in the focus of the present analysis, the placement of Nicaraguan EPZ production in global chains must be part of the framework, as this zooming out gives important hints to transnational economic power relations, outside influences and possible limitations to improvements in working conditions. Thus, a global chain's perspective<sup>1</sup> approach, which combines insights from Global Value Chain Analysis (GVC) and the Global Production Networks (GPN) shall act as a reminder of the transnational context, which national level actors must keep in mind (2.3).



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<sup>1</sup> The term 'Global Chain' perspectives shall be used whenever I refer to both Global Value Chains and Global Production Networks.

## 2.1 The Political Struggle for Decent Work in EPZs

The ability of a country to make improvements concerning Decent Work is not defined by economic conditions alone, but also depends on organised labour's political influence on national policies. In the following, I will outline the theoretical framework to analyse the political context in which steps towards Decent Work have been achieved. Hereby, I shall follow the more sceptical and elitist approach to representative democracy. Giugni and Passy (1998) see political allies within the institutional political arena as the main facilitators of social movements and interest groups. They argue that social movements rarely achieve substantial changes on their own (*ibid.*).

The concept of Political Opportunity Structures (POS) "refers to the openness of a political system to the demands of social forces, be they organised interest groups or social movements." (*McGuire and Scherrer 2010: 6*). Various factors influence the responsiveness of a political system to the demands of a certain social group. Among these factors are the informal and formal channels available for social actors to put forward their demands, the ruling party in government and how it perceives its exposure to social protest as well as the consensus among policy makers (*McGuire and Scherrer 2010: 6–7*). Yet, a favourable POS is only a precondition for the success of a social actor. What is needed, are the adequate mobilizing structures and the ability to frame political issues (*cf. ibid. 7*).

Trade unions have historically used different strategies to gain political influence. In many cases, alliances with parties that are perceived as labour friendly exist. Often, these alliances have had ambiguous effects on labour movements' credibility. Nevertheless, political experience can be crucial to advance organised labour's interests.

Ganter and Steinhilber (2012: 60) define four resources of power for the labour movement, namely structural power, organizational power, symbolic power and institutional power. According to them, structural power results from the position of workers within the economic system, such as the relation between formal and informal employment and whether or not workers play a strategic role in key areas of production. Meanwhile, they conceptualise organizational power as the collective power, which results from workers' organizations such as trade unions, political parties, factory committees and their relation to other social movements. Symbolic power can be obtained when workers' struggles are put in a broader political context (*ibid.*). Last but not least, they understand institutional power as the result of structural negotiating power, workers' organizations and prestige within society and refer to a system of industrial relations and mechanisms of participation that constitute an institutional recognition of trade unions in government activities.

## 2.2 Institutional Economic Arguments for Decent Work

The above outlined insights from the perspectives of social movement and trade union theory offer useful tools to comprehend changes towards more Decent Work oriented policies. Yet, the purpose of my study is not only to explain the political changes, but also why those have been economically sustainable. The institutionalist economic approach, which takes into account concepts such as uncertainty and transaction costs, might help to explain Nicaragua's ability to improve working conditions while increasing the number of jobs.

Given that the steps towards Decent Work take place under conditions of export competition, the relation between competitiveness and Decent Work shall be an important part of the analysis. This competition takes place as south-south competition for northern markets; with low entry barriers in sectors such as apparel leading to stiffer competition (*cf. Scherrer and Sinaga 2012*).

In contrast to neo-classical scholars, neo-institutionalists hint at

“the destructive potential that market mechanisms can have in trade between nations because of the absence of a central regulatory authority at an international level. According to that view, foreign trade should, therefore, be flanked by domestic social legislation and regulated externally by multilateral agreements.”  
*(Scherrer 2007: 137)*

However, developing countries face severe difficulties when trying to pursue a high-road approach to globalization. The argument here is that while better working conditions are beneficial in the long run, the risk of short-term economic costs and thus a danger to competitiveness cannot be denied (*cf. Scherrer 2007: 154*). With high levels of underemployment and informality, the logic for employment creation in EPZs was to attract labour-intensive investment and in consequence employment by maintaining low-labour costs.

Institutionalism provides both supply- and demand-side oriented arguments for a Decent Work Agenda. From the supply-side perspective, negative effects of wages below the minimum subsistence level are pointed out: Workers are unable to invest in their education or the education of their own children and to get access to necessary health care.

“Higher wages, on the other hand, would not only enable workers to maintain and enhance their qualifications but would also increase the incentive to attend school and to adopt performance-oriented behaviour.”

Meanwhile, an increase in wages stimulates the formation of ‘human capital’ that is crucial for economic development (*Scherrer 2007: 142*).

Furthermore, higher-wages must not translate one-to-one in higher labour costs. For example, wage increases might lead to lower turnover and a decline of absenteeism, while on the management side it might improve the selection process of workers (*cf. Scherrer 2007: 143*). Put in terms of neo-institutional theory, there is a decrease in transaction costs due to a lower turnover of workers.

“Production is in most cases an interdependent process that requires active cooperation among workers and managers. The degree of cooperation (including work effort) is a choice variable for workers; low cooperation typically means low productivity and profits and high cooperation means the reverse. Many factors influence workers’ willingness to cooperate but among the most important are trust, fairness and job security.” *(Kaufman 2010: 16–17)*

On the demand-side, it is argued that the concentration of national income leads to an excessively high savings ratio and low levels of growth-stimulating investment (*Scherrer 2007: 142*). High levels of inequality impede

“the emergence of a mass market in durable consumer goods so that developing countries cannot emulate the “Fordist” growth model of the United States and Western Europe.” *(Scherrer 2007: 142)*

Furthermore, with production in EPZs exclusively oriented towards foreign markets, an increase in domestic demand is not in the interest of employers in this sector. In this regard, the EPZ strategy can be put into question more generally. However, concerning export oriented sectors in the South, I shall argue that the ability to reach agreements on social benefits and wages can be seen as an important factor to lower uncertainty for investors.

## 2.3 Global Production Networks

Global Chain perspectives are helpful to understand the position of Nicaraguan EPZs in transnational supply chains. In the following sub-chapter, I shall outline the main components of Global Value Chain Analysis (GVC) and the Global Production Networks (GPN) approach, which despite differences shall be regarded as complementary (*cf. Bair 2008: 357*). One of the major questions that global chain perspectives try to answer is whether it is possible to improve the quality of employment while increasing its quantity at the same time (*cf. Barrientos et al. 2010: 6*).

The distinction between producer-driven and buyer-driven value chains is a basic distinction between two ideal types of value chains and a useful tool to understand the scope of different actors along the global chain. A likewise important distinction is that between mobile and in-mobile, labour intensive and capital intensive industries (*cf. Scherrer and Sinaga 2012*). Despite its strength in the structural mapping of vertical connections between firms, the GVC approach pays little attention to the institutional context in which chains operate (*Barrientos 2007: 6*). Meanwhile, the GPNs approach

“places greater emphasis on analysing relations across networks of firms (local, regional and global). Production networks are perceived in terms of embedded social relations and asymmetrical power relations that are played out as an on-going process by different social actors and intermediaries.” (Barrientos 2007: 6)

The GPN approach helps to get a better understanding of the Nicaraguan EPZ sector in the global economy and hence of the scope of country-level actors to ensure Decent Work. Anner (2011) points out that the segmented transnational production regime has made it increasingly difficult for trade unions in El Salvador and Honduras to reach agreements with employers.

In the global apparel value chain Multinational Enterprises (MNEs), such as Nike or Adidas and other brand name corporations are no longer the owners of the production facilities. This allows them to make flexible sourcing decisions, while at the same time increasingly controlling the decisions of their suppliers (*ibid. 1*). According to Anner (2011: 17), labour’s source of power in buyer-driven value chains lies in social movement activism, boycotts and shaming mechanisms. However, important limitations of these approaches cannot be neglected. Their success largely depends on consumer networks’ ability to mobilise consumer consciousness in the North. This might be possible in cases of extreme neglects in safety, clearly inhumane conditions and child labour, but probably not in the case of violations of collective rights (*cf. Greven and Scherrer 2002*).

## 3 Research Methods

My analysis is based on available quantitative data, academic literature as well as qualitative information from semi-structured interviews with stakeholders and experts conducted mainly during a field research in Nicaragua from August to September 2012. The interviews have been especially helpful to interpret statistical information and in order to obtain information on stakeholders' perceptions and developments that cannot be measured quantitatively. They also helped to map stakeholder relations and to get an idea of their motives and strategies.

### 3.1 Field Research and Literature – Data Collection

The semi-standardised interviews made possible a certain degree of comparability as the stakeholders from different groups were asked questions relating to employment creation, guaranteeing rights at work, social protection and social dialogue. Yet, the interviews were always open enough to permit the expression of additional concerns. Therefore, on the one hand the answers can clearly be related to the Decent Work concept, on the other hand it was avoided to pre-exclude potentially important concerns (*cf. Diekmann 2008: 531*). Apart from representatives of the three main stakeholder groups – organised labour, employers and the government – informal meetings with factory workers have helped me to understand their perspectives and concerns.

