Institutions Before Profits:

The Development of Labor Rights After Globalization in Central America

**Abstract:** This paper analyzes the relationship between economic globalization, political and economic institutions, and labor rights. A small-n comparative case study was conducted to answer the question: what explains the variation in government respect for labor rights after economic globalization between Costa Rica, Guatemala, El Salvador, and Nicaragua? Previous attempts to answer similar questions used a neoliberal or dependency theorist approach, but this paper utilizes new institutional economics. This paper found that countries that had not established a strong rule of law before entering the global economy did not experience a significant increase in government respect for labor rights. These results challenge mainstream international development policies based on neoliberal theory.

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May 9, 2017

SISU-206 Olson Seminar

Introduction

After a century of violent civil war and unrest, Costa Rica, Guatemala, El Salvador, and Nicaragua desired to dramatically reform their governments and economies. The end of the century saw rapid globalization and all four countries were dedicated to developing their economies through foreign trade and investment. Western states and multilateral development banks insisted that the key to development was the liberalization of markets and economic integration. The four countries complied. However, despite entering the global economy at the same time and participating in free trade deals with similar exports, the four countries’ paths of development differed greatly, especially in regards to labor rights.

Scholars have asked if an interconnected world, given the dramatic inequality in it, will benefits states equally. Some scholars, known as dependency theorists, argue that economic globalization is a carefully orchestrated set of policies created by Western nations to exploit the labor and resources of developing countries, while others, known as neoliberals, insist that it is a natural process that has increased incomes across the world and improved the living conditions of those in the poorest of nations. Neoliberal theory was the guiding force in the international development policies of the twentieth century, while dependency theory arose as a scholarly reaction to the perceived injustices that resulted from neoliberalism.

The economic and political histories of Costa Rica, Guatemala, El Salvador, and Nicaragua exhibit evidence for both dependency theorists and neoliberals. All four countries are located in Central America, share similar cultures, reformed their governments around the same time they globalized their economies, have similar levels of globalization, but yet have varying track records on labor rights.[[1]](#footnote-1) Institutional economics can help explain this discrepancy by focusing on the role that institutions play in shaping economic behavior.

The rule of law is an institution often cited as an important influence on economic, political, and social behavior. Economists became interested in the rule of law after many began to argue that the “Washington consensus” was failing the developing world. This consensus, which was based on neoliberalism, held that the best way for countries to grow was to open their markets to foreign investment, privatize, and engage in free trade. Economic crises in Asia and stagnation in Latin America and Africa drove them to re-examine the tenets of the consensus, which had essentially been the economic orthodoxy of the twentieth century. They concluded that the consensus failed to take into account the institutional setting of policymaking, especially the rule of law. Weak rule of law undermined economic efforts and prevented citizens from reaping the benefits of any economic growth. For this paper, I use the thick theory of rule of law. In this version, rule of law is tied to liberty and freedoms. A country can only be “ruled by law” if the state’s power is constrained by an independent judiciary and if civil rights and liberties are protected.

In this paper, I conduct a small-n comparative case study in order to answer the question: what explains the variation in government respect for labor rights after economic globalization in Costa Rica, Guatemala, El Salvador, and Nicaragua? I examine why Costa Rica and Nicaragua developed stronger labor rights than Guatemala and El Salvador, despite entering the global economy at the same time. I begin by reviewing the literature that investigates the relationship between economic globalization and labor rights. I continue on to discuss my methodological choices. I then develop two hypotheses regarding the rule of law and increased government respect for labor rights after economic globalization. Next, I analyze my results, beginning with Costa Rica, then Guatemala, followed by El Salvador, and finishing with Nicaragua. I conclude by discussing the implications of my research and some directions for future research.

Literature Review

Scholars in the neo-liberalism group emphasize the development of greater civil rights and liberties after the liberalization of a state’s economy when explaining puzzles concerning economic globalization’s effect on labor rights.[[2]](#footnote-2) Milton Friedman popularized these ideas in *Capitalism and Freedom,* in which he argued that competitive capitalism is needed to achieve economic freedom and is a condition for political freedom. Rhoda Howard-Hassmann, Axel Dreher, David L. Richard, and other neo-liberal scholars advanced Friedman’s theories into the study of economic globalization. They argue that investment from transnational corporations (TNCs) leads to a variety of interconnected developments. TNC investment produces job opportunities, the rule of corporate law, and new business opportunities. Following the chain of development blossoming from the rule of corporate law, one finds the establishment of the general rule of property, which leads to the growth of the middle class, then education and ideals of equality, and then a more competent civil society. A competent civil society develops a humanistic ideology, which leads to the development of civil and political rights, resulting in better working condition, then more educated workers, and finally culminates in economic, social, and cultural rights.

