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Report IV

Decent work in global supply chains



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Report IV

Decent work in global supply chains

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Abbreviations

CSR	corporate social responsibility
EPZ	export processing zone
FDI	foreign direct investment
IFA	international framework agreement
IFC	International Finance Corporation
IILS	International Institute for Labour Studies
IPEC	International Programme on the Elimination of Child Labour
MNE	multinational enterprise
MSI	multi-stakeholder initiative
NGO	non-governmental organization
OECD	Organisation for Economic Co-operation and Development
OHCHR	Office of the United Nations High Commissioner for Human Rights
OSH	occupational safety and health
PCI	private compliance initiative
SME	small and medium-sized enterprise
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

Chapter 1

Introduction: Setting the stage

1. Global supply chains have become a common way of organizing investment, production and trade in the global economy. In many countries, particularly developing countries, they have created employment and opportunities for economic and social development.
2. There is also evidence, however, that the dynamics of production and employment relations within the global economy, including in some global supply chains, can have negative implications for working conditions. The collapse of the Rana Plaza building in 2013 and factory fires in Pakistan and Bangladesh in 2012 took the lives of over 1,500 people and prompted a renewed call for global action to achieve decent working conditions in global supply chains.
3. Against this background, the Governing Body decided in October 2013 to place on the agenda of the 105th Session (2016) of the International Labour Conference an item for general discussion on decent work in global supply chains. This general discussion offers an important opportunity for ILO constituents to gain a better understanding of how engagement in global supply chains can contribute to sustainable development, inclusive economic growth and decent work for all. Many studies have explored the economic and trade dimensions of global supply chains; however, less attention has been paid to the implications for employment, working conditions and labour rights, including freedom of association and collective bargaining. The general discussion therefore has an original contribution to make to the global debate.
4. Global supply chains are complex, diverse, fragmented, dynamic and evolving organizational structures. A broad range of terms exist to describe them, including global production networks, global value chains and global supply chains. All of these terms focus on the same basic issues of cross-border production and trade, but with slightly different perspectives. For the purposes of this report, they are used synonymously.
5. Here, the term “global supply chains” refers to the cross-border organization of the activities required to produce goods or services and bring them to consumers through inputs and various phases of development, production and delivery. This definition includes foreign direct investment (FDI) by multinational enterprises (MNEs) in wholly owned subsidiaries or in joint ventures in which the MNE has direct responsibility for the employment relationship. It also includes the increasingly predominant model of international sourcing where the engagement of lead firms is defined by the terms and conditions of contractual or sometimes tacit arrangements with their suppliers and subcontracted firms for specific goods, inputs and services.
6. Many countries have attracted FDI and global supply chain sourcing, which has created employment allowing millions of people to move from jobs based mainly on low-productivity subsistence agriculture into jobs in mines, plantations, manufacturing

or services.¹ Some countries have also capitalized on MNEs and lead firms to transfer knowledge, skills and technology to local workers, public institutions and private firms.²

7. Global supply chains have created opportunities for suppliers to move to higher-value activities and have enabled workers to access employment requiring a higher level of skills and offering better pay and conditions. Where employers are compliant with labour regulations and international labour standards, this enhances decent work in global supply chains. However, there are also ample examples where global supply chains lead to deficits in decent work.

8. Challenges for decent work existed in many countries before they engaged in global supply chains. In some instances, the operation of the chains has perpetuated or intensified them, or created new ones. Challenges may arise when lead firms make investment and sourcing decisions that affect working conditions in their global supply chains without being directly responsible for employment. There is a risk that global pressures on producer prices and delivery times and intense competition between suppliers may place downward pressure on wages, working conditions and respect for the fundamental rights of the workers participating in the chains. In subcontracted tiers of global supply chains, suppliers – often large or small actors operating informally – may cope with such pressures through the use of forms of employment which may not comply with labour regulations, in some extreme cases resorting to forced and child labour.³ In turn, such practices create unfair competition for suppliers who do comply with labour regulations and international labour standards.

9. Because the scope of labour legislation, regulation and jurisdiction is at the national level, cross-border sourcing of goods and services creates difficulties in the achievement of workplace compliance. Regulatory structures are established and enforced by government authorities that may not have the resources or the expertise to monitor compliance in all or most workplaces. Not all governments have been able to cope with the rapid transformation brought about by exposure to the global economy, which has created governance gaps.

10. With its mandate, expertise and experience in the world of work, its tripartite structure, its distinct role in global governance and its normative approach to development, the ILO is well placed to discuss and find points of agreement on the issues concerning global supply chains and to identify policies and practices that can best harness their positive potential. Important tools in the discussion include the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration), the work produced by the World Commission on the Social

¹ R. Craigwell: "Foreign direct investment and employment in the English and Dutch-speaking Caribbean", ILO Subregional Office for the Caribbean (Port-of-Spain, ILO, 2006); M. Habib and S. Sarwar: "Impact of foreign direct investment on employment level in Pakistan: A time series analysis" in *Journal of Law, Policy and Globalization* (2013, Vol. 10), pp. 46–53; Z. Brincikova and L. Darmo: "The impact of FDI inflow on employment in V4 countries" in *European Scientific Journal* (2014, Vol. 1), pp. 245–252.

² United Nations Conference on Trade and Development (UNCTAD): *World Investment Report 2013: Global value chains – Investment and trade for development* (Geneva, UNCTAD), pp. 133–135.

³ K. Meagher: "Unlocking the informal economy: A literature review on linkages between formal and informal economies in developing countries", Women in Informal Employment Globalizing and Organizing (WIEGO), Working Paper No. 27, 2013; N. Phillips: "Unfree labour and adverse incorporation in global production networks: Comparative perspectives on Brazil and India", Chronic Poverty Research Centre, Working Paper No. 176, 2013; N. Phillips: "Unfree labour and adverse incorporation in the global economy: Comparative perspectives on Brazil and India", in *Economy and Society* (42, 2013), pp. 171–196.

Dimension of Globalization,⁴ the Social Justice Declaration of 2008,⁵ the recently launched Future of Work Initiative,⁶ and the inclusion of decent work as both an explicit global goal, and importantly also a cross-cutting goal, in the 2030 Agenda for Sustainable Development.

Box 1.1
Decent work and the Sustainable Development Goals

Decent work is an important component of the 2030 Agenda for Sustainable Development. The promotion of decent work in global supply chains would contribute to several of the Agenda's goals and targets, including the global goals of promoting sustainable economic growth and productive employment (Goal 8), building inclusive and sustainable industries (Goal 9), reducing inequalities (Goal 10), ensuring sustainable production and consumption (Goal 12), and strengthening partnerships for sustainable development (Goal 17).

Note: See <https://sustainabledevelopment.un.org/?menu=1300>.

11. International frameworks for maximizing the benefits of global supply chains have also been developed by other international organizations and agencies recognizing the importance of this issue and the need for coordinated and coherent action at the international level, such as the United Nations (UN) Guiding Principles on Business and Human Rights.⁷ Similarly, mechanisms to address governance gaps have been initiated by governments, enterprises, trade unions and non-governmental organizations (NGOs), which have all sought to enable businesses to flourish, without sacrificing labour rights.

12. As the ILO approaches its second century, this general discussion provides a historic opportunity to examine the demands placed by global supply chains on the standards, framework and procedures advocated by the ILO to promote decent work at the enterprise, national, regional and global levels and also to ensure that ILO procedures are fit for purpose in the context of global supply chains. The ILO and its constituents are uniquely positioned to provide authoritative advice and expertise on the implications of global supply chains for the world of work and how to mobilize the opportunities and address the challenges.

13. The next chapter describes the major trade, investment and production trends and the scale and quality of employment in global supply chains. Chapter 3 goes on to explore the processes through which the employment created by global supply chains may lead to decent work. Governance structures in global supply chains are discussed in Chapter 4. Chapter 5 considers the way forward. Lastly, the appendix contains details of

⁴ See, for example: World Commission on the Social Dimension of Globalization: *A fair globalization: Creating opportunities for all* (ILO, 2004).

⁵ ILO: *Declaration on Social Justice for a Fair Globalization*, International Labour Conference, 97th Session, Geneva, June 2008. The impact of the Declaration will be reviewed during the 105th Session of the International Labour Conference (2016).

⁶ ILO: *The future of work centenary initiative*, Report of the Director-General (ILC/104/DG/I), International Labour Conference, 104th Session, Geneva, 2015.

⁷ United Nations General Assembly: *Human rights and transnational corporations and other business enterprises*, Human Rights Council, 17th session, 6 July 2011, A/HRC/RES/17/4. “Concerned that weak national legislation and implementation cannot effectively mitigate the negative impact of globalization on vulnerable economies, fully realize the benefits of globalization or derive maximally the benefits of activities of transnational corporations and other business enterprises, and that further efforts to bridge governance gaps at the national, regional and international levels are necessary.”

some ILO development cooperation projects that contribute to the promotion of decent work in global supply chains.

Box 1.2
A night at the movies

Imagine that you are in a cinema watching a popular animated movie. Now imagine all the people that made the experience possible. The movie itself was made by a company in the United States, using subcontractors in India and the Republic of Korea. The popcorn you are eating was harvested by workers in Argentina, prepared with palm oil from a Malaysian plantation and produced in machines assembled in Italy. The seat you are sitting on was made in Poland. The car you drove to the cinema was assembled in Spain, with parts from Austria, France, Japan, Mexico and Thailand, and was transported on a container ship owned by a Greek national through a Liberian company, which was built in Japan and powered by Finnish engines. Indeed, the two hours you spend watching the film may have required the labour of thousands of people in dozens of countries in global supply chains.

Chapter 2

Global supply chains and the world of work

14. The proliferation of global supply chains has profoundly transformed the nature of cross-border production, investment, trade and employment. Key factors enabling the growth of global supply chains include, first, the development of telecommunications, financial services and information technologies, which have enabled real-time coordination and logistics of fragmented production in various parts of the globe.¹ Second, improvements in infrastructure, logistics and transport services have enabled more reliable and speedy delivery of inputs and final goods and have reduced their cost.² Third, trade agreements have played a role in facilitating and reducing the costs of trade, including through tariff reduction, harmonization of institutional frameworks and liberalization of services under the General Agreement on Tariffs and Trade and subsequently the World Trade Organization (WTO) as well as bilateral and plurilateral trade agreements.³ Lastly, the emergence of China and India, and their participation in global supply chains, has doubled the supply of labour to the global economy.⁴

15. Trade in today's global economy is typically coordinated by lead firms through their global supply chains.⁵ The lead firm is defined as the company that controls the global supply chain and sets the parameters with which other firms in the chain must comply,⁶ and is typically responsible for the final sale of the product.⁷ The possibilities and patterns for upgrading are largely determined by the strategies of lead firms, which are often based in developed countries.⁸ The flows of production and consumption have

¹ R. Baldwin: "Global supply chains: Why they emerged, why they matter, and where they are going", in D. Elms and P. Low (eds): *Global value chains in a changing world* (WTO, 2013); H. Escaith, N. Lindenberg and S. Miroudot: "Global value chains and the crisis: Reshaping international trade elasticity?", in O. Cattaneo, G. Gereffi and C. Staritz (eds): *Global value chains in a postcrisis world: A development perspective* (Washington, DC, World Bank, 2010).

² N.M. Coe and M. Hess: "Economic and social upgrading in global logistics", Capturing the Gains Working Paper 2013/38, 2013.

³ OECD: *Interconnected economies: Benefiting from global value chains: Synthesis report* (2013).

⁴ R. Freeman: "What really ails Europe (and America): The doubling of the global workforce", in *The Globalist*, 5 Mar. 2010.

⁵ UNCTAD: *World Investment Report 2013: Global value chains: Investment and trade for development* (New York and Geneva, 2013).

⁶ J. Humphrey and H. Schmitz: "Inter-firm relationships in global value chains: Trends in chain governance and their policy implications", in *International Journal of Technological Learning, Innovation and Development* (2008, Vol. 1(3)), pp. 258–282.

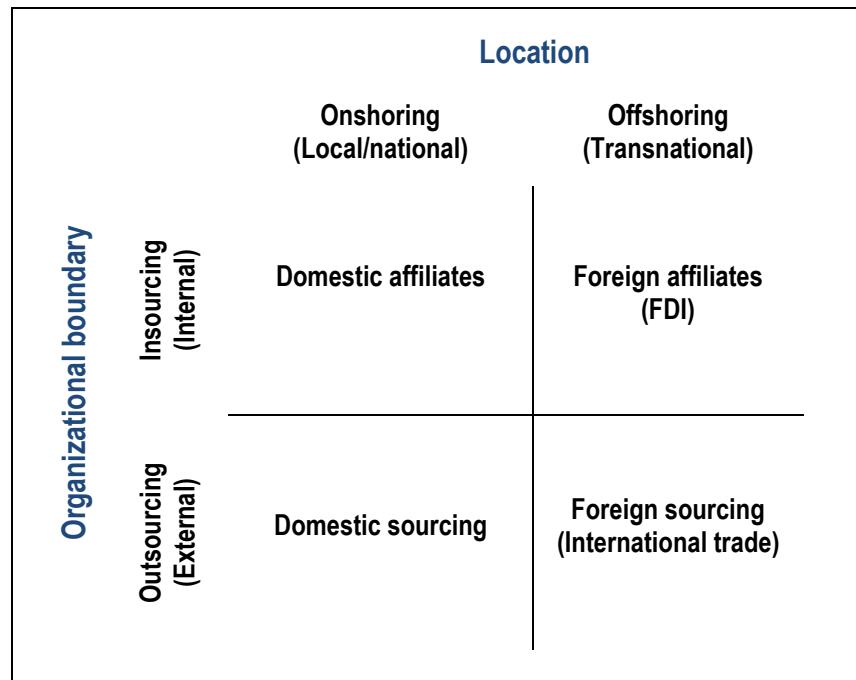
⁷ W. Milberg and D. Winkler: *Outsourcing economics: Global value chains in capitalist development* (Cambridge University Press, 2013).

⁸ OECD: *Interconnected economies*, op. cit.

become multi-directional, which creates new development opportunities and implications for countries, enterprises and workers.

16. Global supply chains may take various forms within two main types of intra- and inter-enterprise relationships: (1) FDI by MNEs with direct ownership of their overseas subsidiaries and affiliates; and (2) sourcing, where lead firms do not have ownership or a direct contractual relationship, except with first-tier suppliers and intermediaries.

Figure 2.1. Offshoring and outsourcing



Source: Adapted from: L. Abramovsky and R. Griffith: "Outsourcing and offshoring of business services: How important is ICT?", in *Journal of the European Economic Association* (2006, Vol. 4, Issue 2-3), p. 595.

17. Traditionally, multinational enterprises established wholly owned subsidiaries, with the objective of accessing local labour and consumer markets and exporting to regional and developed country markets. Many countries applied local content requirements – committing foreign investors and companies to a minimum threshold of goods and services to be locally sourced – with the aim of promoting national development through technology transfer and by fostering productive capabilities, domestic investment, and local employment creation and skills development.

18. Over time, as a result of the abovementioned developments and the spread of export-oriented production strategies, new trends and developments emerged. Many newly industrialized economies in Asia and Latin America built infrastructure and lowered requirements for investment and local content. Governments established export processing zones with special incentives to attract foreign investors. Hence, MNEs were able to outsource and offshore standardized activities worldwide, without investing in their own production facilities with directly hired employees.

19. The global supply chains that have emerged are typically either producer-driven or buyer-driven. "Producer-driven" refers to supply chains in which producer companies have the most significant influence over the production process. The automotive industry, for example, was traditionally a producer-driven supply chain with wholly owned

subsidiaries worldwide and a stable network of sometimes fully or partially owned suppliers. In “buyer-driven” chains, producers are bound by the decisions of retailers and brand-name companies, as typified by the apparel sector.⁹ Over time, many producer-driven supply chains have acquired the characteristics of buyer-driven supply chains, further fuelling the expansion of global supply chains across diverse sectors.¹⁰ For example, in the automotive sector, the outsourcing of components and subcomponents to supplier companies worldwide has increased, which has allowed automotive companies to focus on more knowledge-intensive and strategic dimensions, such as the overall design and system of their products.¹¹

20. Moreover, the rising fragmentation of production has increased trade in intermediate goods,¹² whose share is now greater than all other non-oil traded goods combined.¹³ This has opened up new development opportunities for suppliers in developing countries to compete and specialize in production and services.