The interviews have been highly important, because of the partisan structure of large fractions of the news media, but also because most stakeholder interactions remain uncovered<sup>2</sup>. Hence, I avoided a research agenda based on previously formed ideas that would risk neglecting the questions that are relevant to stakeholders in the EPZ sector. The qualitative approach helps to integrate multiple perspectives, which is not possible with the fixed items of a standardised questionnaire that follows the quantitative paradigm, “because every correspondent has different observations to contribute” (*Weiss 1995: 9*). The approach I applied in the present analysis was based on guiding questions that helped to ensure the necessary amount of completeness and comparability, while remaining flexible enough to take in new directions of thought from the field (*cf. ibid.: 12–13*).

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<sup>2</sup> Andreas Hetzer (2010: 68–77) provides an in-depth analysis of the Nicaraguan media-system.

### 3.2 Data Analysis

I have analysed the information obtained in stakeholder interviews based on the four main pillars of ILO's Decent Work concept: a) Creating employment, b) guaranteeing rights at work, c) extending social protection and d) promoting social dialogue. Within the above described framework based on the four pillars of Decent Work, I have developed criteria for the evaluation of information obtained in interviews, following principle of openness of the qualitative research paradigm (*Lamnek 2005: 507*). Based on this procedure, I have re-constructed the perception of the Decent Work record in Nicaraguan EPZs by different stakeholder groups, its advances, deficits and limitations. These perspectives are used to indicate common ground and differences between stakeholder groups, but also consensus and different positions within such. The criteria that I apply for the measurement of Decent Work are the ILO established Decent Work Agenda and the amount of progress with regard to the Decent Work deficit, as it has been recognised in news-media, academic and non-academic literature especially in the period prior to the change of government in 2007 as well as the priorities of the interviewees.

In this context, it is important to point out that the Decent Work pillars are not understood as selective categories but rather as intimately related parts of Decent Work, which can be reinforcing one another. However, trade-offs between different Decent Work aims cannot be denied a-priori either. It must be acknowledged here, that the interviews provide information more on the stakeholders' perceptions than on verifiable progress with regard to the different Decent Work pillars. The situation is somewhat different with regard to Social Dialogue, which is at the centre of the present analysis. It can be understood as an important tool to improve working conditions and forge economic development based on consensus and compromise among stakeholders.

While Decent Work is an end in itself, the question whether or not it has positive effects on economic development is important in the political debate on Decent Work oriented policies. Hence, to show a positive economic development in Nicaraguan EPZs while steps towards more Decent Work oriented policies are taken is a central part of the argument. Therefore, adequate economic development indicators must be evaluated: I look at foreign direct investment FDI as an indicator of confidence in the economic perspectives of a country or a specific economic sector. Besides FDI, I will also look at the development of export value realised by Nicaragua's EPZ factories and the development of exports in general. Furthermore, I have used the concept of economic upgrading which is "identified as a move to higher-value added activities in production, to improve technology, knowledge and skills" in order to detect qualitative changes in the sector (*Barrientos et al. 2010: 6*).

Apart from that, remarks on economic policy with regards to EPZs that do not directly relate to the Decent Work agenda are also part of the analysis. This last point hints at the possibility that there might be a correlation between Decent Work oriented policies and economic success without the existence of a causal relation. Other possible factors are: low wages in comparison to regional competition, increased competitiveness due to currency devaluation, a general increase in demand or other sectorial development policies, which are not Decent Work related. In this context, it will not be possible to quantify the positive impact of Decent Work and especially social dialogue. However, by excluding other possible reasons for economic success of Nicaraguan EPZs the case for a positive impact of Decent Work oriented policies will be strengthened.

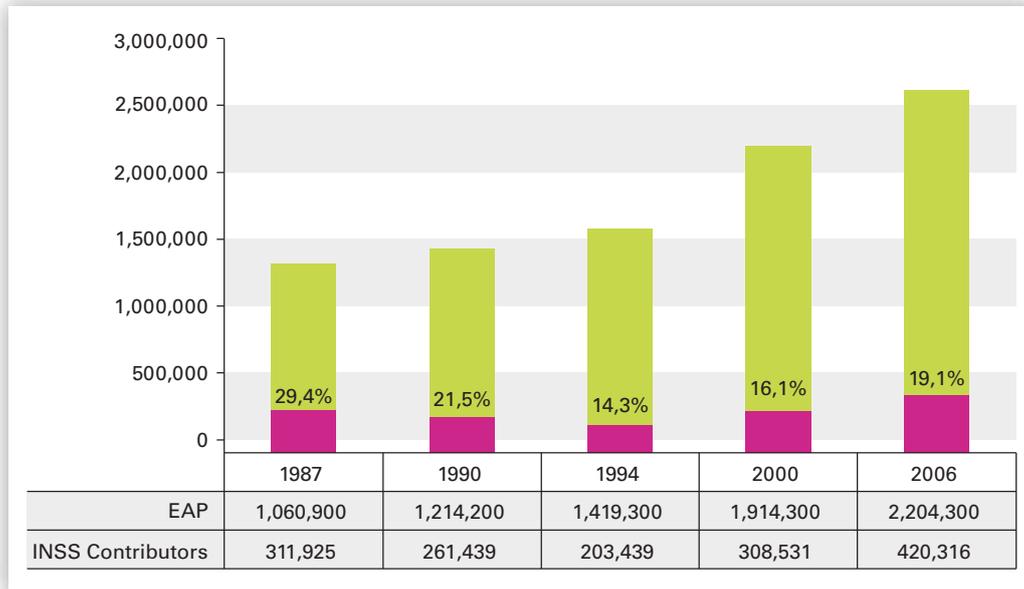
## 4 The Low-Road to Globalisation: A Dead End

In order to provide an adequate analysis of the Decent Work record in the EPZ sector under the current FSLN government, the status quo ante must be examined first. Therefore, I shall provide an analysis of the development of the EPZ sector as part of the neo-liberal development strategy since the early 1990s. I will thus analyse the main features of the market-oriented development in Nicaragua under three consecutive right-wing governments<sup>3</sup> from 1990 to 2006, which followed the Sandinista concept of the 1980ies that can be regarded as a national revolutionary process marked by high social aspirations (*cf. Klein 2010: 24–25*).

In the early 1990s, the IMF policy prescriptions for Nicaragua demanded a radical adjustment programme to bring down inflation and to make the country competitive. This prescription has been criticised by Nicaraguan economist Adolfo Acevedo (2008) for not recognising Nicaragua’s backlog in infrastructure and human capital development after the Sandinista revolution had been forced to use much of the country’s resources to confront the US-backed Contra in a civil war. The privatization of public companies and the dismantling of public services led to an increase in unemployment and underemployment. Thousands of workers were made abundant in this process. The number of contributors to social security continued to decrease until 1994, but it took until 2001 to reach more contributors than in 1987 while the economically active population had increased immensely in this period.



<sup>3</sup> Violeta Barrios de Chamorro (1990–1996), Arnoldo Alemán (1997–2002) and Enrique Bolaños (2002–2007).



**Figure 1:** Contributors to Social Security (INSS) Compared to Economically Active Population (EAP)  
 Source: Banco Central de Nicaragua 2010

The growth of EPZs under three liberal-conservative governments from 1990 to 2006 presented new challenges to Nicaragua’s labour movement. Organizing took place in an environment that was hostile to trade unions in different ways. In the beginning trade unions were not permitted at all (*cf. Vukelich 1993*). On the economic level, high levels of unemployment, sub-ordinate integration in the world market, and the flexibility of investors and especially lead firms put Nicaraguan labour in a weak bargaining position.

As pointed out before, the anti-unionist posture of government bureaucracies, including the labour ministry, is not the only cause for trade unions’ weakness. The labour market instability is another important obstacle. “This situation prevents workers from organising, because they are afraid that they will be fired for joining a union. This weakens the union and makes it harder for it to have the strength to negotiate a favourable bargaining agreement.” (*ASEPROLA 2004: 17–18*). Furthermore, low wages in the absence of viable alternatives have made it difficult to limit the supply of labour, on the other hand the disposition to work extra hours is directly related to the low wages that make overtime necessary from the perspective of the individual worker to make ends meet (*ibid.: 25*).