What neo-liberals have in common is the argument that economic freedoms promote political and social freedoms in the long-term. Short-term negative consequences are to be expected, such as job loss in certain industries and an increase in pollution due to rapid industrialization in certain areas. Neo-liberal theories are based on the historical course of Western development, and the ontological assumption that the rules of the market trump a country’s culture and history when determining its economic development. Therefore, the fact that economic globalization will improve a government’s respect for labor rights is a given, and the puzzle becomes determining what aspects of economic globalization better serve a developing country’s needs. Consequently, neo-liberals conduct primarily large-n statistical analysis, researching which policies are best correlated with increased development through statistical models, thus dismissing context.

Dependency theorists are fundamentally at odds with neo-liberals, and view economic globalization as a detriment to labor rights. Scholars in the dependency group emphasize the inequality in and between states produced by economic liberalization when explaining puzzles concerning economic globalization’s effect on labor rights. There is a consensus on the argument that economic globalization as we know it primarily serves the financial interests of Western states and transnational corporations at the disadvantage of developing countries and poor laborers.[[3]](#footnote-3) Unlike neoliberals, who argue that economic globalization is an unstoppable natural phenomenon, dependency theorists argue that it was a carefully created by Western policymakers and financers.[[4]](#footnote-4) In order to receive Western investment and attract transnational corporations, developing countries are incentivized to repress labor rights conditions in order to attract transnational corporations through cheap labor and lax environmental regulations. Furthermore, developing countries are forced to accept asymmetrical trade deals that will benefit wealthy Western states at their expense.[[5]](#footnote-5)

The core argument of dependency theory scholars is that economic globalization is the result of calculated policy decisions by Western states to serve their own interests, at the cost of developing countries. As result, inequality in and between states increases in an economically globalized world. Though developing countries might see some rise in their GDP, ultimately, developed countries are making significantly more money off their labor and resources. Dependency theorists illustrate these stark inequalities by analyzing the wealth gaps in the international division of labor, balance deficits between core and periphery countries, industrialization, and capital accumulation.

Unlike neo-liberalism or dependency theorists that argue whether economic globalization benefits developing countries or not, institutional theory argues that the effect that economic globalization will have on a government’s respect for labor rights is mostly determined by its domestic institutions. Scholars in the institutional group emphasize the ultimate importance of political and economic institutions when explaining puzzles concerning economic globalization’s effect on labor rights. There is consensus on the argument that institutions trump both economic globalization and labor rights because neither could come into fruition in a state without the appropriate institutions.[[6]](#footnote-6) Without the right institutions, economic globalization could not occur, and without the appropriate institutions in place, economic globalization cannot improve a government’s respect for labor rights.[[7]](#footnote-7) Institutions are “regularities in repetitive interactions among individuals.”[[8]](#footnote-8) They are the framework that gives people some sense to what the outcomes will be.[[9]](#footnote-9) They are not people, but customs and rules that provide incentives for people.[[10]](#footnote-10)

Institutional economics argues that scholars should take into account context when studying markets. Furthermore, institutional economics argues against certain aspects of neo-liberalism. Institutional economists argue that economics cannot be separated from their social and political contexts, because the market itself is socially constructed. By maintaining that politics forms markets, institutional political economists are at odds with the neo-liberal argument that markets need to be de-politicized.[[11]](#footnote-11) Institutional economics use neo-classical economic models, unlike dependency theorists which base their analysis on Marxian economic models.

