READERS' COMMENTS

Asia and global change

The substance of the theme "Asia adapts to global change" in the September 1997 issue of *Finance & Development* is negated by the turmoil sweeping across Asian economies and the near crisis now facing Japan's financial system.

Fundamentals characterizing these economies—sustained GDP growth of 6–8 percent a year, high savings, and human resources development including technology—have failed to prevent the closing down of banks and businesses. A partial explanation is in political uncertainties of one kind or another; the other relevant factor is rampant corruption enveloping financial institutions, business houses, and political establishments. Nor have we heeded the caveats entered by such distinguished observers as Amartya Sen and Paul Krugman. One should hope the large support packages being put in place by the International Monetary Fund and the World Bank will prove effective.

The situation in India and China is similar, though neither country is engulfed as yet. Any complacency based on so-called fundamentals is misplaced. In India, the liberalization process is flawed because of failure to deal with corruption and illiteracy.

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International labor standards

I share some of the views put forward by Stephen S. Golub ("Are International Labor Standards Needed to Prevent Social Dumping?" *Finance & Development*, December 1997), such as the argument that weak labor standards are partially a consequence of low productivity and poverty. However, the article does not distinguish between real comparative advantages and artificial comparative advantages, the former referring to the position of the product on the market by reason of attributes such as practicality and harmlessness to the environment and health, and the latter to cost attributes, i.e., which product is cheapest. Many companies are combining the two types of comparative advantage by means of international specialization in terms of labor and technology, made possible by computerization and advances in electronics. This enables multinational corporations to reduce their high costs and create real advantages, combining them with artificial comparative advantages by promoting export processing or free zones. In this context, classical and reformulated international trade theories are insufficient to explain the problem tackled in the article.

It is also unfair to argue that unions protect "a tiny labor aristocracy to the detriment of the rest of the labor force," which dismisses the value added of the unionized labor force. Furthermore, the situation of the rest of the labor force is linked with the characteristics of the income distribution model and the high levels of oligopolization of corporate activity, which impedes the entry of capital and contributes to the growth of speculative capital.

It is contradictory to suppose that international trade and technological advances increase national revenue and therefore welfare, and at the same time suggest that companies seek ways of increasing labor market flexibility and guarantee that the benefits of structural change will be shared, when it has been demonstrated that the greater flexibility proposed is "toward the bottom," i.e., toward even more precarious labor conditions.

I agree that compliance with codes of conduct should be voluntary; however, they should be negotiated with serious and committed union representatives in the interests of the workers.

In closing, I would add that history has never shown groups of individuals holding economic or political power to voluntarily take action to deal with problems resulting from their own behavior.

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I certify that the statements made by me above are correct and complete.

Ian S. McDonald, Editor