The situation of labour rights in Nicaragua is in line with the Latin American gap between norms and reality, pointed out by Bensusán (2010). Borgeaud Garcíandia (2007: 65) underlines that there was also a party political component as there was a tendency to accept liberal trade unions while Sandinista trade unions were suppressed. However, in an interview a key leader of the Confederación de Unificación Sindical (CUS) – a trade union with close ties to the PLC- sees the Bolaños administration as the most anti-labour government in the country's history. He also pointed out that it has become easier to form a trade union in the EPZ under the current Sandinista administration than under previous liberal administrations.<sup>4,5</sup>

The problem for workers tended to be less with the formal recognition of collective and individual rights and more with the actual access to justice and the legitimacy of labour law enforcement. In a context of a neoliberal development strategy, labour laws were regarded as an impediment for economic growth. "The idea that flexibilisation and deregulation contribute to employment creation has further reduced the level of protections, and, more generally, the political and social legitimacy of labour law." (Teklè 2010: 35). Bensusán (2010: 147–148) explains that the lack of enforcement and the difficulty to get access to justice was instrumental for more flexible industrial relations, probably more than legal reforms.

Under these circumstances, organised labour was only partially able to fight back with spontaneous strikes (Navas 10.07.2002). They also did this by organising transnational campaigns with the help of US-American and European solidarity groups and the emerging anti-sweatshop movement (cf. ASEPROLA 2004). Around the year 2000 a lot of labour conflicts took place and severely affected the EPZ sector (La Prensa 2000, cf. Castillo Zeas 2000). In these conflicts, the Alemán administration was a clear ally of the employer's side. As the EPZ was growing during the Alemán administration, so were the labour conflicts. As can be seen in the statements of CZF executive Gilberto Wong, the administrative officials saw trade unions as a threat for investments and job creation, putting the blame on worker's organisations for claiming their rights and not on the employers for violating these rights (cf. Roa Romero 16.11.2000b).

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<sup>3</sup> He particularly accuses the former EPZ director Gilberto Wong, who is a fellow member of the PLC.

<sup>4</sup> Liberal trade unions have denounced the violation of trade union rights by the FSLN government in government ministries. The reason behind this is that the FSLN has continued the policy of previous administrations to employ partisans, while dismissing supporters of other political parties. The FSLN makes use of the flexibilisation of work contracts in the public sector, which was passed during the Chamorro administration.

As trade unions have established links with unions and activist groups in the United States, these conflicts take place in a complex transnational setting. The more radical CST trade unions, which have used the threat of boycotts from the US, were criticised for putting in danger workers jobs. Francisco Aguirre, Nicaragua's ambassador to the United States, accused the labour movement of 'trade union terrorism' (cf. *Castillo Zeas 03.08.2000*). The solidarity from US unionists was also put into question in lines with Bhagwati's verdict on northern trade unions that they were only protecting their own interests (cf. *El Nuevo Diario 17.11.2000*). The criticism was not limited to government officials and the employer's side, but also voiced by the MEC women's movement. "A right cannot be demanded by cutting another right, what right of organising do I have when I will not have work?", (Ramos 2000, cited according to Roa Romero 16.11.2000a). Ramos pointed out on the one hand, that only the CST had problems, while the ATC and various liberal unions did not (ibid.). In practice, the public statements MEC placed the responsibility for possible job losses with the trade unions. At the same time, Ramos also acknowledged on the other hand that labour rights were violated by EPZ employers (*Ökumenisches Büro 2001*). The example shows that contradictions between trade unions and other organisations that are concerned about improving working and living conditions for workers can weaken the labour movement as a whole. It also shows the dilemma between poor working conditions on the one hand and the fear of job loss on the other, whereby the scope of union demands is structurally restricted at the factory level.

According to industry representative Dean García (02.08.2012), the strategies applied by EPZ producers towards labour and the society at large began to change in the year 2000, when employers started to be more open towards society and recognise the importance of Corporate Social Responsibility (CSR) projects. Despite that, the EPZ-sector was not able to change its image effectively and regarded as a necessary evil, but still an evil that was constantly criticised by trade unions, NGOs and the Sandinista opposition.

The situation in EPZ with regard to Decent Working conditions has changed in the period from 1991 to 2006 due to various factors, such as labour organising, transnational campaigns and lead-firms codes of conduct. Nonetheless, important problems with regard to Decent Work have persisted. There has been a high amount of employer's influence within the governmental administration of EPZs and also the labour ministry in part as a result of a revolving door mechanism between public and private sector. In fact, low pay and violations of labour law have characterised Nicaraguan EPZs from the start (*MacCallum 2011: 11*). As a strong implementation of workers right was seen as a threat to job creation, the governments were not only without the capacity to enforce labour laws, but also without the will to do so. Concerning the control of labour rights compliance, it is revealing that according to a leading Sandinista trade union official the workers themselves were not participating with their own representatives in the inspection process of the labour ministry.

The neoliberal development model that was implemented with minor variations by three consecutive right-wing governments did not generate sustainable economic growth.

“Only a small part of the population benefited from Nicaragua’s development – the vast majority remained excluded from public infrastructure, social services and individual development options.” (Butscher 2009: 133).

In 2007, the year that the FSLN returned to the government, almost 80 per cent of the population lived on less than 2 US-Dollars a day and 45 per cent of less than 1 US-Dollar a day (*cf. ibid. 134*). Regarding the EPZ sector, not the perspective to catch-up with other Latin American countries in terms of industrial development was used as the main argument for the incentives provided to investors, but rather the lack of alternatives for the relatively large number of employees became the main argument for continuous subsidies and incentives for the EPZ sector.

From a development perspective, the Nicaraguan EPZ sector represented the ensuing deficits:

- Competitiveness based primarily on wage-repression instead of productivity increases.
- Weak industrial relations environment characterised by a lack of trust between stakeholders leading to a vicious circle of labour repression, high absenteeism and turnover, spontaneous strikes often answered with more repression.
- Most EPZ production was taking place in economic enclaves without major backward linkages to local suppliers, thus their impact on domestic value creation and economic upgrading remained limited.
- Backlog in infrastructure development and a severe crisis in energy supply, which led to revolving power outages and made it impossible to think of expanding EPZ production (*Martinez 28.06.2006*).

## **5** Tripartism, a Reformist Approach: Benefits and Limitations

The FSLN took over the government under difficult political circumstances. The electoral result of 38 percent had not been overwhelming at all, on the opposite, the FSLN in 2006 remained a minority and governed confronting an anti-sandinista majority in parliament. Even though, this situation did not change until the elections of 2011, when the FSLN obtained a landslide victory, the basis of tripartism was already laid in the recovery from the 2008-2009 world economic crises.

In this chapter, I will discuss the continuity and changes in Nicaragua's development strategy with an emphasis on policies related to foreign trade and FDI as well as labour policies with respect to Decent Work. Hereby, the main focus will be on tripartism as an enabling tool to reach Decent Working conditions. I will start by describing the political economic context in section 5.1, then I look at the crisis of the EPZ sector and its recovery in section 5.2 and end this chapter with sub-chapter 5.3 in which I attempt to answer the question whether social dialogue can be regarded as the key to economic development and Decent Work.

### **5.1 The Political Economic Context**

With the FSLN, a political party with close historic ties<sup>6</sup> to the country's two mayor trade union organisations – the Frente Nacional de Trabajadores (FNT)<sup>7</sup> and the Central Sandinista de Trabajadores (CST)<sup>8</sup>, returned to power in 2007. Furthermore, it had criticised the neo-liberal development strategy, which focused on employment creation based on cheap labour in the apparel industry. Industry leaders had threatened the EPZ-sector might disappear if FSLN-leader Daniel Ortega would be elected. Ortega himself had criticised the development model based on the apparel industry in EPZ, which according to him left the country nothing but 'miserable' wages (Radio La Primerisima 31.01.2006). Given these preconditions, the success of Nicaragua's EPZ sector under a Sandinista government could hardly be expected in 2007.

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<sup>6</sup> Levitsky (2006) argues that the Sandinista trade unions had played an important role in overthrowing the Somoza dictatorship. The unions stayed loyal to the FSLN government despite a lack of political freedom and economic advances in the 1980ies, because they were granted unprecedented access to the government. While providing interesting insight, the article lacks putting things in perspective, as the author ignores the situation of civil war that was caused by the Contra-Insurgence

<sup>7</sup> National Workers Front

<sup>8</sup> Sandinistas Workers Federation

Despite its critical rhetoric, the Ortega government accepted the rules of the Dominican Republic – Central American Free Trade Agreement (DR-CAFTA) and continued to give incentives to investors in the EPZ. In a meeting with the leadership of the Higher Council of Private Enterprise (COSEP) in 2008, Ortega promised to stimulate the EPZ sector (*Potosme 24.05.2008*). Bureaucratic processes were simplified by the creation of the **Ventana Unica de Servicios de Zona Franca**<sup>9</sup> (VUSZF) in 2009 (*President of the Republic 11.03.2009*).