Methodology

I am conducting a small-n comparative case study in order to better understand the different developmental courses of labor rights in Costa Rica, Guatemala, El Salvador and Nicaragua. More specifically, I am examining the variation in government respect for labor rights after globalization between these four countries. I chose Costa Rica, Guatemala, El Salvador, and Nicaragua as my case studies because of their appropriateness for controlled comparison.[[12]](#footnote-12) They’re in the same region, share similar cultures, reformed their governments around the same time they globalized their economies, and have similar levels of globalization, yet having varying labor rights track records.[[13]](#footnote-13) That variance in labor rights, combined with their different political and economic institutions give these case studies extreme values on their independent variables and dependent variables.[[14]](#footnote-14) I’m specifically analyzing these four countries from the year 1998 until now. I chose 1998 as my starting year because civil wars and unrest had started to end or cool down in all four countries around this time, so they began to make trade deals and implemented economic development plans.[[15]](#footnote-15) I extended the time until now, because I want to examine the continued course of development and labor rights of the four countries.

I chose the comparative case study method, because it permits an in-depth exploration and identification of the various causal mechanisms connecting economic globalization, domestic institutions, and labor rights.[[16]](#footnote-16) Large-n analysis is also ill-suited for analyzing dynamic relationships, because it demands unit homogeneity*.[[17]](#footnote-17)* Unit homogeneity is inadequate for this topic, because countries ultimately have slightly different levels of involvement in the global economy in different sectors, different relationships with different foreign trading partners, and different domestic institutions.Furthermore*,* the comparative case study maintains the importance of context while also possessing the analytic strength of neo-positivism.[[18]](#footnote-18) With its aim to produce both situated and transcendent knowledge, small-is better suited for exploring how economic globalization both generally influence governments’ respect for labor rights and how it acts upon specific institutions in a particular country.[[19]](#footnote-19)

My dependent variable is government respect for labor rights. I am using the same definition and categories of labor rights adopted by the International Labor Organization (ILO) at its eighty-sixth session in Geneva on June 18, 1998.[[20]](#footnote-20) In the “Declaration on Fundamental Principles and Rights at Work and its Follow-up”, labor rights are divided into four categories: freedom of association and the right to collective bargaining, the elimination of forced or compulsory labor, the abolition of child labor, and the elimination of discrimination in respect to employment and occupation.[[21]](#footnote-21) The enforcement of these four rights will be my indicators. I will be testing my case studies to see whether they have a high level of government respect for labor rights, a medium level of government respect for labor rights, or a low level of government respect for labor rights. In order to receive a high level rating, a country must effectively enforce all four categories of labor rights defined by the ILO. A medium level rating is granted if a country effectively enforces two of the categories. A low level rating is granted if only one or no categories are effectively enforced. The data source for my dependent variable is NATLEX, the ILO’s database of national labor, social security, and related human rights legislation, and the Labor Rights Indicators, a database of labor rights created by Pennsylvania State University’s School of Labor and Employment Relations.[[22]](#footnote-22)

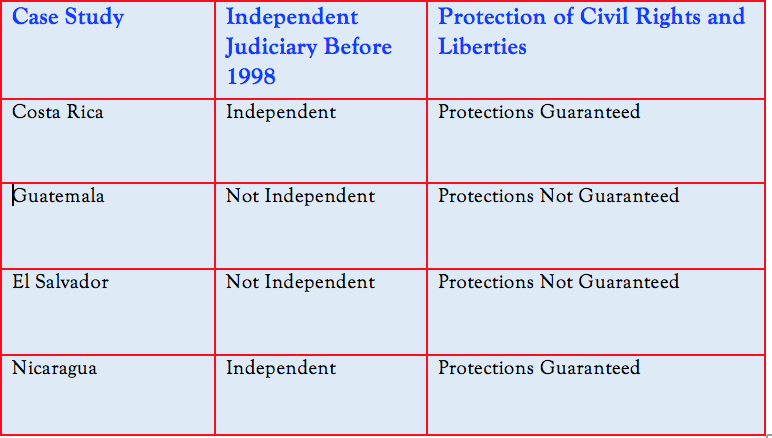
My independent variable is rule of law, which is indicated by the independence of the judiciary before 1998 and the protections of civil rights and liberties before 1998. My data source for identifying an independent judiciary is “A Global Measure of Judicial Independence, 1948-2012” by Drew E. Lizner and Jeffrey K Stanton, a cross-national model of de facto judicial independence.[[23]](#footnote-23) My data source for identifying the protection of civil rights and liberties is the Department of State’s Bureau of Democracy, Human Rights, and Labor’s country reports.[[24]](#footnote-24) My first hypothesis is: If a country already has established an independent judiciary, it will experience an increase in government respect for labor rights after economic globalization. My second hypothesis is: If a country already has civil liberties and rights, it will experience an increase in government respect for labor rights after economic globalization.