21. Buyers can now compare the costs and capabilities of suppliers at a global level in diverse production locations, and move orders between suppliers and countries. The intense price competition as well as fluctuations in the volume and range of goods produced can encourage supplier firms to further subcontract parts of their production to other firms that are only indirectly linked to the buyer. These subcontracting practices may include the use of smaller companies, informal workshops and home-based workers unknown to the lead firm itself (and which are often outside the scope or capability of public and private regulatory mechanisms).¹⁴ Small and medium-sized enterprises (SMEs) often supply intermediate goods to exporting firms in their country and are as such integrated into global supply chains. The chains may in fact contribute to the creation of clusters of SMEs, which is an example of how participation in such chains can have positive spillover effects on the local economy.¹⁵

22. With SMEs constituting between 80 and 90 per cent of total employment in the developing world,¹⁶ it is likely that a large part of employment generated in the lower tiers of global supply chains is in medium-sized, small and micro-enterprises.¹⁷ While this provides much-needed incomes to workers, it is often in these enterprises where the biggest decent work deficits exist. Of the estimated 420 to 510 million SMEs (excluding

⁹ G. Gereffi and M. Korzeniewicz (eds): *Commodity chains and global capitalism* (Westport, CT, Praeger, 1994).

¹⁰ G. Gereffi: “A global value chain perspective on industrial policy and development in emerging markets”, in *Duke Journal of Comparative & International Law*, Vol. 24, No. 4 (2014), pp. 433–458.

¹¹ R. Kaplinsky: *The role of standards in global value chains and their impact on economic and social upgrading* (World Bank, 2010).

¹² Gereffi and Korzeniewicz, op. cit.; and G. Gereffi: “Commodity chains and regional divisions of labor in East Asia”, in *Journal of Asian Business*, Vol. 12, No. 1 (2013), pp. 75–112.

¹³ WTO: *International Trade Statistics 2013*.

¹⁴ P. Lund-Thomsen et al.: “Labour in global value chains: Work conditions in football manufacturing in China, India and Pakistan”, in *Development and Change* (2012, Vol. 43, Issue 6), pp. 1211 ff.; S. Davies et al.: “Labour standards and capacity in global subcontracting chains: Evidence from a construction MNC”, in *Industrial Relations Journal* (2011, Vol. 42, Issue 2), pp. 124–138; I. Mamic: “Implementing codes of conduct: How businesses manage social performance in global supply chains” (Greenleaf Publishing and ILO, Geneva, 2004).

¹⁵ OECD: *Enhancing the roles of SMEs in global value chains* (Paris, 2008).

¹⁶ OECD and World Bank Group: *Inclusive global value chains: Policy options in trade and complementary areas for GVC integration by small and medium enterprises and low-income developing countries*, report prepared for submission to G20 Trade Ministers’ Meeting, Istanbul, Turkey, 6 October 2015.

¹⁷ L. Navas-Aleman and T. Guerro: *Good procurement practices and SMEs in supply chains: A review of the international literature* (ILO, 2016, forthcoming).

micro-enterprises) worldwide, only 9 per cent operate in the formal economy.¹⁸ These second- and third-tier firms often employ workers informally under unregulated terms and conditions. In addition, as most second- or third-tier firms are SMEs, they often do not benefit from good procurement practices by lead firms.¹⁹

23. The subcontracting of labour itself, through the use of labour contractors and intermediaries, often mirrors the subcontracting of production.²⁰ While a buyer may have contractual relationships with the upper-tier suppliers, subcontracted lower-tier suppliers often have no formal contractual relationship with the buyer. Yet their production and employment practices are affected by the need to meet the global lead firm's requirements.

24. The growth of international outsourcing via global supply chains has raised significant employment implications. Whereas wholly owned subsidiaries of MNEs have direct responsibility for employees, in global supply chains coordinated by a lead firm, where production is outsourced and subcontracted without ownership, the buyer is not the legal employer and has no formal responsibility for the employment relationship in the supplying company or further subcontracted firms, despite the lead firm's significant impact – positive or negative – on the conditions of work. This presents challenges for the promotion of decent work in global supply chains.

25. However, global supply chains can also create opportunities for formal employment. This may particularly benefit women, and workers in the informal economy. For example, women comprise the majority of workers in certain segments of the apparel, horticulture, mobile phone and tourism global supply chains.²¹ However, they tend to be more concentrated in low-wage or low-status forms of employment than men, and in fewer sectors; men are more evenly distributed across sectors, occupations and jobs types.²² As a result, gender wage gaps can be significant.²³ Gender inequalities may mean that women are confined to certain sectors or job types, which has significant implications for the prospects for upgrading as well as the functioning of supply chains.²⁴

26. Beyond the terms and conditions of employment, global supply chains raise further challenges, including a lack of effective mechanisms for consultation with, and participation of, indigenous and tribal peoples and a loss of livelihoods of indigenous communities as a result of displacement or loss of land.²⁵

¹⁸ ILO: *Small and medium-sized enterprises and decent and productive employment creation*, Report IV, International Labour Conference, 104th Session, Geneva, 2015, para. 10.

¹⁹ Navas-Aleman and Guerro, op. cit.

²⁰ S. Barrientos: “‘Labour chains’: Analysing the role of labour contractors in global production networks”, in *Journal of Development Studies* (2013, 49(8)), pp. 1058–1071; D. Weil: *The fissured workplace: Why work became so bad for so many and what can be done to improve it* (Harvard University Press, 2014).

²¹ M. Christian, B. Evers and S. Barrientos: *Women in value chains: Making a difference*, Capturing the Gains Revised Summit Briefing No. 6.3, 2013.

²² M. Fontana: “The gender effects of trade liberalization in developing countries: A review of the literature”, in M. Bussolo and R.E. De Hoyos (eds): *Gender aspects of the trade and poverty nexus: A macro–micro approach* (World Bank, Palgrave Macmillan, 2009).

²³ Christian, Evers and Barrientos, op. cit.

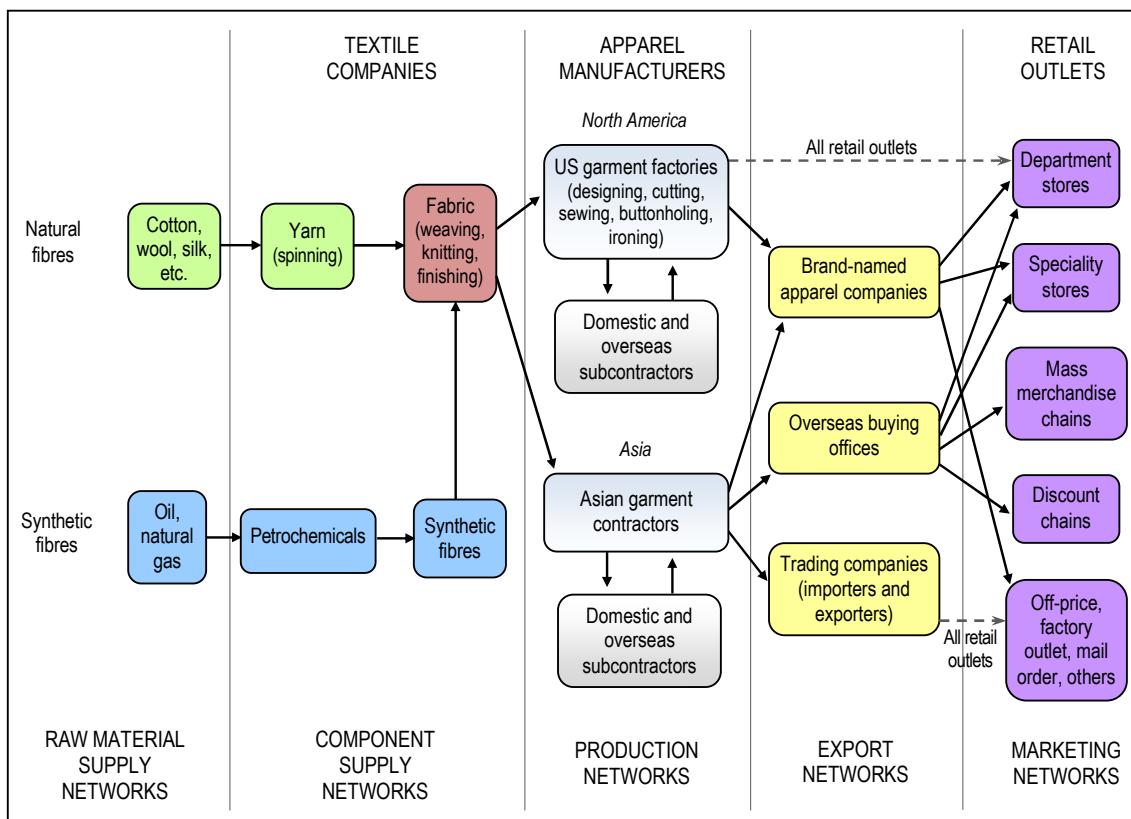
²⁴ C. Staritz and J. Reis (eds): *Global value chains, economic upgrading, and gender: Case studies of the horticulture, tourism, and call center industries* (World Bank, 2013).

²⁵ The ILO Indigenous and Tribal Peoples Convention, 1989 (No. 169), is the only international treaty relating to the rights of indigenous and tribal peoples.

2.1. Production trends

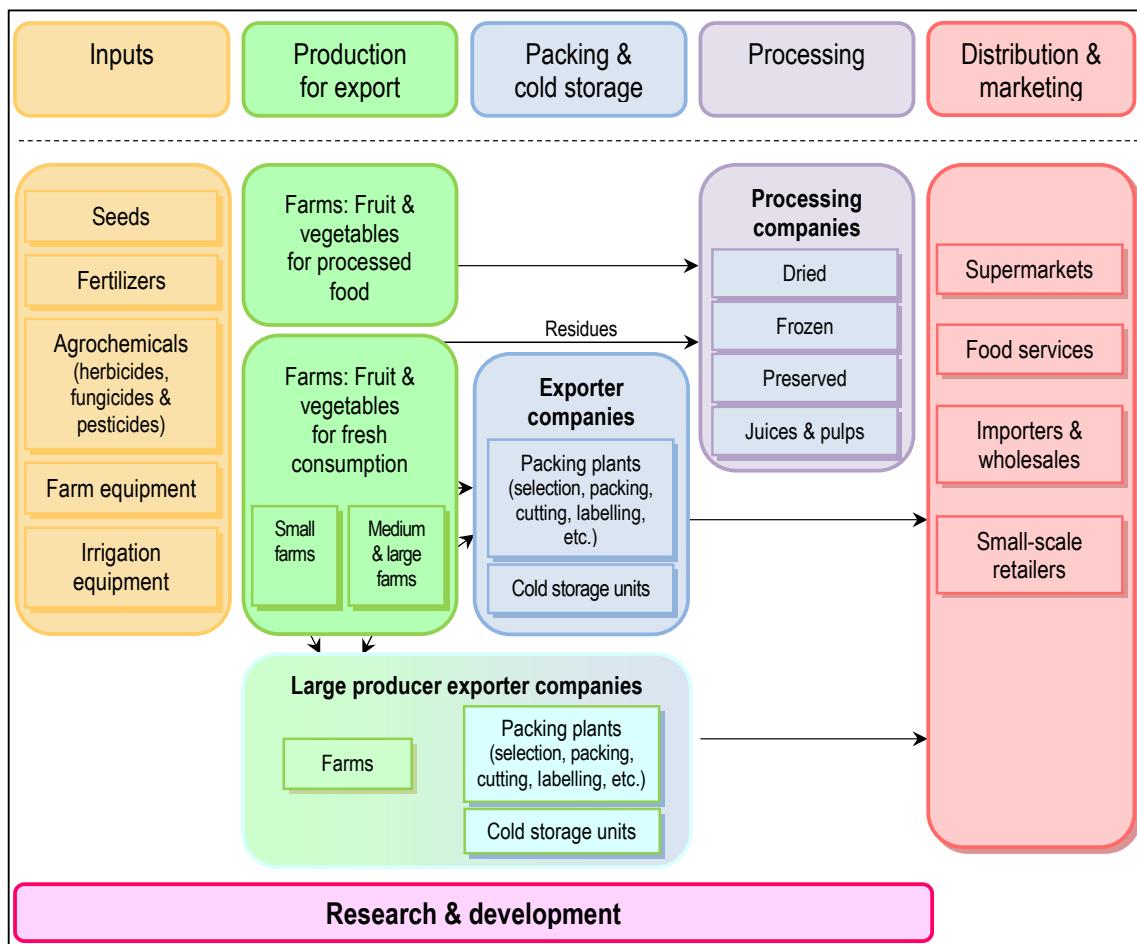
27. Although the dynamics vary across global supply chains depending on the sector and type of goods or services being produced, all have basic common features. A typical global supply chain in manufacturing starts with design, moves into the production, manufacture and coordination of components, and then goes through various intermediary stages towards distribution, retailing and marketing. The simplified global supply chain depicted in figures 2.2 and 2.3 for the apparel and agriculture industries illustrate how different suppliers and contracted firms are involved at diverse nodes of the chain across the globe. As the outsourcing and offshoring model of global supply chains has evolved and expanded, supplier firms are increasingly interconnected through contracting and subcontracting relationships that do not involve direct ownership.

Figure 2.2. Simplified global supply chain in the apparel industry



Source: R.P. Appelbaum and G. Gereffi: "Power and profits in the apparel commodity chain", in E. Bonacich et al. (eds): *Global production: The apparel industry in the Pacific Rim* (Temple University Press, 1994), pp. 42–62.

Figure 2.3. Simplified value chain in the agri-food industry



Source: K. Fernandez-Stark, P. Bamber and G. Gereffi: *The fruit and vegetables global value chain: Economic upgrading and workforce development*, Duke Center on Globalization Governance & Competitiveness, 2011, p. 12.

28. Global supply chains typically function across sectors. One chain may encompass agricultural inputs, manufacturing, services, distribution and retail and may operate across borders, linking global and domestic producers. Figure 2.2, depicting a simplified global supply chain in the apparel industry, shows links from agricultural and primary inputs (such as cotton or rayon), through textile production, apparel manufacture, services and distribution to final retail. Apparel retailers tend to have closer connections to their upper-tier suppliers. However, some retailers that are concerned about sustainability in their supply chain are building closer linkages with lower-tier textile producers and even cotton farmers.²⁶

²⁶ See, for example: Better Cotton Initiative: “Woolworths and suppliers work to meet Better Cotton target”, 5 Aug. 2015.

29. Global supply chains extend beyond the traded segment recorded in trade flows.²⁷ The traded segment often involves only upper-tier suppliers, which tend to be larger, more formal enterprises. Mapping of global supply chains shows that inter-enterprise linkages can extend across many tiers, both between countries and within domestic economies. In figures 2.2 and 2.3 above, the top (simplified) segments of the supply chain may involve the movement of produce across one or more countries. Below each segment, lower tiers of suppliers and producers are engaged often, but not always, within the domestic economy.

30. Global supply chains can include large, medium-sized and small enterprises across multiple tiers in both the formal and informal economies. Although a global buyer may own few, if any, of the factories producing its sourced products, the sheer volume of its purchases grants it substantial bargaining power in an asymmetrical market relationship where the buyer can negotiate prices and specify what, how, when, where and by whom the goods it sells are produced.²⁸ In a cascade of subcontracting relationships, supplier firms may seek to extract further price concessions from their own suppliers and subcontractors down the supply chain. In order to respond to the threefold demands for low costs, high quality and speedy delivery, subcontractors often adopt highly flexible production and work patterns, including informality, piece-rate production, home-based work and non-standard forms of employment. For example, bead and embroidery work in exported apparel is often subcontracted to homeworkers.²⁹

31. Global supply chains are increasingly multi-directional, and include South–South, South–North and North–North flows. This diversification provides significant developmental opportunities for countries to benefit from existing capacity as well as expand their productive capabilities and cater for varied consumer markets. For example, services are increasingly critical to the functioning and value added of global supply chains. Transport and logistics companies constitute a vital link, as shown in figures 2.2 and 2.3. Consequently, the expansion of global supply chains has led to growth in the logistics and transport sectors. In 2011, the overall global logistics market represented a total volume of approximately €981 billion.³⁰

32. A common feature in global supply chains is that lead firms can coordinate and control the standards of production across different tiers of producers. These private standards can cover a range of technical, quality, product safety, delivery, social and environmental requirements imposed as a condition of supply. The use of such standards is more prevalent in the food sector, where consumer concern over food safety and provenance has led to traceability, sometimes from field to fork. In figure 2.3, for example, all suppliers must meet the standards relevant to their segment established by the final retailers, often large supermarkets. These standards are often stricter than standards pertaining to international trade between countries.