Meanwhile, Nicaragua also became a member of the ALBA, an integration project that is widely regarded as the antithesis to DR-CAFTA (*cf. Ebenau 2010: 98*). The prospect of favourable oil imports from and social projects financed by Venezuela led to a broad support for ALBA membership in Nicaragua's national assembly. The DR-CAFTA agreement has a more comprehensive set of rules and has a higher degree of institutionalisation than ALBA (*ibid. 102–107*). With Central America and the USA it also continues to represent Nicaragua's main export market (*cf. El Mundo: 03.01.2013*).

Today, the EPZ production continues to play an important role in the creation of employment and exports that help to stabilise its balance of payments. However, some relative changes can be noticed. During the Bolaños administration more than 25 per cent of all FDI was in the EPZ sector, while the EPZ sector represented less than 20 per cent of FDI during the Ortega administration from 2007 to 2011<sup>10</sup>. In 2013 Nicaragua received about 1500 Million in FDI (*La Prensa Grafica 2014*), yet the differentiated numbers for each sector were not yet available at the time of writing. In the case of the EPZ sector a significant increase can be expected given that the foreign direct investment had already reached 166.2 million after the first three quarters of the year. Interestingly, the investment in industries outside the EPZ has been 268.3 Million in 2012 and 226.4 Million in the first three quarters of 2013, while it had not been important in previous years.

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<sup>9</sup> Tax-Free Zone Services One-Stop Window

<sup>10</sup> Own Calculation

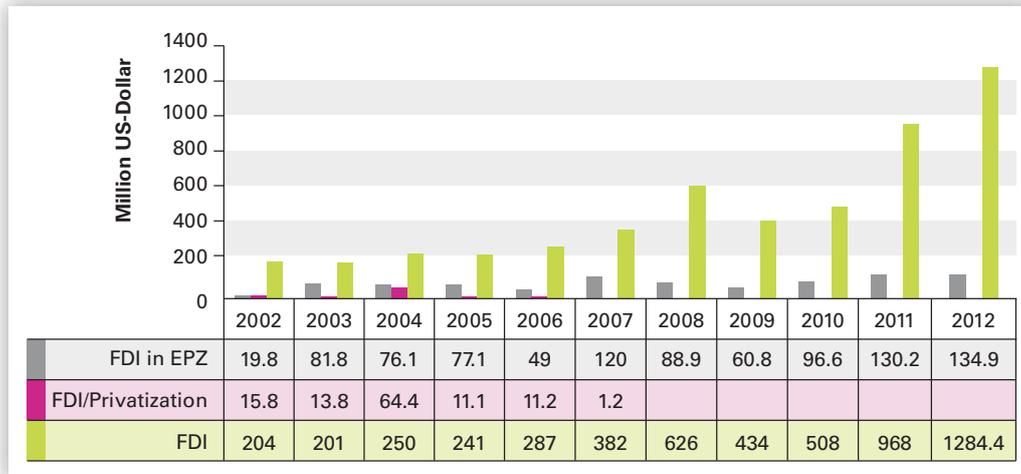


Figure 2: Evolution of FDI in the EPZs and in General (2002–2012)  
Source: PRONicaragua , BCN 2012, 2007, 2005

Furthermore, the FSLN government has modestly changed the role of the state in the economy. It has stopped privatisations and instead given the state a more active role in economic development. With regard to the state’s role in the economy, the FSLN government thus diverges from Central America’s so called New Economic Model (NEM), while it continues the liberalisation of trade and keeps the domestic deregulations that were implemented under previous administrations untouched (*cf. Sánchez-Ancochea 2008: 176*). Furthermore, the FSLN government has emphasised the importance of small-business and especially cooperatives for the country’s development in its human development plans (*GRUN 2008, GRUN 2012*). The commitment to small enterprises and cooperatives has also been underlined by the creation of a ministry for this sector (*Pantoja 07.08.2012*).

Despite the ideological contradictions between both integration mechanisms, ALBA has resulted rather complementary than contradictory to the DR-CAFTA. For one, the support of Venezuela right after Ortega’s election permitted to solve the countries acute energy crisis within a month after returning to power. (*cf. Radio La Primerisima 20.04.2006, Agencia ACAN-EFE 27.06.2007*). More strategic investments in renewable energy followed in the ensuing years. Furthermore, Venezuela which had played no major role as a market for Nicaraguan products has emerged as the second largest market for Nicaraguan products. In this regard, ALBA created important export opportunities for agricultural producers (*BCN 2012: 35, El Mundo 03.01.2013*).

In the energy sector, Nicaragua has mobilised resources from ALBANISA and different private investors, and funding from multilateral donors, such as the World Bank, the Inter-American Development Bank (IADB), and the **Banco Centroamericano de Integración Económica** (BCIE)<sup>11</sup> (*Álvarez 04.08.2008, Energia12 11.06.2012*). The investments in the energy sector have provided a more stable access to electric energy and significantly increased the use of renewable energy, yet the electricity prices remain relatively high (*Olivares 13.06.2012, Energia12 11.06.2012*).

In the case of the EPZ sector and labour rights, another factor explains the FSLN-government's ability to make significant changes with regard to working rights without having a parliamentary majority: Relatively progressive laws that were not implemented but existed on paper, even before the FSLN had gained power over the executive branch.<sup>12</sup>

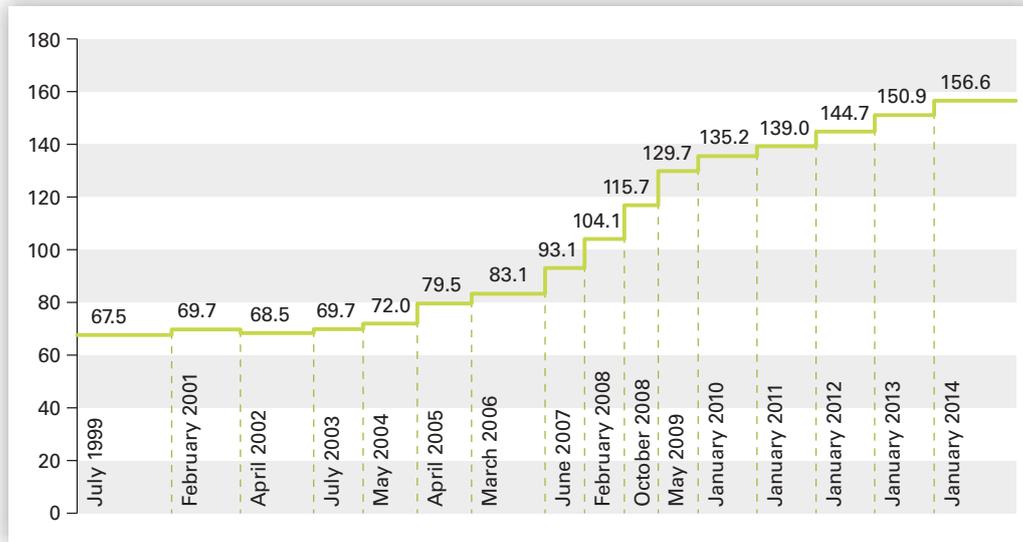
## 5.2 Crisis and Recovery of the EPZ Sector

During the first years of the second FSLN-government the EPZ-sector entered in severe problems, in part as a result of the global economic crisis. Yet, there are also claims that higher wage increases have had a negative impact on competitiveness and led to a loss of employment (*García 02.08.2012*). In fact, prior to the 2006 presidential elections fears were raised that maquila-factories could leave the country if FSLN-leader Daniel Ortega would be elected (*cf. Borgeaud Garcíandía 2007: 67*).

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<sup>11</sup> Central American Bank for Economic Integration (CABEI)

<sup>12</sup> Among other labour rights, freedom of trade unions and the right to strike are part of Nicaragua's constitution (Asamblea Nacional Constituyente 1987).



**Figure 3:** Development of Net Minimum Wage in US-Dollar since 1999

Source: BCN, conversion in US-Dollar at the Interbank-Rate based on Oanda Currency Services<sup>13</sup>

Prior to the change of government the wages increased only by 15.6 US-Dollar from 67.5 in July 1999 to 83.1 US-Dollar in March 2006 when the FSLN returned to power in January 2007. From then to 2013 the net minimum wage in US-Dollar increased 67.8 US-Dollar and reached 150.9 in 2013, as seen in **figure 3**. Despite this increase EPZ wages are still the lowest in Central America. According to key government officials from institutions that are closely related to the EPZs wages in 2007, neither lived up to standards of fairness, nor were they economically beneficial for the country, because workers constantly opted for seasonal migration to Costa Rica. However, it must be noted that the increase in the minimum wage in the EPZ sector was at a slower pace than in other sectors of the economy. Setting the minimum wage level in June 2007 at 100, nominal Córdoba wages in the EPZ sector had increased to 177 in August 2011, while other sectors had increased to 192 in the same time (*own calculation based on BCN 2012: 74*).