I will test my hypotheses in an in-depth comparative case study of Costa Rica, Guatemala, El Salvador, and Nicaragua. I have accepted that by conducting a small-n comparative case study, I have traded off the extensive generalizability of a large-n analysis, as well as the deeper human element of an ethnographic study or a discourse analysis. As I have chosen to conduct a small-n analysis, I will be working to assure that my work has validity and reliability. My research aims to capture how economic globalization acts upon and with rule of law to develop increased government respect for labor rights. To achieve validity, I have made sure that I have chosen appropriate indicators for rule of law based on extensive study. In terms of reliability, the data sources I have used are clear about how they achieved their results. Their methods can be replicated.

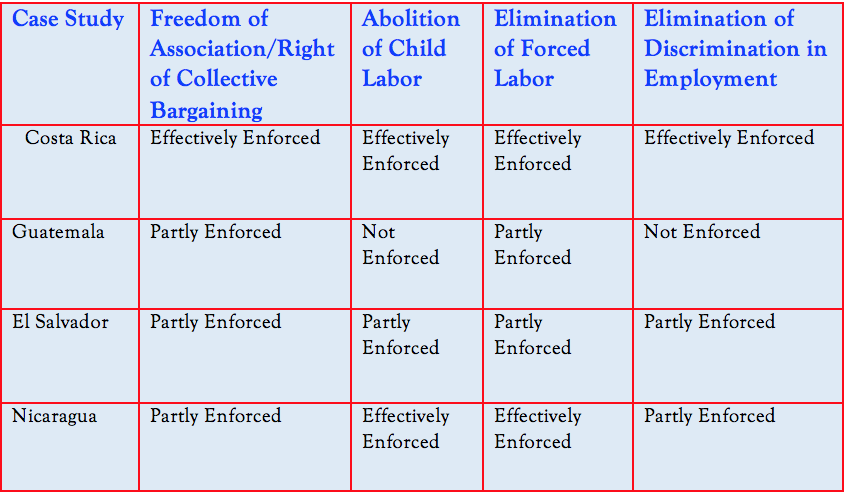
Analysis

The data demonstrates that if a country did not have a strong rule of law, as indicated by an established independent judiciary and protected civil rights and liberties before 1998, it would not experience an increase in government respect for labor rights after economic globalization. Costa Rica and Nicaragua, both of which had independent judiciaries and protected civil rights and liberties before 1998, experienced significant increases in government respect for labor rights after globalization. Guatemala and El Salvador, which did not have these institutions before 1998, did not experience significant increases in government respect for labor rights. Costa Rica was an outlier, effectively enforcing all four types of labor rights. Guatemala was the case that saw the least improvement- only partly enforcing freedom of association/right of collective bargaining and elimination of forced labor, while not enforcing abolition of child labor or the elimination of discrimination in employment. El Salvador and Nicaragua both yielded mixed results, but ultimately I determined that El Salvador was less successful. It partly enforced all four types of labor rights, while Nicaragua effectively enforced the abolition of child labor and the elimination for forced labor and partly enforced the freedom of association/right of collective bargaining and elimination of discrimination in employment.

*Figure 1: Indicators of IV*



*Figure 2: Indicators of DV*



Costa Rica’s economic and political history make it distinctly better than other developing countries to take advantage of participation in the global economy.[[25]](#footnote-25) According to “A Global Measure of Judicial Independence, 1948-2012”, a cross-national model of de-facto judicial independence, Costa Rica established an independent judiciary by 1998.[[26]](#footnote-26) With a score of 0.85 out of 1.0 in 1998, Costa Rica entered the global economy with the highest score out of all the case studies.[[27]](#footnote-27) That same year, Freedom House classified Costa Rica as “Free”, with a score of “1” for political rights and “2” for civil liberties.[[28]](#footnote-28) Consequently, Costa Rica indicated a high level of government respect for labor rights. Freedom of association/the right of collective bargaining is guaranteed by law in Costa Rica.[[29]](#footnote-29) Child labor is illegal, as it is illegal for anyone under age 15 to work and individuals between ages 15-18 are regulated and only allowed to work if the job does not harm the child’s mental or physical state and access to education.[[30]](#footnote-30) Forced labor and discrimination in employment are both outlawed as well.[[31]](#footnote-31)