²⁷ Conventional trade statistics usually record gross trade flows, which can be problematic. For instance, the traded segment that is recorded does not necessarily reflect the previous imports of intermediary goods, which can constitute a significant part of the value added in the trade flow of a particular segment. See Joint OECD–WTO Note: “Trade in value-added: Concepts, methodologies and challenges” (2012).

²⁸ Milberg and Winkler, *op. cit.*; G. Gereffi and M. Christian: “The impacts of Wal-Mart: The rise and consequences of the world’s dominant retailer”, in *Annual Review of Sociology*, No. 35 (2009).

²⁹ A. Mezzadri: “Garment sweatshop regimes: The informalisation of social responsibility over health and safety provisions”, Working paper 30/2015, Centre for Development Policy and Research, School of Oriental and African Studies, University of London.

³⁰ A. Kawa and A. Maryniak: “Logistic sector as a support segment for sustainable supply chains”, in P. Golińska and A. Kawa (eds): *Technology management for sustainable production and logistics* (Springer, 2015); A. Doll et al.: *Global logistics markets* (Roland Berger Strategy Consultants, 2014).

33. Private standards may also include codes of conduct covering working conditions.³¹ The application of private standards is a distinctive feature of global supply chains, where lead firms influence the production process and employment relationship in a given workplace and country, without themselves being bound by that country's legislation and norms. Furthermore, given the complexity of the global supply chain landscape, with multiple sourcing relationships, there are instances of overlapping supply chain networks where no single global lead firm predominates or is identifiable and where various lead firms can apply different (sometimes conflicting) standards. These standards or codes imposed by buyers may create rigidities and costs for suppliers.

34. The economic implications of outsourcing and subcontracting within supply chains for small and medium-sized local producers are multifaceted. On the one hand, integration into the lower tiers of supply chains can open up access to new market opportunities, thereby raising production and exposure to new production practices and standards that can lead to improvements in productivity and quality. On the other hand, the lower barriers to entry in more labour-intensive, less-skilled echelons in supply chains tend to generate intense price competition between potential suppliers, thereby creating downward pressure on profits and wages, which can negatively impact working conditions, particularly for low-skilled workers and workers in the informal economy.

35. Global supply chains are constantly evolving. Some supplier firms, large intermediaries and sourcing agents located mostly in East Asian countries have achieved economic upgrading through the transfer of technology, skills and new manufacturing processes and are increasingly consolidating their processes and control. At the same time, global buyers have also consolidated their supplier lists to give preference to larger, globally operating, first-tier suppliers with whom they have built longer-term strategic relationships.³² This production and sourcing trend towards consolidation in global supply chains was further reinforced by shifts in global production linked to the 2008–09 global financial crisis.³³

36. This consolidation process at both the national and enterprise levels is most pronounced in the textiles and apparel, electronics, iron and steel, machinery and transportation sectors.³⁴ For example, Foxconn has grown to become the world's largest contract manufacturer of electronic goods, managing vast supply chains through the purchasing of parts and components around the globe.³⁵ Similarly, Li & Fung, historically an intermediary trader in the apparel and toy manufacturing industry, has become the largest trading company in the world, sourcing from 15,000 supplier companies in over 40 countries.³⁶ A further example is the banana trade, where three

³¹ See Chapter 4.

³² Gereffi: *A global value chain perspective on industrial policy and development in emerging markets*, op. cit.

³³ Cattaneo, Gereffi and Staritz, op. cit.

³⁴ W. Milberg and D. Winkler: "Trade, crisis and recovery: Restructuring global value chains", in Cattaneo, Gereffi and Staritz, op. cit.

³⁵ ILO: *Ups and downs in the electronics industry: Fluctuating production and the use of temporary and other forms of employment*, Issues paper for discussion at the Global Dialogue Forum on the Adaptability of Companies to Deal with Fluctuating Demands and the Incidence of Temporary and Other Forms of Employment in Electronics (Geneva, 9–11 December 2014).

³⁶ Li & Fung Ltd: *Annual Report 2011*, available at: <http://www.lifung.com/wp-content/uploads/2014/06/ar2011.pdf>.

brands control 36 per cent of global exports³⁷ and there is a high concentration of MNEs on the retail side, particularly supermarkets.³⁸

37. Products produced in global supply chains have also become more sophisticated, opening up more market opportunities for specialization by suppliers. Sectors in which production of goods is fragmented into a large number of tasks are more likely to participate in global supply chains, as they offer more potential for outsourcing to other locations. Services play a crucial role, particularly in supply and logistics to global supply chains, and are also increasingly likely to be internationally fragmented.³⁹ For example, a case study on a Japanese refrigerator manufacturer identified that among the 55 types of services in pre-manufacturing, manufacturing, sales, back office, and aftersales, 31 were completely or partially outsourced to third-party service providers, mainly for efficiency and cost savings.⁴⁰

2.2. Trade trends

38. Global supply chains have played an important role in the significant growth in international trade in recent decades. While FDI remains important, increased international outsourcing and offshoring has been a key factor in this growth and in promoting the inclusion of developing countries in the international trade system.

39. Indeed, a major feature in trade growth has been the increasing participation of developing countries, whose share in world trade rose from 33 per cent to 48 per cent between 2000 and 2012.⁴¹ This growth in the share of global trade reflects the increasing engagement of developing countries in trade through global supply chains. Whereas the growth of global supply chains was initially characterized by trade in manufactured goods, there has been a recent rise in trade in services, which are critical to the functioning and value added of global supply chains.⁴² Trade in agricultural goods and raw materials has also grown in developing countries.⁴³

³⁷ Food and Agriculture Organization of the United Nations (FAO): *The changing role of multinational companies in the global banana trade*, Intergovernmental Group on Bananas and Tropical Fruits (Rome, 2014).

³⁸ For example, four supermarkets sell over three-quarters of food in the United Kingdom and bananas are the most popular and third most profitable item on their shelves. Hence, these supermarkets use low-cost bananas in their strategy to attract customers. I. Griffiths and F. Lawrence: “Bananas to UK via the Channel Islands? It pays for tax reasons”, in *The Guardian*, 6 Nov. 2007.

³⁹ P. Low: “The role of services”, in D.K. Elms and P. Low (eds): *Global value chains in a changing world* (Geneva, WTO, 2013), pp. 61–82.

⁴⁰ D. Sit: “Manufacturing of refrigerators”, in P. Low and G. Pasadilla: *Services in global value chains: Manufacturing-related services*, Asia-Pacific Economic Cooperation Policy Support Unit (Singapore, 2015), pp. 252–253.

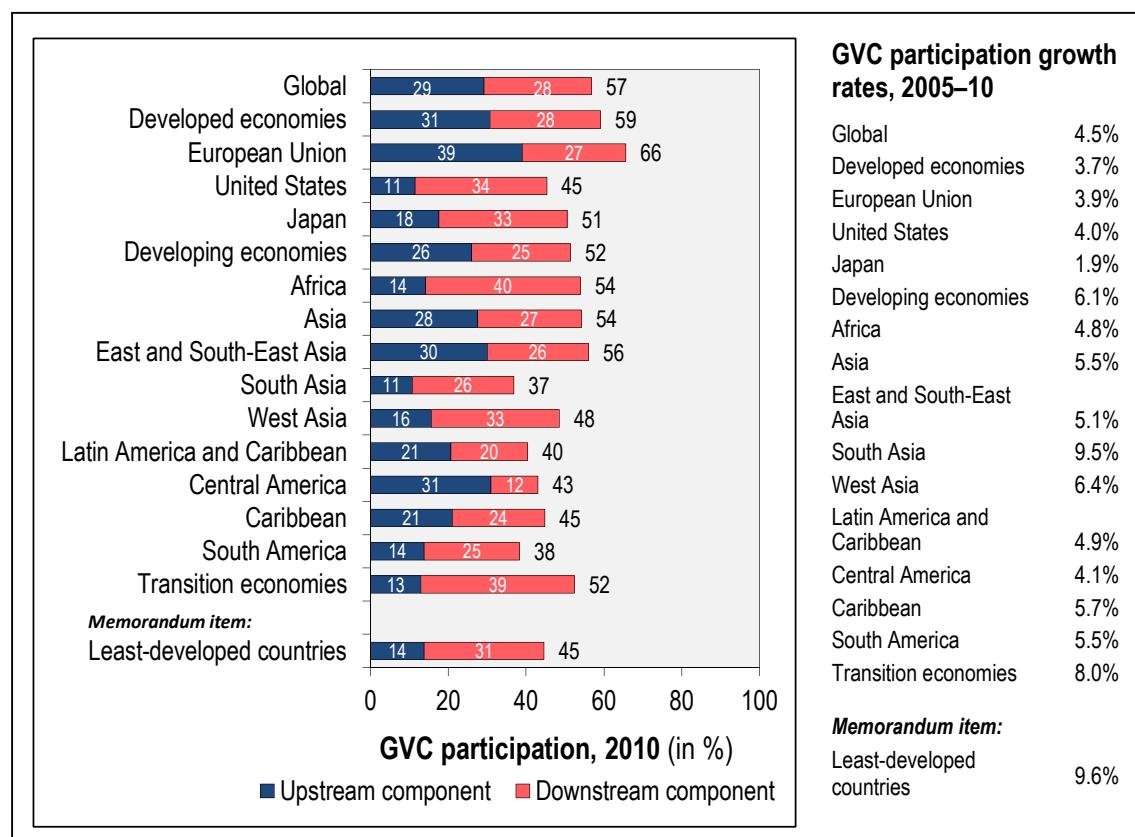
⁴¹ WTO: *World Trade Report 2014: Trade and development – Recent trends and the role of the WTO*.

⁴² Low: “The role of services”, op. cit.

⁴³ M. Morris, R. Kaplinsky and D. Kaplan: “‘One thing leads to another’ – Commodities, linkages and industrial development”, *Resources Policy*, Elsevier (2012, Vol. 37(4)), pp. 408–416; D. DeRosa: “Modeling the effects on agriculture of protection in developing countries”, in M. Ingco and L.A. Winters (eds): *Agriculture and the new trade agenda: Creating a global trading environment for development* (Cambridge University Press, 2008), pp. 248–252.

40. Participation in global supply chains grew an average of 4.5 per cent annually between 2005 and 2010, as seen in figure 2.4. The European Union (EU) acts as a strong upstream coordinator and stands out with the highest participation rate of 66 per cent, while Asia and Africa both reached 54 per cent.⁴⁴

Figure 2.4. Participation in global supply chains



Note: Global value chain (GVC) participation indicates the share of a country's exports that is part of a multi-stage trade process; it is the foreign value added used in a country's exports (upstream perspective) plus the value supplied to other countries' exports (downstream perspective), divided by total exports. GVC participation growth here is the annual growth of the sum of the upstream and downstream component values (compound annual growth rate).

Source: UNCTAD–Eora GVC Database.

41. The United Nations Conference on Trade and Development (UNCTAD) estimates that around 80 per cent of global trade (measured in terms of gross exports) is now linked to the international production networks of MNEs, conducted either as intra-firm trade between an MNE and its affiliate(s), through non-equity modes of international production, or through arm's length market transactions.⁴⁵ South–South trade between developing economies grew from 8 per cent of world trade in 1990 to around 25 per cent in 2013.⁴⁶ This has been accompanied by the emergence of lead firms and local brands in the global South and new patterns of regionalization.

⁴⁴ UNCTAD: *World Investment Report 2013*, op. cit., pp. 133–135.

⁴⁵ *ibid.*

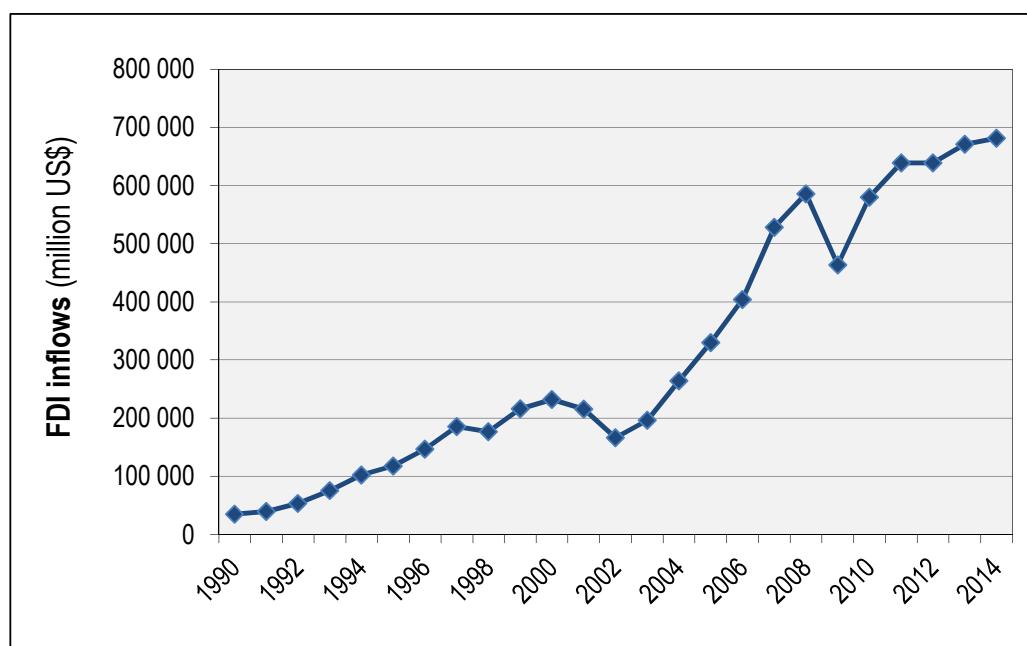
⁴⁶ *World Trade Report 2014*, op. cit.

42. The interlinked, cross-border dimensions of global supply chain trade in intermediate goods contributed in late 2008 to what has been called a “synchronized global trade collapse”, in which trade in some industries fell by more than 30 per cent in two consecutive quarters.⁴⁷ Coordinated trade in global supply chains has also affected the measurement of trade itself; as a result, trade statistics databases are now being revised to correct double counting in gross trade figures and also to enable the identification of where value is created in global production chains.⁴⁸

2.3. Investment trends

43. Patterns of value-added trade in global supply chains are still significantly influenced by the investment decisions of MNEs. Countries with a higher presence of FDI relative to the size of their economies tend to have a higher level of participation in global supply chains and tend to generate relatively more domestic value added from trade.⁴⁹ Developing economies have increasingly become engaged in international investment flows, receiving more than half of global FDI in 2012 compared with less than 20 per cent in 2000,⁵⁰ and reaching \$681 billion in 2014 (see figure 2.5). Among the top ten FDI recipients in the world, five are developing economies, with China the largest recipient. Between 2012 and 2014, FDI inflows to Asia increased, whereas flows to Latin America and the Caribbean declined, and flows to Africa remained stable.⁵¹

Figure 2.5. FDI inflows in developing economies, 1990–2014



Source: UNCTAD: *World Investment Report 2015*, op. cit. (annex).

⁴⁷ Escaith, Lindenberg and Miroudot, op. cit.

⁴⁸ For more details, see the Trade in Value Added dataset, available at: <http://www.oecd.org/sti/ind/measuringtradeinvalue-addedanoecd-wtojointinitiative.htm>; UNCTAD: *World Investment Report 2013*, op. cit.

⁴⁹ UNCTAD: *World Investment Report 2013*, op. cit.