As mentioned before, the relation of EPZ-employers and the FSLN-government were conflictive in part due to a more labour friendly wage policy. In addition to that, the administration stepped up efforts to enforce the labour legislation in the country. A quantitative measure is the number of labour inspections that have been more than tripled compared to previous governments as can be seen in the ensuing figure.

<sup>13</sup> Nicaragua maintains a crawling-peg to the US-Dollar in order to promote exchange rate stability, while taking into account different macro-economic conditions of the two countries (TheGlobalEconomy.com n.d.).

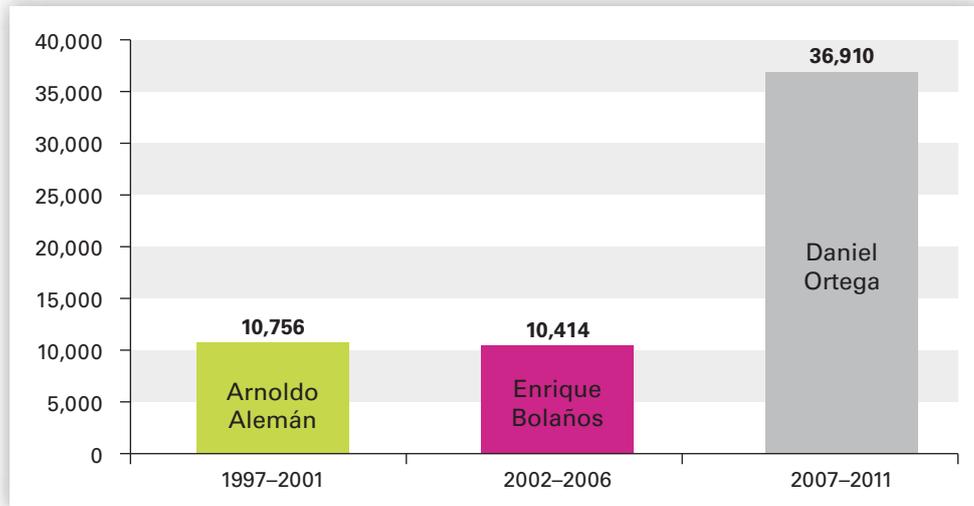


Figure 4: Number of Labour Inspections in Nicaragua in Different Periods<sup>14</sup>  
 Source: MITRAB 09.01.2012

Probably more important than the quantitative changes has been the loss of direct influence in state institutions that EPZ-employers had enjoyed under previous governments. The labour ministry had been denounced repeatedly by trade unions during the Bolaños administration for its ties to the employer’s side.

“We have always said that in the last 16 years the free zone companies had excessive privileges of political, economic and fiscal kind. Meanwhile, taking advantage of the strong influence they had in the Ministry of Labour (MITRAB), they never met with labour legislation and the social security system of Nicaragua...”

(Pedro Ortega, cited by Trucchi 26.10.2007)

The protection of workers’ rights has been criticised by EPZ employers as a change of the rules of the game, including unannounced inspections (*cf. Trucchi 17.01.2011*). On the other hand, the FSLN government also pursued the aim to transform the antagonistic relation between capital and labour in a more cooperative relation. Such efforts had already begun under the previous administration, yet without much success. The trade union movement was too fragmented to confront employers and the government based on common goals and furthermore the Bolaños government enjoyed little confidence in the labour movement (*ibid.*)<sup>15</sup>.

<sup>14</sup> It was not possible to obtain disaggregated data for the EPZ-sector alone.

<sup>15</sup> This distrust in the Bolaños government was confirmed in my interviews with trade unionists.

The loss in employment in the EPZ put pressure on the government to confront the crisis and to centre its efforts on the protection of jobs. Employers argued that wage increases had caused the job losses. It was under these circumstances of crisis in 2009 that the first tripartite agreement for the EPZ-sector was reached. When looking at the most recent data, it shows a successful recovery of the EPZs after the crisis with regard to employment, exports and the more volatile FDI. All indicators have improved compared to 2007.

Table 1: EPZ Employment 2006–2012

	2006	2007	2008	2009	2010	2011	2012-07
Employment in EPZ	76,783	88,750	73,224	71,452	84,898	99,681	101,192

Source: Comisión Nacional de Zonas Francas (CNZF) 2012a

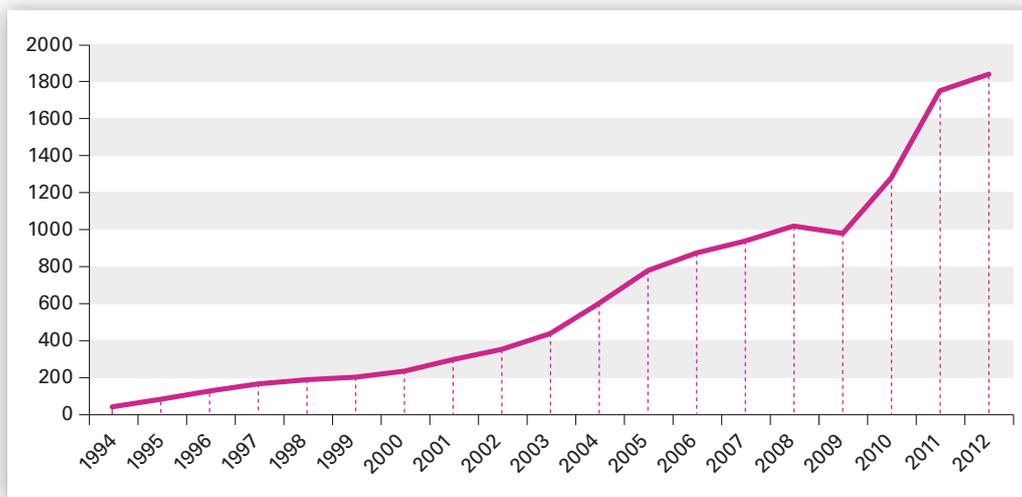
PRONicaragua and government officials emphasise that the EPZ in 2012 is markedly different from the EPZ when the FSLN returned to power in 2007.

The transformation that they refer to concerns the diversification of the EPZ-sector and the strengthening of its linkages to the domestic economy as well as improvements with regards to working and stakeholder relations in the framework of tripartism, which can be analysed based on the ILO's Decent Work Agenda.

From the perspective of government officials, responsible for the sector, the EPZ must not be seen as a synonym for the apparel sector, but as a tool for industrialisation. The aim is thus to continue the diversification of production in the EPZ sector (*cf. Arévalo Garméndez 03.01.2012*). In 2006 71.5 per cent of the employment in EPZs was in the apparel and textile sector, with the assembly industry and the agro-industry representing the two main other sectors within the EPZ. The percentage of employment in the textile and apparel sector had only decreased slightly and not steadily to 66.3 per cent until July 2012. The total employment increased in the EPZs. Only the assembly industry did not employ more workers in July 2012 than in December 2006. The agro industry increased its share significantly from 10.7 per cent to 15 per cent, while the BPO sector and the shoe industry that has been established in 2010 have been growing but are still small in numbers (*cf. CNZF 26.09.2012, via E-Mail*). Industrial production of leather shoes started in 2010, while shoes were produced in an artisanal way for the local market before. Furthermore, leather can be supplied from local production. Meanwhile, Nicaragua has reactivated its cotton production in a pilot project (*Baca Castellón 06.03.2012*).

With regard to the apparel sector Nicaragua has not yet been able to establish a solid textile base. The Cone Denim<sup>16</sup> textile factory closed in 2009 as a result of the world economic crisis and has not re-opened since then. In late 2013 the Honduran Karim's Group bought the factory in order to restart fabric production in 2014 (*Centralamericadata 08.10.2013*). The establishment of textile production often follows apparel production as the former is more capital intensive and thus more difficult to enter (*cf. Nordås Kyvik 2004: 7*). It is also seen as the main challenge for economic upgrading and keeping Nicaragua's apparel producers competitive (Bair and Gereffi 2010) and assures tariff free exports to the US-market. Furthermore, according to (*Fernandez-Stark et al. 2011: 14*) full-package apparel producers can build important backward linkages to the textile industry by sourcing from domestic suppliers.

On the level of macroeconomic indicators, the positive economic performance of the EPZ sector, especially in the context of tripartite agreements is clearly visible. Despite the crisis in 2009, the exports from EPZs have more than doubled from 870.2 Million US-Dollar in 2006 to 1837.8 Million US-Dollar in 2012 (*PRONicaragua 18.02.2013*).



**Figure 5:** Development of Exports from Nicaraguan EPZs in Million US-Dollar  
 Source: PRONicaragua (18.02.2013), BCN (n.d.)

<sup>16</sup> The closure of the Cone Denim factory has been a major setback of Nicaragua's aspirations to establish a domestic supply of fabric (*cf. Álvarez 08.05.2009; Bair and Gereffi 2010: 26*).