In practice, these laws are typically enforced. Nine percent of workers are unionized and, according to the Center for Alternative Resolution of Labor Disputes, two-thirds of labor disputes reached “successful resolutions” for employers and laborers.[[32]](#footnote-32) According to the Department of State’s Bureau of Human Rights, Democracy, and Labor (DRL), the government enforced the law requiring employers to initiate the bargaining process with a trade union if at least 34 percent of the workforce requested collective bargaining. The Ministry of Labor enforced child labor laws effectively through inspections in the formal sector; the regulations were not as effectively enforced in the informal labor sector as a result of inadequate resource allocations by the government. Child labor continued to be a problem in formal and informal agricultural operations and in informal activities such as domestic work and family-run enterprises. However, the government is taking significant steps to remedy this. These steps include creating the Office for the Eradication of Child Labor (OATIA) to coordinate government efforts and programs targeted at removing children from the work force and placing them in schools and providing small loans and financial aid to families with at-risk children. There were no reported cases of forced or compulsory labor. Finally, according to the DRL, the government generally enforced prohibitions against employment discrimination based on race, gender, disability, language, and social status effectively. I give Costa Rica a high rating for effectively enforcing all four categories of labor rights.

Unlike Costa Rica, Guatemala’s political and economic history was particularly tumultuous and the consequences of that history still haunt the country today. According to “A Global Measure of Judicial Independence, 1948-2012,” Guatemala did not have an established independent judiciary present by 1998.[[33]](#footnote-33) With a score of 0.3 out of 1.0 in 1998, Guatemala entered the global economy with the lowest score of all the case studies.[[34]](#footnote-34) The same year, Freedom House classified Guatemala as “Partly Free”, with a score of “3.5” for political rights and “4” for civil liberties.[[35]](#footnote-35) Guatemala indicated a low level of government respect for labor rights. Freedom of association/the right of collective bargaining is protected in the constitution.[[36]](#footnote-36) Child labor is illegal, as it is unlawful for any individual under the age of 14 to work without the written permission of their parents or the Ministry of Labor.[[37]](#footnote-37) Forced labor and discrimination based on race, gender, disability, language, and social status are all illegal under the constitution.[[38]](#footnote-38)

However, these laws were typically not enforced in practice. According to the DRL, the freedom of association/right to collective bargaining was generally respected by the government.[[39]](#footnote-39) Nevertheless, there is widespread corruption and inadequacy in the police and judicial sectors, which can lead to unions and other civil organizations being intimidated by employers and an overall ineffective enforcement of labor laws. This inefficiency has also contributed to the continued presence of child labor. Despite legal protections, child laborers worked on average an excess of 45 hours per week. The informal and agricultural sectors regularly employed children below 14 years of age, usually in small family enterprises. Economic necessity forced most families to have their children work to supplement family income, particularly in rural and indigenous communities. There was no recorded data for forced trafficking in private or agricultural sectors, but human trafficking is common in Guatemala and it mainly involves beggar children in Guatemala City. Similarly, though employment discrimination is illegal, discrimination against women, the LGBTQ+ community, and indigenous people is common in the country and not usually punished. I give Guatemala a low rating, for not effectively enforcing any of the four categories of labor rights.

In a manner similar to Guatemala, El Salvador endured severe political and economic instability for decades. According to “A Global Measure of Judicial Independence, 1948-2012, El Salvador did not have an established independent judiciary present by 1998.[[40]](#footnote-40) With a score of 0.4 in 1998, El Salvador’s judiciary system was considered just slightly better than Guatemala’s.[[41]](#footnote-41) The same year, Freedom House classified the country as “Partly Free”, with a score of 3.5 for political rights and 3.5 for civil liberties.[[42]](#footnote-42) El Salvador indicated a low level of governments respect for labor rights. Freedom of association/the right of collective bargaining is protected in the constitution.[[43]](#footnote-43) Child labor is illegal, as it is unlawful for any individual under the age of 14 to work without the written permission of their parents or the Ministry of Labor.[[44]](#footnote-44) Forced labor and discrimination based on race, gender, disability, language, and social status are all illegal under the constitution.[[45]](#footnote-45)