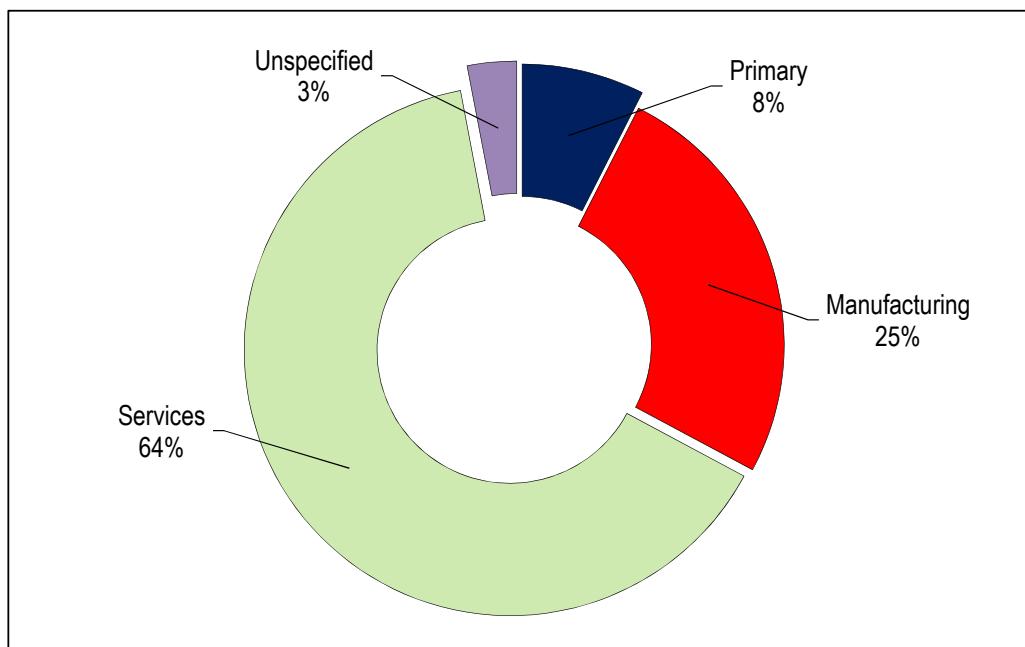
⁵⁰ WTO: *World Trade Report 2014*, op. cit.

⁵¹ UNCTAD: *World Investment Report 2015: Reforming international investment governance* (Geneva).

44. South–South FDI flows, linked to the rise of lead firms in the global South, have strongly increased. The share of FDI outflows from developing countries grew from 7 per cent in the late 1980s to 34 per cent in 2012 and accounted for 35 per cent of global FDI in 2014.⁵²

45. Global supply chains rely heavily on services and consequently FDI in services has increased: in 2012, services accounted for 64 per cent of global FDI stock – more than twice the share of manufacturing, as seen in figure 2.6.

Figure 2.6. Estimated global inward FDI stock by sector, 2012 (percentage of world total)



Note: Includes only countries for which data for the three main sectors was available. World total extrapolated on the basis of data covering 103 countries.

Source: UNCTAD/STATS: Foreign direct investment: Inward and outward flows and stocks, annual, 1980–2014, retrieved from <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=96740>.

Export processing zones

46. The growth of global supply chains in emerging and developing economies has been facilitated in some countries by the creation of export processing zones (EPZs).⁵³ These are industrial zones, typically offering special incentives to attract foreign investors, where imported materials undergo some degree of processing before being re-exported.⁵⁴ In the traditional model, the entire production of such zones is normally exported. Hybrid EPZs, in contrast, are usually divided into a general zone open to all industries and a separate area exclusively reserved for export-oriented enterprises registered with the EPZ.⁵⁵ Economic incentives offered by EPZs include exemptions from some or all tariffs and taxes, and access to export-oriented manufacturing facilities

⁵² UNCTAD: Foreign direct investment: Inward and outward flows and stocks, annual, 1980–2014, dataset available at: <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=96740>.

⁵³ ILO: *World Employment Social Outlook: The changing nature of jobs* (Geneva, 2015), p. 139.

⁵⁴ ILO: *Trade union manual on export processing zones*, Bureau for Workers' Activities (Geneva, 2014).

⁵⁵ World Bank Group: *Special economic zones: Performance, lessons learned, and implications for zone development* (Washington, DC, 2008), p. 10.

and services. In addition, some countries grant exemptions from national labour laws and regulations.

47. Despite significantly limited data on the spread of EPZs, it is clear that they have grown rapidly in number over the last decades. Most are concentrated in Asia, with over 300 located in China alone.⁵⁶ Driven by the desire to expand exports and tap into global supply chains, governments have continued to support an expansion of EPZs. It is estimated that around 20 per cent of exports from developing countries come from such zones.⁵⁷

48. However, EPZs have a mixed record of success and remain controversial, both in economic and social terms. There are reports of long working hours and systematic violations of freedom of association. Enforcement of legislation in EPZs has been inadequate in many countries. In some cases, wages tend to be better within them; however, comparisons of working conditions inside and outside show mixed findings.⁵⁸ Some EPZs derive their comparative advantage from extensive recourse to low-wage workers, in what has been termed a “race to the bottom”.⁵⁹

2.4. Scale and quality of employment

49. Global supply chains have provided new opportunities for employment in developing and emerging economies, including for workers who had difficulty accessing wage employment or formal jobs, such as women, young people and migrant workers.⁶⁰ Some of the jobs created by global supply chains offer good terms and conditions (particularly for more skilled workers). At the same time, challenges arise, as stated in the ILO Social Justice Declaration:

... on the one hand, the process of economic cooperation and integration has helped a number of countries to benefit from high rates of economic growth and employment creation, to absorb many of the rural poor into the modern urban economy, to advance their developmental goals, and to foster innovation in product development and the circulation of ideas; on the other hand, global economic integration has caused many countries and sectors to face major challenges of income inequality, continuing high levels of unemployment and poverty, vulnerability of economies to external shocks, and the growth of both unprotected work and the informal economy, which impact on the employment relationship and the protections it can offer⁶¹

50. Outsourcing and offshoring in global production can be key determinants of the scale and quality of jobs in global supply chains, as lead firms control but do not own production facilities and operate across multiple national jurisdictions. The expansion of outsourcing through global supply chains has been a factor in rising employment, especially in developing countries, with particular evidence of increased employment opportunities for women workers in labour-intensive industries such as apparel and agri-food.

⁵⁶ X. Zeng et al.: *Export processing zones in China: A survey report and a case study*, Bureau for Workers' Activities (Turin, 2012).

⁵⁷ A. Maurer and C. Degain: *Globalization and trade flows: What you see is not what you get*, WTO Staff Working Paper, 2010.

⁵⁸ W. Milberg and M. Amengual: *Economic development and working conditions in export processing zones: A survey of trends*, Working Paper 3 (Geneva, ILO, 2008).

⁵⁹ T. Farole: “Special economic zones: What have we learned?”, in *Economic Premise* (2011, No. 64, World Bank).

⁶⁰ ILO: *World Employment Social Outlook: The changing nature of jobs*, op. cit., pp. 131–154.

⁶¹ ILO Declaration on Social Justice for a Fair Globalization, 2008, first preambular paragraph.

51. The quality of jobs generated by global supply chains has been widely scrutinized, with case study evidence showing both positive and negative results. Such jobs may offer formal employment relationships that are compliant with international labour standards, often through the application of MNE codes of conduct.⁶² In particular, it is well documented that FDI by MNEs can offer higher wages and better working conditions than their domestic counterparts.⁶³ An analysis of labour rights violations in 86 countries between 1995 and 2002 found that countries that produce globally via FDI are likely to experience improvements in workers' rights.⁶⁴ Other studies have documented violations of labour standards and labour practices, frequently (but not exclusively) in lower tiers and outsourced firms in global supply chains, involving informal labour⁶⁵ and workers hired via labour contractors.⁶⁶ Furthermore, a significant number of employees in supply chains hold informal jobs in or for formal enterprises, as recognized by their inclusion in the scope of the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204).

2.4.1. Scale of employment

52. The ILO *World Economic and Social Outlook 2015* report⁶⁷ estimates that in 40 countries representing 85 per cent of world gross domestic product and covering approximately two-thirds of the global labour force, the number of global supply chain-related jobs increased by 157 million or 53 per cent between 1995 and 2013, resulting in a total of 453 million global supply chain-related jobs in 2013.⁶⁸ However, as acknowledged in the same report, the patterns of labour demand and supply within global supply chains pose severe measurement challenges: The quantity of employment in global supply chains is difficult to estimate, as national employment statistics do not distinguish between different types of workers engaged in global supply chains, nor do they fully capture informal and non-standard forms of work. Furthermore, it is difficult to discern the percentage of workers supplying global buyers or domestic buyers and whether any domestic firms are supplying global supply chains indirectly without being direct exporters. Thus, with the available data, it is not always possible to distinguish workers who work in global supply chains from workers who do not, or, consequently,

⁶² R. Locke: *The promise and limits of private power: Promoting labor standards in a global economy* (Cambridge University Press, 2013).

⁶³ R.J. Flanagan: *Globalization and labor conditions: Working conditions and worker rights in a global economy* (Oxford University Press, 2006); T.H. Moran: *Beyond sweatshops: Foreign direct investment and globalization in developing countries* (Brookings Institution, 2002).

⁶⁴ L. Mosley: *Labor rights and multinational production* (Cambridge University Press, 2011).

⁶⁵ M. Carr, M.A. Chen and J. Tate: "Globalization and home-based workers", in *Feminist Economics* (2000, 6(3)); M.-K. Chan: *Informal workers in global horticulture and commodities value chains: A review of literature*, WIEGO Working Paper No. 28 (2013).

⁶⁶ Barrientos: "Labour chains", op. cit.

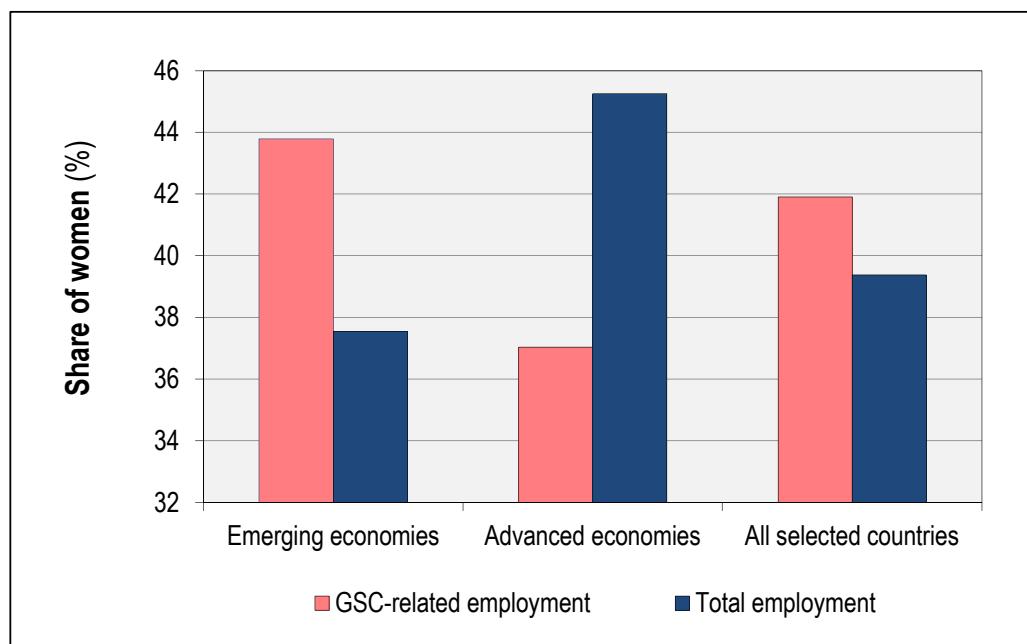
⁶⁷ ILO: *World Employment and Social Outlook 2015: The changing nature of jobs* (Geneva, ILO, 2015); for other estimates, see M.P. Timmer et al.: "Slicing up global value chains", in *Journal of Economic Perspectives* (2014, Vol. 28, No. 2), pp. 99–118; X. Jiang: *Trade and employment in a vertically specialized world*, ILO Research Paper No. 5 (Geneva, ILO, 2013); OECD, WTO and UNCTAD: *Implications of global value chains for trade, investment, development and jobs*, prepared for the G20 Leaders Summit, St Petersburg, Russian Federation, September 2013; I. Arto et al.: "EU exports to the world: Effects on employment and income" (European Commission, 2015).

⁶⁸ The report emphasizes that they are not global estimates and that the estimates of global supply chain-related jobs should be interpreted as an upper bound estimate of the true number of jobs linked to global supply chains in the economies analysed: *World Employment and Social Outlook 2015*, op. cit., p. 133.

to compare the quality of the respective workers' jobs inside with those outside global supply chains.

53. According to the estimates, the share of women employed in global supply chains in the 40 countries covered by the report was, as a group, 2.5 per cent higher than their share in total employment in 2013. In emerging economies, the share was considerably higher, whereas in advanced economies the share of women employed in global supply chains was much lower than that of total employment.⁶⁹

Figure 2.7. Share of women employed in global supply chains and in the total economy, 2013



Note: The chart shows the share of female employment as a percentage of jobs related to global supply chains (GSCs) and as a percentage of total employment.

Source: ILO Research Department estimates based on the World Input–Output Database and ILO: *Trend Econometrics Models*, Oct. 2014.

54. Employment creation in global supply chains has mainly been driven by emerging economies.⁷⁰ Global supply chains in, for example, the chemicals, logistics and tourism sectors are linking emerging economies to the global economy, thereby contributing to the creation of enterprises and employment. Currently, Asian countries are a major source of production and employment in the chemicals industry; and the majority of commodity services in the logistics sector are supplied by firms in developing countries. Tourism destinations in emerging markets are attracting increasing numbers of foreign and domestic tourists, and account for almost half of the global tourism market.⁷¹ However, global supply chains have also had employment displacement effects in a number of cases: for example, increased outsourcing to developing countries of

⁶⁹ ibid.

⁷⁰ ibid., p. 132.

⁷¹ ILO: *Sectoral studies on decent work in global supply chains: Comparative analysis of good practices by multinational enterprises in promoting decent work in global supply chains* (Geneva, forthcoming).

manufacturing activities has tended to reduce employment in the sectors concerned in advanced economies.⁷²

55. The job creation potential for young people can be significant in global supply chains. For example, in the United Kingdom, the Department for International Development's Trade in Global Value Chains Initiative worked alongside a UK supermarket to create a youth development programme, which successfully increased the employment opportunities of young people in the South African horticulture industry through training in vocational skills.⁷³

56. While less sectoral-level data is available for those employed or engaged in global supply chains in food and agriculture than for other sectors, table 2.1 compiles estimates of the number of wage workers and smallholders participating in horticulture linked to global supply chains in selected African countries. In these examples, women represent over half of the workforce. Moreover, the number of indirect beneficiaries or dependants indicates the importance of global supply chains in supporting wider livelihoods.

Table 2.1. Estimated number of workers and smallholders in global supply chains in horticulture in selected African countries

Country/product	Smallholders	Wage workers	Estimates of female labour force (%)	Indirect/dependants
South Africa fruit	n.a.	400 000 ***	53	2 000 000
Kenya flowers and fresh fruit and vegetables	220 000 *	70 000–90 000 **	75	2 000 000
Uganda floriculture	n.a.	7 000	65–75	35 000

n.a. = data not available.
 Notes: * Fresh vegetables for export (2009). ** Mainly flowers for export (2010). *** Fruit only: Deciduous, citrus, grapes, sub-tropical (2011).
 Source: S. Barrientos: "Gender and global value chains: Challenges of economic and social upgrading in agri-food", Robert Schuman Centre for Advanced Studies (Florence, European University Institute, 2014).

2.4.2. Quality of employment

57. The quality of employment in global supply chains is difficult to measure. Aside from case study evidence, it is difficult to find data on the range of indicators that would help to compare the quality of employment in global supply chains with that of other employment. Detailed and comparable cross-country data is lacking, in part due to different statistical definitions used in national surveys.⁷⁴ Moreover, as data sources are national, but global supply chains operate internationally, it is often hard to establish a clear link.

Wages and working time

58. Available data suggests that participation in global supply chains does not seem to significantly impact worker wages, although it is associated with higher productivity.⁷⁵

⁷² A. Park, G. Nayyar and P. Low: *Supply chain perspectives and issues: A literature review* (Fung Global Institute and WTO, 2013), p. 35; M. Spence: "The impact of globalization on income and employment: The downside of integrating markets", in *Foreign Affairs* (2011, Vol. 90, No. 4), pp. 28–41.

⁷³ Trade in Global Value Chains Initiative, *Newsletter*, Jan. 2015.

⁷⁴ ILO: *Non-standard forms of employment*, Report for discussion at the Meeting of Experts on Non-Standard Forms of Employment, Geneva, 16–19 February 2015.

⁷⁵ Data based on sectoral data analysis. See: *World Employment and Social Outlook 2015*, op. cit., pp. 143–145.

A shift in demand towards highly skilled employees in a lead firm due to offshoring and outsourcing of low-skill tasks could theoretically impact the ratio of the average hourly wage of highly skilled workers to that of low-skilled workers, known as the “skill premium”. In overall terms, participation in global supply chains does not seem to impact the skill premium either. Empirical results show little variation in the skill premium, with the exception of a few sectors, such as textiles.