Nicaragua's EPZ sector is a relevant contributor to the increase in formal employment in recent years. In 2011, the EPZ sector represented more than 17 per cent of formal employment in Nicaragua, yet only a tiny fraction of the economically active population. If the aim is to bring the benefits of formal employment to a significantly larger part of the population, the development of the EPZ sector can hence only be one among many measures.

Concerning the **protection of rights at work**, qualitative information that I obtained in stakeholder interviews has resulted most insightful, especially as it helped in the appreciation of legislative changes as well as changes in the governmental approach. Regarding the labour ministry, trade union representatives point out that the anti-union practices that have been common under previous administrations have not continued under the present administration.

On the quantitative side, the labour ministry has markedly increased its inspections. Despite that, various labour movement stakeholders mentioned its limited capacities. More importantly though, there have been important qualitative changes. Workers' representatives must take part in the inspection and sign the documents. Furthermore, the establishment of mixed commissions for hygiene and safety has improved workers' participation with regard to their work environment.

However, it also became clear that there is a continuous lack of enforcement of labour rights. The ministry has also made efforts to inform workers about their rights. In order to do so a mobile office has been periodically installed in EPZs (*cf. Trinchera de la Noticia 26.08.2012*). In this regard complaints by employers about fines for labour rights violations must be put in perspective. Despite an increased determination of the labour ministry to protect workers' rights<sup>17</sup>, its capacity to do so remains limited – for instance trade unionists and labour researches report that there are still cases of illegal dismissals of trade union leaders. Furthermore, the delays in Nicaragua's judicial system have been a practical impediment for workers to gain access to justice. In this respect, two decisions by the national assembly must be emphasised as important improvements: A labour court system has been set up and the national assembly recently decided that labour rights cases will be trialled orally and thus be made considerably shorter.

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<sup>17</sup> Various news reports about the labour ministry's attempts to enforce labour rights in EPZs can be found in Sandinista media outlets (*cf. La Voz del Sandinismo 31.03.2012, La Voz del Sandinismo 14.05.2012*).

In view of **social protection**, significant improvements have been made in the EPZ. As mentioned above, one reason for the government's support of EPZs is that they create formal employment. In this respect, the compliance of employers with their social security obligations has significantly improved. This obligation had not been effectively enforced by previous administrations. In the case of plant closures, there are still problems with enterprises that leave the country without having paid all wages and social security obligations. A CST-JBE initiative to let EPZ employers pay into a special fund when they start their operations in Nicaragua has been discussed, but not been voted on in the national assembly. What has changed is the will of the CNZF to help protect the interest of workers in these cases, for instance by confiscation of raw materials and machinery (*Arce 20.08.2012*). However, the first compliance report of the Better Work Program, which was based on the evaluation of 20 factories in the apparel sector has detected that firms tend to pay social security obligations based on the basic salary, thereby excluding bonuses and extra hours, which has negative effects on the workers and the social security system (*Betterwork 2013: 16*).

Meanwhile, the tripartite agreement has brought considerable social benefits to the EPZ workers. In the context of these agreements, the government has shown its will to improve living conditions of EPZ workers, for instance by providing subsidised food. On the other hand, linking an improved access to healthcare, housing and subsidised food to the employment, which despite all improvements remains precarious, might increase the individual worker's dependency on his or her job. As these benefits are largely financed by the government one might speak about an indirect subsidy for the sector. Regarding social protection, the analysis of a specific economic sector poses difficulties, because it touches upon the question in which way social services should be provided.

**Social Dialogue** between employers, trade unions and the government takes place at different levels. There is the cross-sectorial social dialogue between the government, trade union federations and the COSEP, the sectorial social dialogue within the EPZs and the bipartite social dialogue in form of collective bargaining at the factory level. The present study has shown that the social dialogue in the EPZ sector takes place in a context of a general social dialogue orientation of the government. The legal foundation for

tripartite social dialogue was laid in 2005 when the **Consejo Nacional del Trabajo**<sup>18</sup> was founded; however it was first in 2010 when it was installed by the labour ministry. Prior to Ortega's return to the presidency after the 2006 elections, the country's main business organisation COSEP had been a close ally of consecutive right-wing governments and openly anti-Sandinista. From this starting point, the government, to reach social pacts has used social dialogue and consensus on the development priorities. It is a key political strategy of the FSLN government as well as a political slogan<sup>19</sup>. Meanwhile, Nicaragua's political opposition has increasingly lost its influence in the COSEP and its affiliated organizations, who seek to protect their interests in direct negotiations with the government and organised labour.

At the sectorial level, the trade unions had demanded tripartite social dialogue structures to resolve labour conflicts in the end of the Bolaños government in 2006 and received a positive response. However, effective tripartite social dialogue has only been implemented in the FSLN government. All stakeholder groups are convinced that the tripartite agreement has been crucial for the attraction of FDI to Nicaraguan EPZs, because it demonstrated social peace and predictability of labour costs. The social dialogue in EPZs is to be seen as part of a broader governmental strategy, which sees the search for consensual tripartite solutions as a centrepiece of its development model, which is both a political and an economic strategy.

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<sup>18</sup> National Labour Council

<sup>19</sup> In the government's proposal for the Plan Nacional de Desarrollo Humano (PNDH, National Plan for Human Development) from the period from 2008 to 2012 (GRUN 2008) the Sandinista government already pointed out the aim of a permanent dialogue with all sectors in society. In the governmental proposal for the PNDH in the period from 2012 to 2016 social dialogue has clearly gained importance and a whole chapter is dedicated to "Strengthening the Grand Alliance between workers, farmers and the Government" (GRUN 2012).

While employers as well as trade unions recognise the positive economic and social effects of the social dialogue process, there is still considerable mistrust between both sides. This is expressed by continued trade union suppression by employers on the factory level. Hence, trade unions continue to be founded secretly in fear of employer retaliation. On the other hand, important cases of functioning social dialogue have resulted in collective bargaining agreements and benefited workers and firms. However, the main deficits with regard to social dialogue become visible, once the factory level is taken into account. The main insufficiencies of the current social dialogue environment in Nicaragua can be summarised as follows: Social dialogue in Nicaragua's EPZ takes place while core labour and trade union rights are still put into question by many employers. In this context, trade unions still have considerable weaknesses concerning the unionisation rate. Therefore, it is a valid critique of the focus on social dialogue that so far it has brought pacification, while there are still many employers who try to suppress the formation of trade unions.

Therefore, some of the trade union officials warn that belligerence is lost and dialogue is too often seen as an end in itself and not as a tool to improve the conditions for workers. On the other hand, trade union leaders across the political spectrum affirm that it has become easier to establish trade unions. In general, the improvements with regard to social dialogue cannot be denied. However, it must be emphasised by trade unions and the government that genuine social dialogue is not an option to choose for employers, but based on the workers collective rights.

Giugni and Passy (1998) argue that social movements tend to emerge when political allies are in opposition, while it is necessary to have allied parties in control of the government for substantial reforms to be implemented. Clearly, the FSLN, while it is not and has never claimed to be a workers' party as such, has close ties to the Nicaraguan labour movement. Nicaraguan trade unions are officially independent organisations, but often are closely related to party-politics. This is also the case for anti-Sandinista trade unions.<sup>20</sup> After the FSLN returned to power in 2007, the trade unions have allied themselves even closer with this political party (*Mejido Costoya et al. 2010: 40*). The problem of co-optation cannot be denied, neither in the case of anti-Sandinista nor in the case of Sandinista trade unions and the role of trade union leaders as deputies has at times led to conflicts of interest. Concerning the autonomy of trade unions, there appears to be a difference between the public-sector unions and the private-sector unions as the latter claim more

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<sup>20</sup> For instance, prior to the 2011 electoral campaign anti-Sandinista trade union leaders negotiated quotas in parliament and government for the case of an electoral win of Arnoldo Alemán (Córdoba 19.09.2010, Martínez 09.02.2007).

autonomy from the FSLN government and publicly denounce deficits in the governmental labour policies (*cf. Uriarte 18.12.2008*). From the perspective of leading CST-JBE officials, his federation is not directly dependent on the government or a specific minister and can thus be more autonomous in its actions than trade unions in the public sector. In the context of tripartism trade unions have made progress in reaching consensus and unified proposals despite party political differences.<sup>21</sup> Jennifer Bair (12.06.2012) sees a markedly better situation for trade unions in Nicaragua than in other Central American countries with regard to “organized labor having a seat at the table.” Furthermore, the tripartite setting appears to have strengthened the labour movement’s unity and the ability to speak with one voice on specific issues, not only in the EPZ sector.