Although the government generally respected the rights of its citizens, protection of labor rights was undermined by violence, including gang-related violence, impunity, and corruption.[[46]](#footnote-46) At end of 2006, the Ministry of Labor reported 264 collective bargaining agreements in effect, covering 54,209 workers. Labor leaders asserted that the government had an unfair advantage in arbitration of public sector labor disputes because the government holds two of three seats on arbitration panels. With the exception of efforts among the government, growers, and refiners to end child labor on sugarcane plantations, the government did not devote adequate resources to enforce effectively child labor laws in agricultural activities, especially coffee production, and in the large informal sector. Orphans and children from poor families frequently worked for survival as street vendors and general laborers in small businesses. Although the government generally enforced the prohibition of compulsory labor, there were problems with the trafficking of persons for forced commercial sexual purposes. Discrimination against women, persons with disabilities, and indigenous people regarding salaries and hiring was often recorded. I give El Salvador a medium-low rating for labor rights for not effectively enforcing any of the four categories of labor rights. It was not awarded a low rating because it did not merit the same score as Guatemala. El Salvador partly enforced all four categories, unlike Guatemala which did not enforce the abolition of child labor or the abolition of discrimination in employment at all.

Like Guatemala and El Salvador, Nicaragua underwent dramatic civil conflict throughout the 20th century. However, unlike these two states, Nicaragua managed to make more advancements in regards to labor rights*.* According to “A Global Measure of Judicial Independence, 1948-2012,” Nicaragua did have an established independent judiciary present by 1998.[[47]](#footnote-47) With a score of 0.7 in 1998, Nicaragua was second to only Costa Rica in Central America.[[48]](#footnote-48) The same year, Freedom House classified Nicaragua as “Free”, with a score of “2” for political rights and “2” for civil liberties.[[49]](#footnote-49) Nicaragua indicated a moderate level of government respect for labor rights. Freedom of association/the right of collective bargaining is protected in the constitution.[[50]](#footnote-50) Child labor is illegal, as it is unlawful for any individual under the age of 14 to work without the written permission of their parents or the Ministry of Labor. Forced labor and discrimination based on race, gender, disability, language, and social status are all illegal under the constitution.[[51]](#footnote-51)

Enforcement of these laws is mixed. The freedom of association law provides for the right to organize or affiliate with political parties, and the government generally respected this right in practice.[[52]](#footnote-52) While the government protected the right of collective bargaining, in practice it often sought to foster resolution of labor conflicts through informal negotiations rather than formal administrative or judicial processes. Whereas the law provides for the protection of children's rights and prohibits any type of economic or social exploitation of children, child labor was a widespread problem for many years. However, according to a study published during the year by the National Survey of Adolescent and Child Labor (ENTIA), the number of working children under the age of 18 has declined by more than 5 percent since the year 2000 to approximately 239,000, of which approximately 36 percent were under the age of 14. A study by the International Labor Organization reported that more than 25,000 children worked as domestic employees. The constitution and corresponding laws prohibit any type of forced or compulsory labor, which the government enforces, but they do not specifically address forced or compulsory labor by children, and such practices occurred. Although the law prohibits discrimination on the basis of race, gender, disability, language, or social status, in practice the government made little effort to enforce it. I give Nicaragua a medium score for effectively enforcing two of the four categories of labor rights.

In all four of the above cases, judicial independence was present with the development of government respect for labor rights. Judicial independence is often considered integral for developing and transitional economies, not only because it promotes economic progress, but because it advances labor rights and ideas of justice. Neoliberal scholars argue that the investment of transnational corporations (TNCs) associated with economic globalization incentivizes governments to reform their judicial systems.[[53]](#footnote-53) Investors want predictable laws and competent independent judicial systems to enforce their contracts and protect their property rights. In order to appease their wealthy foreign investors and stimulate economic growth, countries would make the appropriate reforms to legal and judiciary systems. An independent judiciary, the argument continues, fosters civil society, because citizens believe they can fight for their rights in court. Labor rights activists and laborers themselves can demand better working conditions and freedoms, like the freedom of association.