59. While reliable data on wage levels for workers engaged in global supply chains is inconclusive as to the existence of low wages, it nevertheless remains a source of concern.⁷⁶ In many enterprises, women are paid at the low end of the scale, pay systems lack transparency, wage structures do not reward skills, or productivity gains are not shared with workers.⁷⁷ In addition, women often receive no sick leave or maternity leave.⁷⁸

60. Low prices paid to suppliers create pressure down the supply chain to reduce costs, which may lead to downward pressure on wages.⁷⁹ Suppliers and workers at the bottom of the chain often receive an extremely small share of the retail price. By way of example, the estimated labour costs for one conventional T-shirt from Asia is around 20 euro cents, regardless of the retail price.⁸⁰ Furthermore, for each box of tea sold in the United Kingdom for £1.60, a tea picker is expected to make just £0.01.⁸¹ Similarly, for each conventional banana from Ecuador sold at 12p in a UK supermarket, a plantation or farm worker will receive only 0.75p.⁸²

61. In response to workers’ demands for higher wages and better working conditions in supply chains, some brands and retailers have included “living wages” or “fair wages” in their codes of conduct. However, different studies suggest that such initiatives have had only modest effects.⁸³

62. In the textile and garment sector, statutory minimum wages are often low in supplying countries and sometimes do not fulfil the needs of workers and their families.⁸⁴ This contributes to excessive overtime work, which in turn raises concerns about occupational safety and health and work-life balance. However, if pay systems allow for skills and productivity gains to be shared with workers, skills upgrading and on-the-job training can lead to higher wages.

⁷⁶ D. Miller and K. Hohenegger: “Valuing labor, buying practices and the low wage question in apparel supply chains”, preliminary version (ILO, forthcoming).

⁷⁷ Joint Ethical Trading Initiatives: *Living wages in global supply chains: A new agenda for business* (2015).

⁷⁸ Oxfam: “Trading away our rights: Women working in global supply chains” (2004); Christian, Evers and Barrientos: *Women in value chains*, op. cit.

⁷⁹ UNCTAD: *World Investment Report 2013*.

⁸⁰ M. Starmanns: “How is value shared within global supply chains? Purchasing practices and low wages in global supply chains”, preliminary version (ILO, 2016, forthcoming).

⁸¹ V. Largo: “PG Tips and Lipton tea estates hit by allegations of sexual harassment and poor conditions”, in *The Ecologist*, Apr. 2011.

⁸² BananaLink infographics, available at: <http://www.bananalink.org.uk/infographics>.

⁸³ R. Locke: *The promise and limits of private power: Promoting labour standards in a global economy* (Cambridge University Press, 2013).

⁸⁴ ILO: *Wages and working hours in the textiles, clothing, leather and footwear industries*, Issues paper for discussion at the Global Dialogue Forum on Wages and Working Hours in the Textiles, Clothing, Leather and Footwear Industries (Geneva, 23–25 September 2014).

63. Working time is a key issue for some global supply chains. Excessive working hours with extensive overtime is a major concern, with working hours often far exceeding the ILO limit of 48 hours per week established in the Hours of Work (Industry) Convention, 1919 (No. 1), and the Hours of Work (Commerce and Offices) Convention, 1930 (No. 30). Many private codes of conduct set a much higher limit at 60 hours per week.⁸⁵ A recent study of working hours in Chinese and Thai supply chain factories producing football products found that 48 per cent of the factory workers were working more than 60 hours per week.⁸⁶ In addition, a lack of adequate rest periods and paid annual leave is also a common issue; the same study also found that 25 per cent of workers in the factories analysed did not receive at least one day off in every seven-day period.⁸⁷

64. A range of different factors drives these excessively long hours. In particular, there is an increasing body of evidence that shorter lead times owing to the use of just-in-time or lean production systems, seasonal demand and volatile sourcing contracts are among the key factors driving excessive and often inadequately compensated overtime in global supply chains.⁸⁸

65. Wages and working time are also affected by the terms of purchasing between the buyer and its suppliers, which often reflect the asymmetrical bargaining position of the two partners and the power of the buyers to switch suppliers. Negotiated prices between the buyer and suppliers may not always cover costs. In these conditions, wages become the adjustment variable at the end of the supply chain,⁸⁹ with competitive pressures leading to lower wages and longer working hours.⁹⁰

Non-standard forms of employment

66. Suppliers may respond to external pressures and unpredictable production schedules through the use of non-standard forms of employment to ensure that demand is met.⁹¹ Such forms of employment that fall outside of the realm of standard work arrangements have grown in many global supply chains.⁹² Demand is often met and flexibility increased through various means, including greater use of part-time, temporary, casual and zero-hour contracts. In general, enterprises use non-standard workers for three reasons: (a) quantity flexibility: the ability to bring workers in on short

⁸⁵ Mamic: “Implementing codes of conduct”, op. cit.

⁸⁶ R. Smyth et al.: “Working hours in supply chain Chinese and Thai factories: Evidence from the Fair Labor Association’s ‘Soccer Project’”, in *British Journal of Industrial Relations* (2013, Vol. 51:2, June 2013), pp. 382–408.

⁸⁷ *ibid.*

⁸⁸ M. Aner, J. Bair and J. Blasi: “Towards joint liability in global supply chains: Addressing the root causes of labour violations in international subcontracting networks”, in *Comparative Labour Law & Policy Journal* (2013, Vol. 35:1), pp. 1–43.

⁸⁹ D. Vaughan-Whitehead: *Fair wages – Strengthening corporate social responsibility* (Edward Elgar, 2010).

⁹⁰ S. Barrientos: “Corporate purchasing practices in global production networks: A socially contested terrain”, in *Geoforum* (2013, Vol. 44), pp. 44–51.

⁹¹ The ILO Tripartite Meeting of Experts on Non-Standard Forms of Employment (February 2015) discussed the following categories: (1) temporary employment; (2) temporary agency work and other contractual arrangements involving multiple parties; (3) disguised employment relationships and dependent self-employment; and (4) part-time employment. Within the various categories of non-standard forms, employment arrangements can be either formal or informal.

⁹² ILO: *Labour protection in a transforming world of work: A recurrent discussion on the strategic objective of social protection (labour protection)*, International Labour Conference, 104th Session, Geneva, 2015; Weil, op. cit.

notice to help the organization deal with seasonal demand⁹³ or to deal with fluctuations in production cycles;⁹⁴ (b) functional flexibility: the ability to move workers easily between different types of tasks; and (c) pay flexibility: the ability to vary remuneration.

67. Labour-force flexibility in global supply chains can also be increased through the use of third-party labour intermediaries or labour contractors/brokers. This is associated with what is sometimes termed a “triangular employment relationship”, where the legal employer is separate from the entity for whom the work is carried out.⁹⁵ Intermediaries may be formally registered companies that provide temporary staffing services or more informal or quasi-registered labour contractors. There is no reliable data on the extent of their use. A “cascade” system sometimes operates among informal labour contractors, whereby contractors use workers provided by or sourced through other contractors or intermediaries. Labour abuses, including forced labour, may occur at the lower subcontracted tiers of global supply chains via unethical labour contractors with links to human traffickers – providing one of the channels for “modern-day slavery” in the global economy.⁹⁶

68. While the use of non-standard forms of employment has contributed to increasing labour market participation, there is evidence that the workers affected more frequently lack labour protection in law and/or practice.⁹⁷ The use of non-standard forms of employment presents significant regulatory challenges. Employers may choose not to comply with protective labour legislation owing to the precarious nature of their orders. The labour inspectorate may face difficulty in enforcing the application of laws, especially in work outsourced to homeworkers, informal labour contractors or in the challenging specificities of rural work.⁹⁸ In addition, these workers may experience difficulty in joining trade unions or in acquiring coverage by collective bargaining agreements.

69. One example is a major home furnishing company’s global supply chain for rattan, which involves subcontracting of rattan furniture weaving to homeworkers. The company has contracts with supplier companies, which then subcontract the rattan weaving to sub-suppliers that employ workers who work either in small weaving centres or in their own homes. Potential suppliers must meet the company’s standards – which are based on the ILO’s fundamental Conventions – prior to entering into a business relationship with the company. These standards apply to sub-suppliers in the rattan industry and cover weaving centre workers, but homeworkers are not covered by several regulations in the code of conduct. Thus, while the standards have positively impacted the working arrangements and conditions of weaving centre workers hired by sub-suppliers, they do less to address the decent work challenges faced by homeworkers.⁹⁹

⁹³ B. Harrison and M.R. Kelley: “Outsourcing and the search for ‘flexibility’”, in *Work, Employment and Society*, British Sociological Association (1993, Vol. 7(2)), pp. 213–235.

⁹⁴ J.J.R. Ko: “Contingent and internal employment systems: Substitutes or complements?”, in *Journal of Labor Research* (2003, Vol. 24, No. 3), pp. 473–490.

⁹⁵ ILO: *The employment relationship*, International Labour Conference, 95th Session, Geneva, 2006.

⁹⁶ Barrientos: “Labour chains”, op. cit.

⁹⁷ ILO: *Non-standard forms of employment*, op. cit.

⁹⁸ For example, ILO: “Rights at work in the rural economy” (Geneva, forthcoming).

⁹⁹ L. Lim: *Employment relationships and working conditions in an IKEA rattan supply chain* (Jakarta, ILO, 2015).

70. Social protection is important not only for individual workers and their families but also for communities as a whole. Field research by the ILO in a number of countries reveals that permanent workers in formal plantations, which are often linked to global supply chains, usually enjoy a certain level of social protection. However, this may not be the case for casual workers. Female casual workers run the risk of losing income during pregnancy or maternity leave. In general, workers in smallholder farms, which account for a significant proportion of global palm oil production, also lack access to social security.¹⁰⁰

71. Downward pressures on labour protection may affect even sectors with more sophisticated technology and skilled labour, such as the animation and creative industry sectors.¹⁰¹ Much of the labour in the Japanese animation and visual effects industry is comprised of young people who are engaged in project-based work. When deadlines approach, the flexibility required of production leads to increased use of freelance workers, long working hours on irregular schedules with low wages, and weakened job security.¹⁰² Animation studios can supplement their labour requirements at little expense by using unpaid interns seeking to gain work experience.¹⁰³ Some animators have reportedly left the industry as a result of excessive working time and low salaries; where their jobs do not provide social protection, they have relied instead on national health insurance.¹⁰⁴

72. One example where a shift towards casual labour has occurred as a result of buyer pressure on producers to deliver just in time and to reduce prices is the banana industry. A case was reported where banana producers repeatedly hired workers on short-term contracts, taking advantage of a probationary period at the start of contracts that exempted them from providing those workers with social security, annual leave or other social welfare benefits. In addition to the impact on social protection, such practices also have implications for the enabling rights of workers, such as the right to collective bargaining. Casualization of the labour force impedes collective bargaining by limiting the number of workers eligible to join a trade union.¹⁰⁵

73. Furthermore, the economic environment in which social dialogue occurs has changed dramatically in recent decades. Improved capital mobility, stiffer competition amid globalization, labour market reforms, less redistributive tax and social systems, and declining unionization are among the factors that have contributed to a decline in

¹⁰⁰ ILO: "Decent work in oil palm plantations: Surveys in Indonesia and Ghana" (2015, unpublished).

¹⁰¹ I. Garmann Johnsen: "Formal project organization and informal social networks: Regional advantages in the emergent animation industry in Oslo, Norway", in *European Planning Studies* (2011, Vol. 19, No. 7).

¹⁰² B. Conor, R. Gill and S. Taylor: "Gender and creative labour", in *The Sociological Review* (2015, Vol. 63, No. S1), pp. 1–22; D. Perrons: "Care, paid work, and leisure: Rounding the triangle", in *Feminist Economics* (2000, 6(1)), pp. 105–114; D. Hesmondhalgh and S. Baker: "'A very complicated version of freedom': Conditions and experiences of creative labour in three cultural industries", in *Poetics* (2010, 38(1)), pp. 4–20; H. Yoon: "Promoting decent work in global supply chains: The animation/VFX industry", in ILO: *Sectoral studies on decent work in global supply chains*, op. cit.

¹⁰³ D. Hesmondhalgh and S. Baker: "Sex, gender and work segregation in the cultural industries", in *The Sociological Review* (2015, Vol. 63, No. S1), pp. 23–36; L.R. Shade and J. Jacobson: "Hungry for the job: Gender, unpaid internships, and the creative industries", in *The Sociological Review* (2015, Vol. 63, No. S19), pp. 188–205.

¹⁰⁴ D. Okeda and A. Koike: "Working conditions of animators: The real face of the Japanese animation industry", in *Creative Industries Journal* (2011, 3(3)), pp. 261–271.

¹⁰⁵ P.K. Robinson: "Do voluntary labour initiatives make a difference for the conditions of workers in global supply chains?", in *Journal of Industrial Relations* (2010, 52(5)), pp. 561–573.

workers' bargaining power.¹⁰⁶ Workers' representatives may lack the leverage and organization needed to participate in social dialogue, particularly when they are engaged in the supply chain as casual, temporary or home-based workers. Collective agreements have been weakened by a number of trends, including subcontracting and informal work. Global supply chains have also made it more complex for employers' organizations to represent their members and respond to their expectations.¹⁰⁷

74. A fundamental role in linking firms within global supply chains is played by the cross-border freight transport sector.¹⁰⁸ The fragmentation of the industry presents a particular set of challenges, as subcontracted truck owner-operators and SMEs constitute the majority of the freight transport industry in most countries. They often absorb the costs of ownership and maintenance and other vehicle operating costs, but may not be able to participate in social dialogue because of asymmetrical bargaining power. In addition, pressure from supply chain entities may be an underlying cause of transport workers adopting riskier and unsafe driving practices.¹⁰⁹ A recent survey within large logistics companies and international buyers found that there is an incipient interest in implementing initiatives that monitor and address decent work challenges for subcontracted truck drivers.¹¹⁰

Migrant workers

75. In both developed and developing countries, migrant workers are often found in non-standard forms of employment.¹¹¹ Employers and migrant workers alike can benefit considerably from temporary and flexible work arrangements in global supply chains.¹¹² However, when it comes to the effective protection of labour rights for migrant workers in global supply chains, enforcement gaps and fragmentation of norms, policy initiatives and responsibilities of the actors involved can pose major challenges and may lead to violations.¹¹³ A large number of migrant workers experience difficult working conditions, particularly if they are in an irregular situation and in the informal economy. In many cases, women migrant workers are particularly affected by low wages, long working hours and a lack of rest and annual leave. Organizing strategies for supply chains have recently evolved to design solutions to serious problems with working

¹⁰⁶ ILO: *Social dialogue: Recurrent discussion under the ILO Declaration on Social Justice for a Fair Globalization*, Report VI, International Labour Conference, 102nd Session, Geneva, 2013, p. 15; OECD: *OECD Employment Outlook 2012* (Paris, 2012); S. Tilford: *Economic recovery requires a better deal for labour* (London, Centre for European Reform, 2012).

¹⁰⁷ ILO: *Social dialogue: Recurrent discussion under the ILO Declaration on Social Justice for a Fair Globalization*, op. cit.

¹⁰⁸ ILO: *Priority safety and health issues in the road transport sector*, Report for discussion at the Tripartite Sectoral Meeting on Safety and Health in the Road Transport Sector (Geneva, 12–16 October 2015).

¹⁰⁹ ILO: *Conclusions on safety and health in the road transport sector*, adopted at the Tripartite Sectoral Meeting on Safety and Health in the Road Transport Sector, 12–16 October 2015, Geneva.

¹¹⁰ ILO: "Good practices by multinational enterprises in promoting decent work in global supply chains: The freight transport and logistics industry", in ILO: *Sectoral studies on decent work in global supply chains*, op. cit.

¹¹¹ ILO: *Non-standard forms of employment*, op. cit., p. 30.

¹¹² P. Thompson, K. Newsome and J. Commander: "Good when they want to be": Migrant workers in the supermarket supply chain", in *Human Resource Management Journal* (04/2013, Vol. 23(2)).

¹¹³ R. Blanpain (ed.): *Protecting labour rights in a multi-polar supply chain and mobile global economy*, Bulletin for Comparative Labour Relations No. 89 (Wolters Kluwer, 2015), p. 189.

conditions in global *labour* supply chains that involve recruiters and a wide network of subcontractors and other agents.¹¹⁴

76. The increasing cross-border flows of workers have also resulted in a greater risk of forced labour and trafficking in persons. While most companies proactively avoid illegal employment practices, there is a risk that they may become associated with forced labour through business links to contractors and suppliers who may conceal unlawful practices.