However, this does not explain the employers’ acceptance of steps towards Decent Work. The more labour friendly approach of the FSLN government and its efforts to enforce the labour law has certainly created some unease among employers. In turn, for the employers’ side tripartism has been a viable way to stabilise the sector and to avoid labour conflicts. Especially the tripartite agreements have given a previously not known stability and predictability for investors. At the level of business associations, the employers have taken a cooperative approach towards organised labour and the government. Discursively, they have been able to establish the creation of formal employment in the EPZ sector as the key policy priority. From PRONicaragua’s perspective, the economic growth of the sector has thus become a common goal of all three stakeholder groups. As pointed out above, the wage increases in the EPZ sector have been higher under the FSLN-administration, but lower than in other parts of the formal economy. Tripartism has begun in the midst of the economic crisis of 2009, but has then been consolidated in the context of rapid export growth.

The economic success has certainly been an important argument to seek a new agreement in 2012. From the employer federation’s perspective, the trade unions have also become more moderate in their demands at the national level, as well as at the factory level once they are integrated in bipartite and tripartite negotiations and confronted with competitive pressures. In this context, an improved access of trade unions to information about the profit rate and cost structure of firms could help them make better-informed decisions in collective bargaining negotiations at the firm as well as at the sectorial level.

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<sup>21</sup> “We get along very well, very well. The Sandinistas, which are of the ruling party. There are others who are there and the Communists, we get along because we focus on the creation of employment and respect for labour rights. So for example Luis Barbosa, President José Benito Escobar, met us, we plan in his office, we met and we agreed. Roberto Gonzales of the Sandinista, Carlos Martinez, Roberto Moreno, we get along excellently. Sometimes we have differences but we put them aside. The [party]-political issue is not at stake.”

(Espinoza 15.08.2012)

### 5.3 Social Dialogue the Key to Economic Success and Decent Work?

The tripartite agreements of 2009 and 2010 were centred on job creation and the employers were able to negotiate considerably lower rates of wage increases than in 2007 and 2008. In 2013 wages in Nicaraguan EPZ are still significantly lower than in neighbouring countries. This is justified by government officials who point at the generally weaker economy. Meanwhile, the nominal wage increases that only maintained the purchasing power of workers were accompanied with several social benefits, such as subsidised food, health services and various other plans to improve the living conditions of workers.

In fact, Nicaragua still promotes investments based on comparatively low wages, but has also started to emphasize other advantages of the country, such as having a significantly lower crime rate than its northern neighbour countries El Salvador, Guatemala and especially Honduras. A particularly stressed factor is the achieved 'social peace' in EPZs and the ability of local stakeholders to reach perennial agreements concerning wages and social benefits for workers that has given planning reliability to employers as well as the institutional capacity of the investment promotion agency PRONicaragua and the CNZF authorities.

"The very existence of the tripartite agreement, and the degree to which it is viewed as a positive development among all the relevant stakeholders – industry, organized labor, government – is again indicative of Nicaragua's unique position among the many developing countries competing in the global apparel industry. Nicaragua should continue to emphasize its positive industrial relations environment, the cooperative relationship forged between the private sector, the unions, and government, and the institutional capacity of government organizations, such as CNZF and PRONicaragua, which were widely praised in our firm interviews."

(Bair and Gereffi 2010: 3)

Social dialogue does not only refer to the tripartite dialogue between trade union federations, but also to collective bargaining and other forms of worker participation at the workplace. In this regard, the results of my research have been ambiguous. On the positive side, trade unions are often accepted as constructive advocates of workers interests within the firm by employers and give a positive description of their relation with the management themselves (*cf. Grupo Editorial E&N September 2011, Interviews with trade union leaders*). Yet, trade unions are still organised in a clandestine way in order to avoid employers' retaliation. While the percentage is not quantifiable, it has become clear during the research that there is still a significant part of employers who try to suppress the establishment of trade unions in their enterprises, which has been the cause of sporadic labour protests (*cf. Nicaragua-Forum Heidelberg 13.11.2012*). On this issue, there appears to be a difference between the discourse of ANITEC, the main employers' federation in the sector and the practice of at least a considerable part of the employers.

Furthermore, despite the improved dialogue, there are still important deficits with regard to compliance with Decent Work Standards. The first compliance report based on 20 factories in the apparel sector shows that there continue to be severe deficits with regard to safety and health and with regard to work contracts and the correct payment of social security obligations (*Betterwork 2013: 16*).



## 6 Other Causes of Economic Success

It is clear that the resurgence of Nicaraguan EPZ production coincided with important improvements of social dialogue in the sector and in the country in general. A more worker friendly policy had been started after the FSLN returned to power in 2007. While the change of government provided workers with higher wages and especially Sandinista trade unions with better access to the government, these improvements were not based on a broader tripartite consensus. Furthermore, employers who moved their production away from Nicaragua claimed that the reason had been a loss in competitiveness due to wage increases. However, government officials and trade unionists see the world economic crisis and the loss in demand as the main reason for job losses between 2007 and 2009. At this point, the importance of government policies without a direct relation to Decent Work for attracting investments in the EPZ sector shall be discussed.

The country's investment promotion agency PRONicaragua is among these factors. PRONicaragua is ranked number one in the Global Investment Promotion Benchmarking (GIPB) for 2012<sup>22</sup> (*Nearshoreamericas 2012*). The country has also improved administrative mechanisms, for instance by establishing a single window for accessing the government bureaucracy. The consensus between employers, the government and trade unions on the development of EPZs, which is expressed in tripartite agreements certainly helped to attract further investment to the EPZ sector (*CNZF 2013*). Apart from that, the relatively high level of social cohesion compared to neighbouring countries, which exceeds the sphere of Decent Work must be pointed out. PRONicaragua especially points out the relatively high level of citizen security in Nicaragua. Mara youth gangs have not been able to establish structures in Nicaragua as they have in its northern neighbours, where business have to confront illicit activities including racketeering.

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<sup>22</sup> The GIPB is published by the World Bank, the International Finance Corporation and the Multilateral Investment Guarantee Agency.

It cannot be denied that relatively low wages, when compared to neighbouring countries, are still an important reason for investments in Nicaraguan EPZs. Certainly, maintaining a crawling peg which devaluates the Nicaraguan Córdoba with about 5 per cent each year to the US-Dollar has favoured EPZ producers whose main market is the USA (PRONicaragua n. D.). This is not a new policy of Nicaragua's central bank, yet combined with scheduling wage increases over several years in tripartite agreements it has given Nicaraguan EPZ producers a high predictability with regard to labour costs. However, it must also be pointed out that the wage difference to neighbouring countries has been reduced since 2006.

While wages are an important factor, low wages are not a sufficient factor for successful industrial development in EPZs. In the case of Nicaragua, improvements in the supply of energy were important precondition for continued growth in the EPZ sector, as were improvements in infrastructure for the expansion of EPZ production to more rural parts of the country. It must also be mentioned, that employers see the FSLN government as pragmatic and rather efficient with regard to its development policies. Especially the ability to resolve the country's energy crises, due to the support of Venezuela and by attracting investments in renewable energy has played an important role, as have improvements in road infrastructure, by laying the preconditions for industrial development. Certainly, apart from the conflictive stakeholder relations, the backwardness of Nicaragua's infrastructure and the lack of energy supply were additional problems when the Ortega-Administration came to power in 2007.

## **7** Conclusions

In the present case studies, I have analysed the relation between Decent Work and export oriented growth strategies. Hereby, I have looked at the challenges that are faced by developing countries in the pursuit of Decent Work in the context of export competition. I have taken the Nicaraguan EPZ sector as an exemplary case for an in-depth analysis. The Nicaraguan example can certainly not be taken as a blueprint for other developing economies, however it puts into question low-road strategies that try to suppress wages and shows that even stakeholders in small developing countries have leverage to improve industrial relations and as a consequence their Decent Work record.

In my research, I have relied on a comprehensive theoretical framework that integrated perspectives from economic institutionalism, the analysis of Global Value Chains and Global Production Networks as well as insights from social movement and trade union theory. Based on key assumptions of critical realist methodology, I have chosen a set of research methods that helped to understand the perspectives of local stakeholders in the context of transnational economic structures.

In the first sub-chapter of the conclusion, I will outline my reflections on the implication on economic development strategies that can be derived from the present analysis. In the then following sub-chapter I focus on the implications for the political struggle for Decent Work. I end the present working paper with final remarks.

## 7.1 Implications for Economic Development Strategies

In the present study, I have shown that the low-road development strategy, which was followed by the three consecutive right-wing governments from 1990 to 2006 confronted severe problems when the FSLN came to power. Nicaraguan EPZ producers attempted to compete with Asian producers based on low wages. However, this strategy did not provide a perspective in terms of a broader industrialisation of the country. On the opposite, bad working conditions, low productivity and high instability of the sector have been counter-incentives to economic upgrading.

Meanwhile, the current government has made decisive steps to increase wages and to improve working conditions after it came to power. However, in the context of tripartite negotiations it has carefully made sure that Nicaragua would maintain lower wages than its neighbouring countries as long as necessary to attract investors. The process of wage negotiations and enforcing Decent Working conditions at the national level is thus directly limited by competitive pressures. In this respect, the Nicaraguan development model in the EPZ lacks a vision of transnational solidarity to overcome the problem of South-South competition.