However, the neoliberal argument isn’t supported by this study’s results. Courts could protect the interests of wealthy corporations, but not necessarily laborers. Furthermore, governments are also incentivized *not* to safeguard the rights of laborers to keep wages of workers in foreign-owned factories low. Nevertheless, the data demonstrates that if a country did not have an established independent judiciary, it would not experience an increase in government respect for labor rights after economic globalization. Countries that did have an independent judiciary saw an increase in government respect for labor rights after economic globalization. Therefore, dependency theory is also challenged, as they maintain that economic globalization halts the development of labor rights.

Furthermore, this independent judiciary must safeguard the civil rights and liberties of its citizens*.* Countries with protected civil rights and liberties tend to have higher labor standards. As mentioned previously, neoliberals argue that TNC investment leads to the rule of law and an independent judiciary.[[54]](#footnote-54) An independent judiciary fosters a civil society that demands civil and political rights. After they have received these rights, better working conditions follow, because the government is concerned with the welfare of its citizens.

While the data does support that labor rights develop in countries that have civil rights and liberties, neoliberals are incorrect in proposing that economic globalization, particularly TNC investment, alone will lead to the development of labor rights. As mentioned previously, TNCs can also incentivize governments to not protect labor rights. The data demonstrates that if a country did not have protected civil rights and liberties, it would not experience an increase in government respect for labor rights after economic globalization. Countries that did have protected civil rights and liberties saw an increase in government respect for labor rights after economic globalization. [[55]](#footnote-55)

Conclusion

This paper was aimed at answering: what explains the variation in government respect for labor rights after economic globalization between Costa Rica, Guatemala, El Salvador, and Nicaragua? The results of this paper suggest that Costa Rica and Nicaragua experienced significant increases in government respect for labor rights after economic globalization due to the presence of rule of law in their borders. Guatemala and El Salvador did not experience significant increases in government respect for labor rights after globalization, because they did not have a strong rule of law before they entered the global economy. The presence of a strong rule of law was indicated by the independence of the judiciary and the protection of civil rights and liberties before 1998. The results of this paper are not surprising, but they challenge mainstream international development policies based largely on neoliberal theory. However, they also challenge some key arguments of dependency theory, as well.

Neoliberal theory saw privatization, deregulation, and free trade as necessary first-steps to development, while dependency theory described those exact policies as exploitative. By focusing only on the relationship between governments and markets, neither theory fully considers the various factors that are needed to create a stable state. These factors are institutions. As neoliberal theory maintained that globalization itself was development, the policies it influenced at the World Bank, International Monetary Fund, and World Trade Organization were focused on opening markets and growing GDP. Everything else- rule of law, long-term stability, improved labor rights- would come later. However, that was not the case in Guatemala and El Salvador, where participating in free trade agreements like CAFTA-DR and engaging in trade with the United States and the European Union did not lead to increased government respect for labor rights. This doesn’t necessarily mean that globalization doesn’t help countries at all. Costa Rica and Nicaragua experienced significant increases in government respect for labor rights after they globalized, challenging dependency theorists’ argument that modern globalization is inherently exploitative and harmful to the developing world.

Engaging in global trade alone will likely not increase government respect for labor rights. However, engaging in global trade with a strong institutional foundation, like possessing a strong rule of law, may lead to an increase in government respect for labor rights. Free trade deals associated with globalization often include some demand for labor rights. In a country where citizens are aware that they have rights protected by an independent judiciary, citizens will feel more empowered to report abuses and demand that the rights listed in these deals be enforced. When countries don’t have these institutions, citizens don’t have the power to demand better treatment at work in courts. The foreign multinational corporations operating in these countries have no immediate incentive to demand that labor rights be enforced, as they profit from cheap labor.

Moving forward, more development policies should be aimed at strengthening and building institutions. Developing institutions before and during economic growth, rather than after, may lead to better long term results for laborers. Future research could explore what other political or economic institutions work well with globalization to encourage better government respect for labor rights. Another possible avenue of inquiry is into Costa Rica’s exceptional success. Why was Costa Rica more successful at establishing rule of law than its neighbors? The results of such a study could provide insight into effective institution building and maintenance.

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