¹¹⁴ J. Gordon: *Global labour recruitment in a supply chain context*, Fundamentals Working Papers (Geneva, ILO, 2015), pp. 33–42.

Chapter 3

Upgrading for decent work in global supply chains

77. As presented in Chapter 2, global supply chains can offer opportunities for inclusive development for supplier firms, workers and host countries, but they can also pose challenges to both long-term economic growth and to decent work outcomes. “Upgrading” is a term applied to the process through which actors in global supply chains can reap the benefits of their participation in global markets and attain decent work.¹ This chapter explores two forms of upgrading in global supply chains: economic and social.² Economic upgrading is the process of suppliers moving to higher value activities in global supply chains. Social upgrading is the process of achieving decent work in global supply chains. To achieve decent work and desired developmental outcomes social upgrading must accompany economic upgrading.

3.1. Economic upgrading

78. Economic upgrading is the process through which enterprises and workers move from low-value to relatively high-value activities in global supply chains.³ Economic upgrading can be analysed using available country-level export and price data as indicators. Using in-depth enterprise or sectoral research and data, it can be broken down into process, product, functional and chain upgrading (see box 3.1). Each type has different implications for skills development and jobs.

Box 3.1
Types of economic upgrading

- Process upgrading* involves changes in the production process with the objective of making it more *efficient*. This can be achieved by substituting capital for labour – higher productivity through automation – and thereby reducing skilled or unskilled work.
- Product upgrading* occurs where more advanced product types are introduced, which often requires a more highly skilled workforce to make an item with enhanced features.

¹ For more information on upgrading, see S. Barrientos, G. Gereffi and A. Rossi: “Economic and social upgrading in global production networks: A new paradigm for a changing world”, in *International Labour Review* (2011, Vol. 150, No. 3-4), pp. 319–340.

² The terms “economic upgrading” and “social upgrading”, as used here, correspond to “economic and social progress” in the MNE Declaration.

³ G. Gereffi: “The global economy: Organization, governance, and development”, in N. Smelser and R. Swedberg (eds): *The Handbook of Economic Sociology*, Chapter 8 (Princeton University Press, 2005), p. 171.

- *Functional upgrading* occurs when an enterprise increases its degree of vertical integration in the goods and services in a particular global supply chain. In the apparel industry, for example, the inclusion of finishing, packaging, logistics and transport adds new capabilities to an enterprise or an economic cluster. Similarly, if a textile firm decides to add apparel production capabilities, this is also functional upgrading.
- *Chain upgrading* occurs when an enterprise moves into new industries or product markets from a particular capability in a global supply chain. It can be best described as economic diversification, such as when a textile company decides to diversify the industries to which it sells its textile output, for example from apparel companies to the medical industry. Similarly, with companies that specialize in a particular material, such as graphite, chain upgrading occurs when these materials are sold to new markets, such as those for sporting equipment and bicycle frames.

Source: J. Humphrey and H. Schmitz: *How does insertion in global value chains affect upgrading in industrial clusters?*, *Regional Studies*, 36 (2002, Issue 9), pp. 1017–1027; Barrientos, Gereffi and Rossi: "Economic and social upgrading in global production networks", op. cit.

79. Global supply chains create opportunities in terms of technological learning and transfer of know-how from lead firms to their suppliers, allowing them to expand their capabilities.⁴ Many countries and enterprises have engaged in different types of economic upgrading and in different sectors.

80. Many countries in Asia, such as China, Indonesia, Malaysia and Viet Nam, increased their access to the garden furniture market in the United Kingdom through *process upgrading*, by adopting process-oriented strategies to produce higher volumes at a lower price. The furniture industry is labour-intensive, which makes process upgrading a particularly advantageous strategy. Hence Chinese and Vietnamese furniture producers have invested in the use of computerized numerical control machinery to enable higher quality in the mass production of furniture.⁵

81. Shifting into higher-value-added products within light manufacturing is often given as an example of *product upgrading*. For example, an apparel supplier firm may shift from T-shirts and underwear to high-tech sports jackets or suits.⁶ In the tourism sector, companies in developing countries may upgrade by linking with a multinational hotel brand to build or acquire a local hotel property (given the scale of some MNE hotel portfolios containing over 6,000 hotels and 150,000 employees in nearly 100 countries).⁷ Companies may also develop domestically owned and managed luxury hotel brands, as in India.⁸

⁴ For a compilation of many such studies, see the Duke University Global Value Chains Initiative, at: <https://globalvaluechains.org>.

⁵ R. Kaplinsky and M. Morris: "Chinese FDI in sub-Saharan Africa: Engaging with large dragons", in *European Journal of Development Research* (2009, 21(4)), pp. 551–569.

⁶ J. Bair and G. Gereffi: "Local clusters in global chains: The causes and consequences of export dynamism in Torreon's blue jeans industry", in *World Development* (2001, 29(11)), pp. 1885–1903.

⁷ J. Boardman, A. Johns and D. Petre: "Opportunities and challenges in the promotion of decent work in hotel global supply chains", in ILO: *Sectoral studies on decent work in global supply chains: Comparative analysis of good practices by multinational enterprises in promoting decent work in global supply chains* (Geneva, forthcoming).

⁸ M. Christian et al.: *The tourism global value chain: Economic upgrading and workforce development*, Center on Globalization, Governance & Competitiveness, Duke University (2011).

82. Process and product upgrading are frequently interrelated. For example, international certification schemes such as the “Good Delivery List” of the London Bullion Market Association involve a rigorous technical assessment of participating gold refining companies and improvement plan of casting, refining and assaying processes and at the same time aim to raise the quality and value of the gold product itself.⁹

83. The electronics global supply chain illustrates *functional upgrading* in the case of first-tier suppliers that have developed productive capabilities and extended their expertise in assembly and testing of parts and final products and in supply chain management, and are increasingly providing design services for customer firms as their path to functional upgrading.¹⁰ These contract manufacturers coordinate their own vast global supply chains by purchasing and sourcing parts and components from a large group of suppliers.¹¹ As of 2012, global electronics lead firms had consolidated the outsourcing of up to 80 per cent of production to only five contract manufacturers.¹² Contract manufacturers also invest in innovation to improve the services they offer to branded firms, for example through the use of 3D printing technology to develop product prototypes designed for branded firms.¹³

84. Global sourcing enabled *chain upgrading* in the Indian automotive industry, where a large domestic auto component manufacturer upgraded its product line and expanded production facilities internationally. An Indian company acquired a radiator caps factory in Liverpool in the United Kingdom, relocated it to India and enabled a shift from manufacturing automotive fasteners to producing industrial products for automotive and other industrial customers.¹⁴

⁹ London Bullion Market Association: *Good Delivery List*, available at: <http://www.lbma.org.uk/the-good-delivery-list>.

¹⁰ G. Raj-Reichert, S. Azmeh and K. Nadvi: “Who is running the show in global value chains? Rethinking the role of large first-tier suppliers in the garments and electronics industry”, presented at Global Production Networks and New Contours of Development, Early Career Workshop, University of Manchester Institute for Development Policy and Management, 29 June 2015.

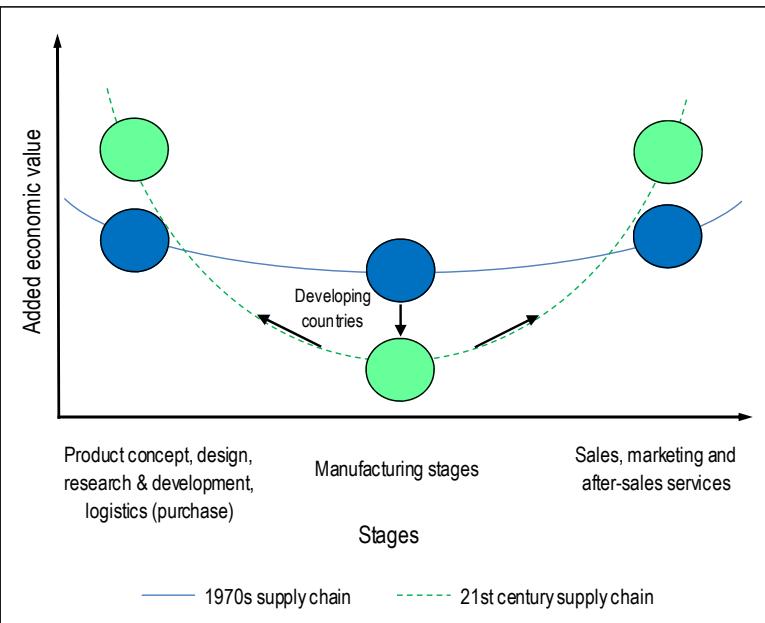
¹¹ T. Sturgeon and M. Kawakami: “Global value chains in the electronics industry: Characteristics, crisis, and upgrading opportunities for firms from developing countries”, in *International Journal of Technological Learning, Innovation and Development* (2011, Vol. 4, No. 1), pp. 120–147.

¹² European Commission: *ICT sector guide on implementing the UN Guiding Principles on Business and Human Rights* (Brussels, 2012).

¹³ J. Shinal: “Companies large and small are using 3-D prototyping to push the boundaries of innovation”, Special for *USA Today* (20 Mar. 2013).

¹⁴ J. Humphrey and O. Memedovic: *The global automotive industry value chain: What prospects for upgrading by developing countries*, United Nations Industrial Development Organization (UNIDO), Sectoral Studies Series Working Paper (2003).

Box 3.2
The smiling curve



Source: Adapted from Baldwin, op. cit.

The “smiling curve”, above, illustrates how value creation differs among the different activities involved in the creation of a given product or service.¹ With some exceptions, the greatest value creation is concentrated in pre-production and post-production activities related to research and development and services, while assembly and production have a lower share of value added.² Concentration of labour-intensive activities in low-wage countries has decreased the value of these activities in the supply chain.³ Commoditization and technology transfer drive down the cost of offshored tasks further. As a result, developed countries tend to be concentrated in higher-value activities, while developing countries tend to be concentrated in lower-value and labour-intensive activities.⁴ However, some firms and countries have been able to move into industries and activities that create more value added.

Much of the trade in global supply chains is not global but intra-industry and intra-regional.⁵ For instance, about half of East Asian manufactured goods exports go to other East Asian countries.⁶

¹ The “smiling curve” was first used by Acer’s founder Stan Shih in 1992 to show the problems of IT manufacturers in Taipei, Taiwan, China, that were then specialized in low-value manufacturing activities.

² In “Where is the value created and captured in manufacturing firms? Case Precision Machinery Product” (The Research Institute of the Finnish Economy (ETLA) Brief No. 9, 2013), Seppälä and Kenney show that production activities still contribute to a large extent to value creation of certain products in the precision metal industry.

³ Baldwin, op. cit. ⁴ OECD: *Interconnected economies*, op. cit. ⁵ ibid. ⁶ Baldwin, op. cit.

3.2. Social upgrading

85. The potential for global supply chains to lead to inclusive development is increased when economic and social upgrading are combined, allowing suppliers to move into higher-value-added production while ensuring decent work.

86. In this report, social upgrading is defined as the gradual process leading to decent work in global supply chains. The concept of social upgrading is aligned to the four

“inseparable, interrelated and mutually supportive”¹⁵ strategic objectives of the ILO Decent Work Agenda: employment, social protection, social dialogue and rights at work, alongside gender equality and non-discrimination as cross-cutting objectives.

87. Social upgrading is a new concept to the ILO. However, it is widely used in leading academic literature on global supply chains and in other UN organizations¹⁶ to counterbalance the predominant focus on economic upgrading alone.¹⁷ Social upgrading concerns the qualitative aspects of employment. It does not condone the violation of applicable national laws and international labour standards, including fundamental principles and rights at work, which must be respected everywhere, at all times and under all circumstances. The Social Justice Declaration explicitly states that the violation of fundamental principles and rights at work cannot be invoked or otherwise used as a legitimate comparative advantage and that labour standards should not be used for protectionist trade purposes. Social upgrading reflects the concept that the ultimate objective of decent work cannot be attained until the four inseparable, interrelated and mutually supportive dimensions of decent work have been realized.

88. *International labour standards* aim to promote opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security and dignity. In today’s globalized economy, international labour standards are an essential component of the international framework to ensure that the growth of the global economy provides benefits to all. The ILO Declaration on Fundamental Principles and Rights at Work commits member States to respect and promote principles and rights in four categories, regardless of whether they have ratified the relevant Conventions, namely: freedom of association and the effective recognition of the right to collective bargaining; the elimination of discrimination in respect of employment and occupation; the elimination of forced or compulsory labour; and the abolition of child labour.

89. Challenges for social upgrading exist with respect to all four fundamental rights. Risks relating to freedom of association in global supply chains include active opposition, restrictive legislation and “triangular” employment relationships.¹⁸ While corporate social responsibility (CSR) could promote the principles of freedom of association and collective bargaining in global supply chains, there have been significant flaws in social monitoring.¹⁹ Social auditors are generally not adequately trained on this technical area, nor can the quality of industrial relations be measured by purely quantitative indicators.²⁰ Instances of discrimination are also prevalent in some suppliers and contractors, including discrimination based on national origin, gender, sexual orientation and reproductive status.²¹

¹⁵ ILO Declaration on Social Justice for a Fair Globalization, 2008, Part I(B).

¹⁶ For example, UNCTAD: *Advancing the post-2015 development agenda requires a development policy rethink*, Policy Brief No. 31, Feb. 2015; OECD: *Global production networks and employment: A developing country perspective*, Working Party of the Trade Committee, 4–5 Dec. 2012; T. Fukunishi, K. Goto and T. Yamagata: *Aid for trade and value chains in textiles and apparel* (WTO, 2013).

¹⁷ Barrientos, Gereffi and Rossi, op. cit.

¹⁸ Ethical Trading Initiative: *Freedom of association in company supply chains: A practical guide* (London, 2013).

¹⁹ ILO: *Freedom of association in practice: Lessons learned*, Report of the Director-General, Report I(B), International Labour Conference, 97th Session, Geneva, 2008.

²⁰ ibid.

²¹ I. Mamic: *Implementing codes of conduct: How businesses manage social performance in global supply chains* (Greenleaf Publishing and ILO, Geneva, 2004).

90. Child labourers have been found in all tiers of global supply chains and across many sectors, including agriculture, manufacturing and retail. When child labour in the manufacturing of soccer balls in Sialkot, Pakistan, was exposed, companies were concerned that the negative publicity could damage the lead firm's brand image. With pressure and support from external stakeholders, NGOs and the ILO, the companies implemented programmes to address the problem and alleviate the root causes of child labour.²² Yet although there have been some highly publicized cases of success, forced labour and child labour remain a problem, particularly in portions of supply chains linked to the informal economy.

3.3. Link between economic and social upgrading

91. There is strong evidence that economic upgrading may lead to social upgrading, yet this link is not automatic.²³ Patterns of economic and social upgrading vary considerably across sectors and global supply chains. At times, economic upgrading may occur without social upgrading.²⁴ It is also possible that social upgrading will produce mixed outcomes, where some workers will experience social upgrading while others experience social downgrading.²⁵

92. While economic upgrading in global supply chains is often seen as an element in industrial development strategy,²⁶ limited attention is paid to whether social upgrading outcomes are generated as a result. The emergence of contract manufacturers in the electronics global supply chain is viewed as the embodiment of functional upgrading. However, the working conditions, hours and production pressures for workers, including migrant labourers, in this supply chain have, in some cases, led to riots, strikes and even suicides by workers in various production sites in recent years.²⁷

93. One example of economic upgrading that has not been matched by social upgrading is the seafood global supply chain, in which lead firms outsource simple fish processing (such as deheading, gutting and peeling). Thailand has become an important processing country for seafood products from both domestic and imported raw materials that meet strict sanitary and hygiene standards for international trade. Thailand's long-standing food safety record has earned it a comparative advantage over other seafood exporting countries. This upgrading has been achieved by investments in processing higher-value products (such as canned tuna) and cold storage, packaging and branding.²⁸ However, such economic upgrading has been accompanied by the serious undermining of labour rights, particularly for migrant workers. Numerous reports reveal a range of

²² K. Nadví: "Global standards, global governance and the organization of global value chains", in *Journal of Economic Geography* (2008, Vol. 8, No. 3), pp. 323–343.

²³ Barrientos, Gereffi and Rossi, op. cit.