From the GVC perspective, the lack of vertical integration in the Nicaraguan economy remains a major challenge. In this regard, Nicaraguan government officials underline the advantages of sectors such as agribusiness and the recently started shoe-production that can rely on local supplies. Accordingly, analysis of the development potential of EPZ investments must also take into account their potential to create backward linkages to the local economy, thereby creating new opportunities for local producers. In this context, the expected re-start of more capital-intensive fabric production can be seen as an important first step to reach the strategic goal of more value-adding activities.

My research has revealed the subsequent bottlenecks for further development of Nicaragua's EPZ industry: continuously high energy costs, a still underdeveloped infrastructure and a still lower labour productivity than neighbouring countries as well as limited training opportunities. Despite that, important measures have been taken to address the problems with regard to energy costs and infrastructure, while agreements for more efforts to improve skills have been incorporated in the last tripartite agreement. In order to use the EPZ system as an effective tool for the industrial development of the country, the training strategy must provide for skills upgrading that makes possible the performance of higher value adding activities.

Therefore, government and labour movement representatives must be aware that such a medium and long-term development strategy might be at odds with short-term economic interests of employers. One of the efforts to improve competitiveness and working conditions at the same time is the Better Work Programme. Given that the characteristics of a buyer driven value chain such as apparel, the programme's attempt to include buyers, retailers and trade name companies in efforts to improve working conditions in Nicaraguan EPZs appears persuasive. However, the success of this approach is still very limited as these lead firms have not made long-term commitments and continue to base their purchasing conditions on the cheapest price. The recognition of Decent Work as a development input remains restricted to the supply-side, while the importance of wage increases and equitable distribution for the development of domestic demand tends to be neglected.

## **7.2 Implications for the Political Struggle for Decent Work**

In the previous part of my conclusions, I have focused on the relation between Decent Work oriented policies and economic development strategies. I have dedicated the now ensuing sub-chapter to my conclusions with regard to the theoretical understanding of the political struggle for Decent Work.

Nicaragua's trade unions in the EPZ sector act from a position of structural weakness within the economic system, despite playing an important role in a key area of production. This structural weakness is directly related to the EPZ sector's position in global supply chains: The production in Nicaraguan EPZs is still characterised as labour and not capital intensive production with relatively low skill requirements. On the other hand, the labour movement has been able to use transnational solidarity to raise attention for the situation of workers in Nicaraguan EPZ. Thereby, it has gained symbolic power putting its struggle in the context of the struggle for women's rights and by linking itself to the struggle against neo-liberal globalisation. The feminist organisation has done important efforts to frame the conditions in Nicaraguas EPZs to women's rights issues and to provide women with information about their rights at work. Already now trade unionists take part in MEC-seminars. This kind of cooperation between trade unionists and the MEC should be strengthened despite differences in their approaches, given their joint objective to improve working and living conditions for EPZ-workers. Meanwhile, organisational power is seen as the collective power which results from workers' organisations such as trade unions, political parties, factory committees and their relation to other social movements. In this regard the ability of EPZ trade unions to organise workers has only gradually improved. While trade unionists agree that it has become easier to establish trade unions, the study has also shown that they face problems as the EPZ is moving to more remote areas of the country as well as in new sectors.

Institutional power is seen as the result of structural negotiating power, workers' organizations and prestige within society and refers to a system of industrial relations and mechanisms of participation that constitute an institutional recognition of trade unions in government activities. These mechanisms of participation for trade unions have improved significantly, due to their participation in tripartite structures at the national level. In addition to that, the Better Work Programme has provided labour movement representatives a seat at the table in meetings with brand name purchasers of Nicaraguan apparel products. However, the more moderate approach of trade unions in the context of tripartism has led to alerts that trade unions might lose their belligerency and readiness to use the available legal mechanisms in order to protect workers right. Trade unions must hence make sure not to lose their organizing power which gives them weight at the negotiating table. In this respect, the political influence of trade unions remains lend power that might disappear once it collides with governmental interests and strategies.

### **7.3 Final Remarks**

The present study has shown that stakeholder relations at the national level are still a relevant factor for the ability to make progress with regard to the four pillars of Decent Work: a) creating employment, b) guaranteeing rights at work, c) extending social protection and d) promoting social dialogue.

In the Nicaraguan case, the FSLN's return to the government has started a process of significant change in the stakeholder relations between employers, trade unions and the government. The employers have lost their privileged access to government institutions such as the CNZF and the labour ministry and had to adapt to an administration with a higher commitment to the protection of workers' rights.

After a more conflictive relation between EPZ employers and the new government in the first years, social dialogue gained relevance in the context of the global economic crisis of 2009. A more moderate and cautious wage policy has been adapted in the context of tripartite agreements in the sector. However, there was no return to anti-union practices of previous governments. Given the competitive pressures that Nicaragua confronts, the government's commitment to overcome the problems in the EPZ sector based on a tripartite consensus that takes into account the interests of workers deserves credit. Furthermore, the institutionalisation of tripartism has had positive effects on the labour movement's ability to present unified interests.

Nonetheless, the limitations of a Decent Work oriented strategy that is at the same time aimed at becoming more attractive to foreign investors have also been revealed. So far, Nicaragua has not been able to make decisive steps towards integration of higher value adding activities in its EPZ production, nor can Nicaragua's development strategy in EPZ be seen as an attempt to overcome South-South competition. In this context, a central legitimisation for social dialogue and trade union participation is the positive effect this more cooperative approach has on social stability and thus productivity in the sector. Tripartism has developed in the context of job creation under the conditions of export competition as the main policy objective: Under these circumstances, the EPZ employers can be sure that governments and trade unions will not risk a massive loss in employment due to wage hikes. Meanwhile, EPZ manufacturers gain from less strikes and a less antagonistic relation between capital and labour. The tripartite arrangement in EPZs is hence supply-side oriented and can be seen as an attempt to forge a social partnership in which trade unions play a supportive role for the attraction of capital. In this context, belligerence by the labour movement is needed to make sure that the social dialogue translates into tangible improvements not only in terms of job creation, but also to more improvements with respect to guaranteeing rights at work and social protection.

In the case of Nicaraguan EPZs, trade union officials tend to see the current policies in the light of the neo-liberal development model that was implemented prior to 2007 and the resulting Decent Work deficits. The labour movement's support for the current approach must be seen in this context. Therefore, it must be emphasised that while important steps towards Decent Work have been taken in recent years, there is still much to do in order to reach Decent Working conditions for EPZ workers. On the positive side, the present study has detected that a fairly broad consensus exists among local stakeholders that the improvement of working conditions and provision of social benefits can have a positive effect on productivity. Yet, there is a discrepancy between the pro-social dialogue positions held by employer representatives and continued repression of trade union activities by a significant part of corporations. In this context, the cohesive measures to enforce individual and collective labour rights must be improved. Genuine social dialogue between employers and trade unions at the factory level must be based on the consequent enforcement of these rights. If not, the mechanism of tripartism could eventually turn into a tool to demobilise workers in order to achieve social stability in exchange for only little economic improvements for workers.

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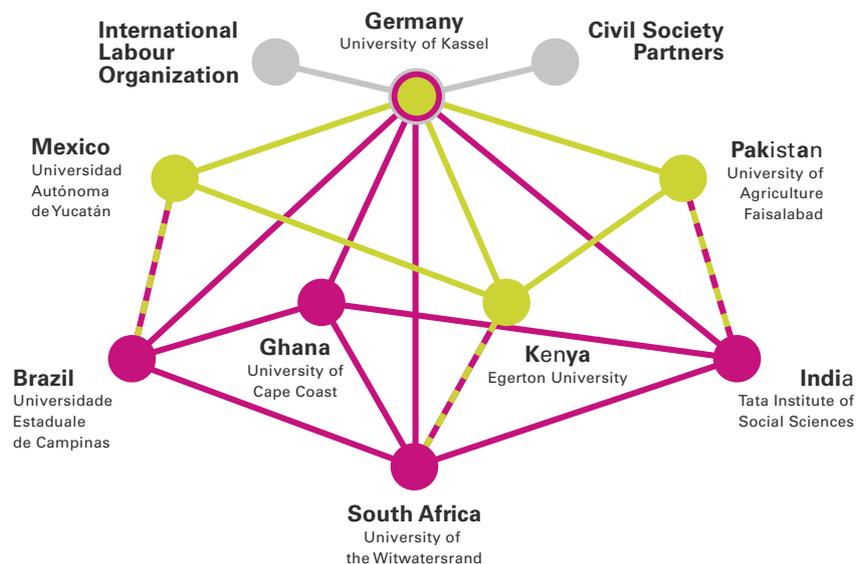
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