²⁴ W. Milberg and D. Winkler: *Outsourcing economics: Global value chains in capitalist development* (Cambridge University Press, 2013); T. Bernhardt and W. Milberg: *International trade and the relation between economic and social upgrading*, Capturing the Gains Summit Briefing (Dec. 2012).

²⁵ A. Rossi, A. Luinstra and J. Pickles (eds): *Towards better work: Understanding labour in apparel global value chains* (ILO, Palgrave Macmillan, 2014).

²⁶ W. Milberg, X. Jiang and G. Gereffi: "Industrial policy in the era of vertically specialized industrialization", in J. Salazar-Xirinachs, I. Nübler and R. Kozul-Wright (eds): *Transforming economies: Making industrial policy work for growth, jobs and development* (UNCTAD and ILO, 2014).

²⁷ Electronics Watch Consortium: *The ICT sector in the spotlight: Leverage of public procurement decisions on working conditions in the supply chain* (2014).

²⁸ FAO: Fishery and Aquaculture Country Profiles: The Kingdom of Thailand, <http://www.fao.org/fishery/facp/THA/en> (undated).

exploitative and abusive practices, including child labour and forced labour, throughout the supply chain, also on long-haul vessels.²⁹ The Good Labour Practices initiative promoted by the ILO is an effort to encourage social upgrading in the Thai seafood sector, through the establishment of industry labour guidelines with a supportive training programme on good labour practices and a multipartite forum for social dialogue.

94. Collective bargaining is one means of ensuring that wage and productivity growth go hand in hand. From a worker's perspective, an employer's commitment to good faith collective bargaining represents a guarantee that the distribution of any productivity gains will be the subject of negotiation. From an employer's perspective, collective bargaining provides an incentive to invest in the development of new industrial techniques and forms of organization that will increase efficiency and productivity. By creating a link between economic upgrading and social upgrading, collective bargaining not only gives workers an incentive to cooperate with organizational change and development in the knowledge that the gains will be fairly distributed, but also supplies a voice mechanism that, among other positive effects, can enhance communication, reduce staff turnover and improve productivity.³⁰

95. While the effective recognition of the right to collective bargaining is both a fundamental workers' right and an enabling right – and can forge a link between economic and social upgrading – there are significant challenges in realizing this right in practice. First, the full realization of the fundamental rights in many export-producing countries remains a challenge and the ILO supervisory system continues to examine allegations of severe trade union repression.³¹ Second, coverage by collective bargaining agreements tends to be low across all industrial sectors.³² Third, industrial relations often tend to be adversarial and the capacity of the social partners may be weak. The result can be endemic industrial conflict. Reliable statistics are difficult to find, but academic researchers have cited evidence that the incidence of industrial conflict is rising in several countries.³³ Finally, the purchasing practices between buyers and suppliers and intense competition between firms at the end of supply chains place limits on how much value is available for distribution through collective bargaining.

96. Despite these challenges, unions and employers (or employers' organizations) have adopted innovative practices and signed collective agreements at different levels, depending on the prevailing industrial relations system. Examples in the clothing and textile sector include the highly inclusive sectoral agreements in South Africa and Jordan, and enterprise agreements in Indonesia. These provide for wages above the legal minimum (or, in the case of South Africa, establish that floor).

²⁹ ILO and the Asia Foundation: *Migrant and child labour in Thailand's shrimp and other seafood supply chains: Labour conditions and the decision to study or work* (Bangkok, 2015); ILO and Asian Research Center for Migration: *Employment practices and working conditions in Thailand's fishing sector* (Bangkok, 2013).

³⁰ D. Metcalf: "Unions and productivity, financial performance and investment: International evidence", Chapter 5 in J. Addison and C. Schnabel (eds): *International Handbook of Trade Unions* (Edward Elgar, 2003); and F. Fakhfakh, V. Pérotin and A. Robinson: "Workplace change and productivity: Does employee voice make a difference?", Chapter 5 in S. Hayter (ed.): *The role of collective bargaining in the global economy: Negotiating for social justice* (ILO and Edward Elgar, 2011).

³¹ ILO: *Report of the Committee of Experts on the Application of Conventions and Recommendations*, Report III (Part 1A), International Labour Conference, 104th Session, Geneva, 2015, pp. 49, 57 and 88.

³² For details, see industrial relations data at: www.ilo.org/irdata.

³³ On China, see C.-H. Lee, W. Brown and X. Wen: "What sort of collective bargaining is emerging in China?", in *British Journal of Industrial Relations* (2014), especially p. 9. Recent unpublished papers commissioned by the ILO on industrial relations in South Africa and Viet Nam also cite evidence of increasing conflict.

97. Skills development can assist countries, enterprises and workers in upgrading their position in the global supply chain. Skills upgrading and knowledge transfer can also facilitate the participation of developing countries in global supply chains by enabling them to meet standards of production required by lead firms in developed countries.

98. In the Chilean horticulture industry, skills development helped the industry to benefit from cultivation as well as processing. To meet the requirements for safety and quality, the Government of Chile and the private sector initiated training and skill certification programmes for thousands of workers, which enabled the industry to expand and remain competitive globally.³⁴

99. The development of offshore services, such as the call centre industry in the Philippines, illustrates how economic upgrading can lead to the creation of jobs through knowledge transfer. The offshore service industry often requires high standards and specific knowledge for activities such as pharmaceutical research and development, industrial engineering or medical transcription. Consequently, knowledge transfer is both a key requirement for, and a result of, the development of that sector. In order to meet quality requirements, companies may provide job-specific or certification training.³⁵

100. Government policy and trade union activity can lead to upgrading, resulting in higher productivity, improved wages and better working conditions. From the 1980s to the 2000s, the Government of Singapore designed policies to assist firms in moving out of low-waged electronics production and to shift low-end work, such as the assembly of hard drives, to Malaysia in order to retain non-labour-intensive and service-related activities such as engineering in Singapore. One reason behind the high standards of working conditions in the Singaporean electronics industry is the strong trade union presence, which has facilitated social dialogue and collective bargaining.³⁶

101. Economic upgrading combined with effective labour laws and enforcement can lead to social upgrading. For example, over the past 20 years Peru has experienced a huge transformation in the agricultural sector, characterized by a boom in non-traditional products such as asparagus, grapes and citrus fruits. The growth rate of this modern agricultural sector in the past 15 years has been almost 7 per cent annually, providing thousands of new jobs, primarily in the rural economy where unemployment was high. A specific labour law was created to enable workers with temporary contracts to be employed formally, ensuring health care, pensions and other benefits. Between 2000 and 2010, salaries increased by more than 40 per cent, exceeding the national minimum wage. The booming agribusiness sector has also encouraged the participation of women in the labour market, the majority of whom are now working in packing plants, where salaries are usually higher than on plantations.³⁷

³⁴ A. Bibby: "Promoting decent work in global supply chains: Retail commerce", in ILO: *Sectoral studies on decent work in global supply chains*, op. cit.

³⁵ K. Fernandez-Stark, P. Bamber and G. Gereffi: "The offshore services global value chain: Economic upgrading and workforce development", in G. Gereffi, K. Fernandez-Stark and P. Psilos: *Skills for upgrading: Workforce development and global value chains in developing countries* (Duke and RTI International, 2011), pp. 132–189.

³⁶ G. Raj-Reichert: "Promoting decent work in global supply chains: The electronics industry", in ILO: *Sectoral studies on decent work in global supply chains*, op. cit.

³⁷ G. Gereffi, K. Fernandez-Stark and P. Bamber (forthcoming): "Promoting decent work in global supply chains in Latin America and the Caribbean: Key issues, good practices, lessons learned and policy insights"; J.V. León Castillo: "Agroexportación, empleo y género en el Perú: un estudio de casos" [Agricultural exporting, employment and gender in Peru: A case study] (CIES, Lima, 2009); World Bank: "Peru in the table grape global value chain: Opportunities for upgrading" (forthcoming).

102. Economic and social upgrading can also be facilitated by enterprises. The ILO has significant experience in promoting economic and social upgrading through the Sustaining Competitive and Responsible Enterprises Programme (SCORE). The programme provides practical training and in-factory consulting to improve productivity and working conditions in SMEs, including those engaged in global supply chains. The results of the programme demonstrate that half of the 8,000 SMEs trained reported cost savings alongside improved working conditions. In particular, the programme is effective at reducing absenteeism, occupational accidents and defects.

103. In Costa Rica, the growth of the export-oriented medical device industry created approximately 17,500 jobs between 2000 and 2015. Due to the required skills, firms took a more proactive approach to the retention of human capital. This translated not only into improved wages, but also to increased job security, with over 90 per cent of employees hired on permanent contracts by 2012. The global regulation³⁸ of the sector has also contributed to a culture of health and safety and improved working conditions.³⁹

104. In Peru, economic upgrading in a high-altitude gold mine through the extension of the local electricity grid led to the introduction of pneumatic drills and small electric mills to replace hammers and traditional leg-driven rock grinders. However, although this upgrading reduced physical effort by manual workers and led to a surge in gold production, it did not improve the existing negative social and environmental consequences of production, including poor health and safety conditions, and mercury pollution of the nearby glacier and water supplies.⁴⁰

105. There are also examples of mixed decent work outcomes, where only some workers have benefited from economic upgrading. The ready-made garments industry has surged in many Asian countries, most notably in Bangladesh, in the post-quota system.⁴¹ Often this has resulted in significant functional upgrading as companies moved from “cut, make and trim” production into own-equipment manufacturing, thereby offering a wider range of production capabilities, including design, warehousing and sourcing of inputs (such as fabric or dyeing).⁴² Although millions of women have benefited from access to wage employment, the industry has been also characterized by low wages and hazardous working conditions, culminating in tragic industrial accidents involving factory fires, and most notably the Rana Plaza building collapse in 2013.

106. Workers in the same workplace may have different conditions, depending on their position and gender, the conditions of the supplier firm’s participation in the global supply chain and the types of economic upgrading opportunities. For example, skills upgrading resulting from process upgrading (such as higher levels of innovation intensity, technological intensity, and research and development) led to higher wages in electronics supplier firms in the Republic of Korea, Malaysia, Taiwan (China) and Thailand. However, those higher wages were limited to workers in higher-skilled

³⁸ Firms require the sector-specific ISO 13845 quality management system certification in order to participate in the global supply chain and are subject to inspections by foreign public auditors: see Gereffi, Bamber and Fernandez-Stark (forthcoming), op. cit.

³⁹ ibid.

⁴⁰ B. Larmer: “The real price of gold”, in *National Geographic*, Jan. 2009.

⁴¹ From 1974 to 2004, world trade in textiles and garments was governed by the Multifibre Arrangement. See ILO: *Wages and working hours in the textiles, clothing, leather and footwear industries*, Issues paper for discussion at the Global Dialogue Forum on Wages and Working Hours in the Textiles, Clothing, Leather and Footwear Industries, Geneva, 23–25 September 2014.

⁴² J. Pickles: *Economic and social upgrading in apparel global value chains: Public governance and trade policy*, Capturing the Gains Working Paper 13 (2012).

management and engineering positions, which normally constitute only a small percentage of the overall workforce in the electronics industry.⁴³ In the apparel sector in Morocco, regular workers benefited from their firms' functional upgrading through higher wages, social security coverage and regular hours; however, irregular workers in the same factories often experienced social downgrading.⁴⁴

107. There are also notable examples in which social upgrading has actually driven economic upgrading. In the apparel sector, the Better Work programme, a partnership between the ILO and the International Finance Corporation (IFC), has attracted buyers and investors by improving compliance with labour laws and workers' rights. This provides a reputation advantage to buyers and brands in a highly competitive global supply chain. In Viet Nam, the apparel sector has experienced dramatic export growth with increasing integration in the global economy since the 1990s, paired with restructuring and upgrading in production processes, capabilities and backward linkages.⁴⁵ Compliance with national labour legislation has been increasing since the establishment of Better Work Viet Nam in 2009, and important steps towards greater freedom of association have been made with the establishment of factory-level bipartite committees in which worker representatives are freely elected.⁴⁶ Furthermore, there is evidence that Vietnamese garment factories with higher labour standard compliance also have higher labour productivity, which translates into higher wages for workers and increased profits for firms.⁴⁷

108. In Jordan, a high percentage of the workforce in the apparel sector was international migrants and the sector was prone to serious labour violations.⁴⁸ Since the establishment of Better Work Jordan in 2008, instances of forced labour, such as the withholding of passports, have been drastically curbed, and compliance with standards related to occupational safety and health (OSH), contracting procedures and compensation have consistently increased.⁴⁹ In 2012, for instance, 94 per cent of workers in Jordan were in control of their own passport, as opposed to 75 per cent in 2010.⁵⁰ Furthermore, there have been advances in migrants' rights to freedom of association, enabling them to join trade unions and to bargain collectively, with the introduction of the first industry-wide collective bargaining agreement.⁵¹ These developments have been paired with economic upgrading and dramatic growth in the garment industry in Jordan, with Jordanian suppliers increasingly able to manage high-

⁴³ R. Rasiah: "Foreign firms, technological capabilities and economic performance: Evidence from Africa, Asia and Latin America", in *Journal of Asian Economics* (2004, Vol. 16(5), Oct.), pp. 905–906.

⁴⁴ A. Rossi: "Does economic upgrading lead to social upgrading in global production networks? Evidence from Morocco", in *World Development* (2013, Vol. 46), pp. 223–233.

⁴⁵ G. Lopez-Acevedo and R. Robertson (eds): *Sewing success? Employment, wages, and poverty following the end of the Multi-fibre Arrangement* (World Bank Publications, 2012).

⁴⁶ ILO: "Better Work Vietnam shows path for labour law reform", Better Work case study.

⁴⁷ D. Brown et al.: *Are sweatshops profit-maximizing? Answer: No. Evidence from Better Work Vietnam*, Better Work Discussion Paper Series No. 17 (2015).

⁴⁸ K. Kolben: "Trade, development, and migrant garment workers in Jordan", in *Middle East Law and Governance* (2013, No. 5), pp. 195–226.

⁴⁹ A. Rossi: "Better Work: Harnessing incentives and influencing policy to strengthen labour standards compliance in global production networks", in *Cambridge Journal of Regions, Economy and Society* (2015, Vol. 8, No. 3).

⁵⁰ Better Work Jordan: *Impact Brief* (June 2013).

⁵¹ ILO: "Collective bargaining agreement signed for Jordanian apparel sector: A sector-wide agreement between employers' associations and the garment union signed in Jordan", press release, 27 May 2013.

tech full-package production and attract high-value lead firms. This has resulted in a 3 per cent increase in the export unit value.⁵²

109. In Brazil, the cotton industry has introduced several programmes and initiatives focusing on principles for sustainable development, including labour standards, starting in 2005 with the creation of the Social Cotton Institute. In 2010, the Brazilian Cotton Growers' Association joined the Better Cotton Initiative, which brings together the actors involved in the complex global supply chain for cotton. Due to national and international efforts aimed at combining elements of social and economic upgrading, Brazil has become the largest source of Better Cotton globally.⁵³

110. Cooperatives offer a way for farmers to increase their negotiation power through collective representation and economies of scale. For example, the Oromia Coffee Farmers' Cooperative Union in Ethiopia comprises more than 300 primary cooperatives and over 288,000 household farmers. As a direct exporter of the coffee produced by its members, the union has increased the producers' control within the chain and enabled its members to increase their share in the value chain by entering into new product lines, thereby contributing to both social and economic upgrading.⁵⁴

111. These examples illustrate that social upgrading can accompany or even drive economic upgrading, but that the positive relationship is not automatic. Rather, deliberate interventions are often required. Therefore, there is a clear role and need for governance mechanisms that support and promote integrated and mutually reinforcing economic and social upgrading.

⁵² T. Bernhardt: "Economic and social upgrading of developing countries in the global apparel sector: Insights from using a parsimonious measurement approach", in Rossi, Luinstra and Pickles (eds), *op. cit.*

⁵³ See: Better Cotton Initiative: *2014 Harvest Report*; and Brazilian Cotton Growers' Association (ABRAPA): "The Brazilian cotton chain: Challenges and strategies" (2011/2012).

⁵⁴ B. Emana: *Cooperatives: A path to economic and social empowerment in Ethiopia*, COOP Africa Working Paper No. 9 (Geneva, ILO, 2009).

Chapter 4

Governance in global supply chains

112. Traditional public governance mechanisms are rooted in national laws and regulations, and prior to the rapid advance of globalization, regulatory institutions developed based on the authority of national governments to govern national markets. Individual companies are required to follow the local laws wherever they operate, even if they contract with lead firms operating globally. With the expansion of global supply chains, an increasing number of suppliers must both comply with local laws and fulfil their contractual obligations to meet order requirements and implement private standards promulgated by lead firms operating globally, which often leads to tensions. However, governments of the countries hosting these new suppliers have sometimes lacked the institutional capacities to fully regulate labour standards.¹

113. One authority has stated that “[t]he rise of an increasingly global economy no longer firmly rooted in nation-states ... has led to a *governance deficit* of considerable magnitude and demand for greater governance”.² This governance gap complicates workplace compliance and the protection of labour rights. As lead firms coordinate activities throughout their supply chains, they can influence working conditions directly as employers or indirectly through detailed contracts for services or goods. However, the State’s primary duty to enforce national laws and regulate national markets still exists, regardless of the presence of global supply chains in the national economy.

114. The ILO maintains that public governance by state authorities is the foundation of workplace compliance.³ Labour administration, including labour inspection, are core functions of the State.⁴ Workplace compliance with labour regulation, based on ILO international labour standards and national legislation, is a prerequisite for decent work. Enterprises have the responsibility to comply with those rules in their operations, regardless of whether they are involved with domestic or global supply chains.

115. Public institutions include governmental policies, laws, rules and regulations and enforcement mechanisms. Private institutions include social norms, codes of conduct adopted by businesses, social monitoring, consumer demand for socially responsible

¹ R. Locke: *The promise and limits of private power: Promoting labor standards in a global economy* (Cambridge University Press, 2013), p. 10.

² G. Gereffi and F.W. Mayer: “Globalization and the demand for governance”, in *The New offshoring of jobs and global development* (Geneva, ILO, 2006), p. 58 [emphasis in original].

³ ILO: *Labour inspection and private compliance initiatives: Trends and issues*, Background paper for the Meeting of Experts on Labour Inspection and the Role of Private Compliance Initiatives (Geneva, 10–12 December 2013).

⁴ Labour Administration Convention, 1978 (No. 150), and the Labour Inspection Convention, 1947 (No. 81), and Recommendation, 1947 (No. 81).

production of goods and services, and other non-governmental institutions and social movements.⁵

4.1. Governance approaches to promoting decent work

Types of governance

116. Many different programmes and structures have evolved to govern particular aspects of global supply chain operations. The governance approaches and initiatives relevant to promoting decent work in global supply chains can be categorized in four types based upon the lead actors in each approach. These forms of governance often overlap and may or may not be complementary.

- *Public governance* describes the State's duty to promote compliance and enforce national labour laws and regulations, and to ratify and implement international labour standards. Typically, this includes labour administration and inspection functions, dispute resolution and prosecution of violators.
- *Private governance* is led by enterprises, employers' organizations or industry associations. CSR programmes or private compliance initiatives (PCIs) may use corporate codes of conduct, auditing, certification schemes and other strategies to improve compliance as part of supply chain management.
- *Social partners' initiatives* take place at the enterprise, sector, national or international levels.⁶ Examples of such "social governance" include social dialogue, collective bargaining and global framework agreements. In some multi-stakeholder initiatives, NGOs also play a role in promoting worker, consumer or public interests in regulatory programmes, which often target global supply chains for specific sectors.
- *Multilateral initiatives* include the ILO MNE Declaration, the UN Global Compact, the UN Guiding Principles on Business and Human Rights, the Guidelines for Multinational Enterprises of the Organisation for Economic Co-operation and Development (OECD), and several EU initiatives through Directives or other policy-making mechanisms. Most international institutions involved are also comprised of member States and function through national governments. Many other international organizations have also engaged in some form of policy-making related to global supply chain governance.⁷

⁵ F. Mayer and J. Pickles: "Re-embedding the market: Global apparel value chains, governance and decent work", in A. Rossi, A. Luinstra and J. Pickles (eds): *Towards better work: Understanding labour in apparel global value chains* (ILO, Palgrave Macmillan, 2014), pp. 17–39; A. Posthuma: "Beyond 'regulatory enclaves': Challenges and opportunities to promote decent work in global production networks", in A. Posthuma and D. Nathan (eds): *Labour in global production networks in India* (Oxford University Press, New Delhi, 2010).

⁶ For the purposes of this report, the definition of "social governance" has been adapted from that in: G. Gereffi and J. Lee: "Economic and social upgrading in global value chains and industrial clusters: Why governance matters", in *Journal of Business Ethics* (2016, Vol. 133, No. 1), pp. 25–38.

⁷ This report is unable to cover all initiatives related to global supply chain governance. Apart from the initiatives mentioned, there are many other governance mechanisms. For example, the EU has prioritized supply chains in its 2020 strategy for growth; similarly, the G20 and G7 have prioritized decent work in global supply chains; the WTO has initiated significant research into mapping supply chains for industrial policy; and the FAO has initiated projects on improving sustainable food supply chains.

117. With each of these different types of governance, there is growing recognition that the regulatory space is becoming crowded and confusing. The various layers of governance initiatives may not be coherent or coordinated, which may affect governments' ability to implement them.⁸ The governance initiatives should encourage strategic and efficient use of limited public resources, which will be further analysed in this chapter.

International labour standards

118. From a historical perspective, international labour standards may be said to set minimum standards with the goal of fostering the promotion of social justice. International labour standards play an important role in the global economy and within the governance of global supply chains. It is widely acknowledged that the fundamental basis of public policies to create jobs requires respect for workers' rights, and that policies that extend access to representation and rights would improve transparency, accountability and social cohesion.⁹ The application of international labour standards across global supply chains has many benefits. And because they are negotiated on a tripartite basis, they embody the most important standards related to the world of work.

119. More specifically in the context of global supply chains, international labour standards reduce the adverse effects of market liberalization and opening up to the global economy. Their ratification can also lead to economic and social upgrading through higher productivity.¹⁰ Some international labour standards, such as the fundamental Conventions, are now becoming preconditions for export. The particularly close relationship between fundamental principles and rights at work and global supply chains is also demonstrated in Article 2(e) of the Protocol of 2014 to the Forced Labour Convention, 1930, which makes reference to "due diligence by both the public and private sectors to prevent and respond to risks of forced or compulsory labour". However, the fundamental Conventions are not the only international labour standards with particular relevance to decent work in global supply chains. Many certification schemes and other forms of private and social governance now refer to a wide range of international labour standards.

4.1.1. Public governance

120. Public governance describes the State's duty to enforce national labour laws and regulations and to implement ratified international labour Conventions. This includes labour administration, inspection and enforcement functions, such as dispute resolution and prosecution of violators. Governments promote workplace compliance based on their unique national legal, economic and historical context. The challenges and limitations of traditional public governance in ensuring workplace compliance have been well researched and were discussed in depth during the general discussion on labour administration and inspection at the International Labour Conference in 2011.¹¹ The following sections discuss various forms of public governance that are particularly applicable to global supply chains.

⁸ M. Amengual and L. Chirot: "Reinforcing the State: Transnational and State Labor Regulation in Indonesia" (2015, unpublished).

⁹ World Bank: *World Development Report 2013: Jobs*.

¹⁰ W. Sengenberger: *Globalization and social progress: The role and impact of international labour standards*, Report prepared for the Friedrich-Ebert-Stiftung (Bonn, 2005).

¹¹ ILO: *Labour administration and labour inspection*, Report V, International Labour Conference, 100th Session, Geneva, 2011; and ILO: *Labour inspection and private compliance initiatives: Trends and issues*, op. cit.

Extraterritorial application of legislation

121. Regulating global supply chains is challenging, given that production is fragmented across borders and legal liability is often limited by laws applying to corporations. States have limited jurisdiction to regulate corporate activities that occur outside their national boundaries, under the doctrine of extraterritorial sovereignty. Host States of suppliers must protect the labour rights of workers in their territory. However, when working conditions are influenced by the terms and conditions of contracts negotiated with a foreign lead firm, the host State has no jurisdiction to hold the lead firm accountable. Lack of jurisdiction also restricts the capacity of a home State to regulate the extraterritorial conduct of corporations headquartered within its own jurisdiction.¹² The home State may have a significant interest in promoting decent working conditions along global supply chains and ensuring the good conduct of its corporate citizens abroad. Some would argue that this is the State's responsibility.

122. Extraterritorial jurisdiction complicates private cases where workers seek to enforce their rights either in host States, where their employer may be undercapitalized, or in an MNE's home State, where the court may not accept jurisdiction in cases involving operations conducted abroad.¹³ The twin doctrines of separate corporate personality and limited liability allow MNEs to minimize legal liability for corporate wrongdoings by organizing themselves into complex legal structures.¹⁴

National legislative initiatives on supply chain management

123. There have been recent legislative initiatives aimed at improving transparency and due diligence in supply chains by lead firms. One example is the California Transparency in Supply Chains Act (2012), which mandates retailers and manufacturers doing business in California who have annual worldwide gross receipts of US\$100 million or more to disclose their efforts to eradicate slavery and human trafficking, and to protect basic human rights, along the entire supply chain.¹⁵ In the United Kingdom, the Modern Slavery Act (2015) requires companies with annual revenue above £36 million to report on their efforts to combat human trafficking in their supply chains.¹⁶ While these, and similar, initiatives seek to encourage the promotion of labour rights throughout global supply chains, it is still too early to determine whether the strategies will lead to sustainable workplace compliance.

¹² D.P. Forsythe (ed.): *Encyclopedia of Human Rights* (2009); Y. Kryvoi: "Enforcing labor rights against multinational corporate groups in Europe", in *Industrial Relations: A Journal of Economy and Society* (2009, Vol. 46), pp. 366–386.

¹³ For example, the Supreme Court of Norway unanimously rejected an appeal from an airline that had claimed that an unfair dismissal lawsuit against it must be tried in the country where the company is registered, and not in Norway, where the plaintiff lives and was located when she was dismissed. The airline argued that those who work on board its aircraft are working in the company's country of registration, and thus are subject to the labour law of that particular country, rather than of the plaintiff's country of residence. See: <http://sbdl-eng.com/2014/07/09/supreme/>.

¹⁴ For details, see M. Eroglu: *Multinational enterprises and tort liabilities: An interdisciplinary and comparative examination* (Edward Elgar, 2008); and Kryvoi, op. cit.

¹⁵ J. Pickles and S. Zhu: *The California Transparency in Supply Chains Act*, Capturing the Gains Working Paper 15, University of Manchester (2013).

¹⁶ See: <http://www.legislation.gov.uk/ukpga/2015/30/part/6/enacted> and <http://www.legislation.gov.uk/ukksi/2015/1833/contents/made>. Similarly, in France, a law on the responsibility of MNEs is currently being discussed in Parliament, which, if passed, would make MNEs accountable for the practices of their subsidiaries and direct subcontractors, with regard to infringement of personal liberties, environmental damage and human rights violations; see: <http://www.senat.fr/dossier-legislatif/ppl14-376.html>.

Workplace compliance in EPZs

124. As an innovative approach towards strengthening compliance with national and international labour standards, UNCTAD has proposed that EPZs could offer labour-related services,¹⁷ which could include infrastructure assistance (through labour inspectors, conflict resolution specialists, reporting hotlines and gender focal points, for example) and administrative assistance through capacity building for enhanced labour conditions and social dialogue.¹⁸ Furthermore, the ILO has conducted studies into the level and quality of employment in EPZs for over 30 years.¹⁹

Box 4.1
Broadening the tax base

One issue of growing international concern with important implications for global supply chains concerns broadening the tax base. The Addis Ababa Action Agenda, for example, seeks to “improve the fairness, transparency, efficiency and effectiveness of our tax systems, including by broadening the tax base and continuing efforts to integrate the informal sector into the formal economy in line with country circumstances”. This is with a view to ensuring that “all companies, including multinationals, pay taxes to the Governments of countries where economic activity occurs and value is created, in accordance with national and international laws and policies”.¹ This suggests that incentives such as tax exemptions in EPZs would need to be reconsidered alongside exemptions from national labour law and regulations. Tax is particularly important for the promotion of decent work, as tax evasion and avoidance and corruption can be a barrier to investment in social protection, labour administration and capacity building for social partners at the local and national levels.

¹ United Nations: *Outcome document of the Third International Conference on Financing for Development: Addis Ababa Action Agenda*, Addis Ababa, 13–16 July 2015.

Labour provisions in trade agreements

125. Labour provisions in bilateral or regional trade agreements have become more common.²⁰ Proponents of trade agreements including labour provisions suggest that these instruments hold the potential to improve workers’ rights and promote compliance with labour standards in the workplace.²¹ The 1994 North American Free Trade

¹⁷ UNCTAD: *World Investment Report 2013: Global value chains – Investment and trade for development* (New York and Geneva, 2013).

¹⁸ UNCTAD: *Enhancing the contribution of export processing zones to the Sustainable Development Goals: An analysis of 100 EPZs and a framework for sustainable economic zones* (New York and Geneva, 2015).

¹⁹ See, for example: ILO: “Free trade zones”, in *Employment effects of multinational enterprises in developing countries* (Geneva, 1981); ILO: *Labour and social issues relating to export processing zones*, Report for discussion at the Tripartite Meeting of Export Processing Zone-Operating Countries, and *Note on the proceedings* (Geneva, 1998); ILO: *Employment and social policy in respect of export processing zones (EPZs)*, GB.286/ESP/3 (Geneva, 2003).

²⁰ For example, the Singapore Ministerial Declaration of the WTO states that the competent organization to deal with international labour standards is the ILO. The Declaration rejects the use of labour standards as a means of protectionism and states that the comparative advantage of developing countries with low wages should not be questioned.

²¹ See, for example: E. de Wet: “Labor standards in the globalized economy: The inclusion of a social clause in the General Agreement on Tariff and Trade/World Trade Organization”, in *Human Rights Quarterly* (1995, Vol. 17, No. 3), pp. 443–462; C. Granger and J.M. Siroën: “Core labor standards in trade agreements: From multilateralism to bilateralism”, in *Journal of World Trade* (2009, Vol. 40, No. 5), pp. 813–836; International Institute for Labour Studies (IILS): *Studies on growth with equity: Social dimensions of free trade agreements* (Geneva, ILO, 2013); J.M. Siroën: “Labour provisions in preferential trade agreements: Current practice and outlook”, in *International Labour Review* (2013, Vol. 152, No. 1), pp. 85–106.

Agreement between the United States, Canada and Mexico was the first regional trade agreement to include labour provisions in a parallel agreement, the North American Agreement on Labor Cooperation.²² Its main commitments were restricted to enforcing the existent labour laws of the parties and striving to improve labour standards related to the fundamental principles and rights at work, minimum working conditions and migrant rights.²³ Recent trade agreements of the EU, United States and Canada require the parties to refrain from lowering labour standards to encourage trade or investment. They also make reference to the ILO 1998 Declaration on Fundamental Principles and Rights at Work and its Follow-up as a baseline, and establish a dispute settlement mechanism to resolve matters arising from the labour provisions.²⁴ For example, the Trans-Pacific Partnership Agreement has a chapter on labour which presents a roadmap for ratification of the Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87), and the Right to Organise and Collective Bargaining Convention, 1949 (No. 98).²⁵

126. Labour provisions in trade agreements have in some cases succeeded at the micro level in improving labour compliance in the presence of trade incentives and sustained workplace monitoring. For example, labour provisions in the United States–Cambodia Textile Trade Agreement motivated the garment industry in Cambodia to comply with national law by linking increases in export quotas to respect for labour rights monitored by the ILO. The Better Factories Cambodia project monitored and reported on deficiencies in particular factories, which provided incentives for factory owners to adhere to national legislation and core labour standards.²⁶ Trade agreements could promote decent work in global supply chains through their implementation mechanisms and in combination with other complementary policies, including social dialogue and firm-level monitoring. However, further investigation is required into the long-term sustainability of improvements in rights and working conditions based on labour provisions across trade agreements.

²² M.J. Bolle: *NAFTA Labor Side Agreement: Lessons for the worker rights and fast-track debate*, US Congressional Research Service (9 Oct. 2001).

²³ F.C. Ebert and A. Posthuma: *Labour provisions in trade arrangements: Current trends and perspectives*, IILS Discussion Paper Series No. 205 (Geneva, ILO, 2011); IILS: *Studies on growth with equity: Social dimensions of free trade agreements* (Geneva, ILO, 2013).

²⁴ P. Lazo Grandi: *Trade agreements and their relation to labour standards: The current situation*, Issue Paper No. 3, International Centre for Trade and Sustainable Development (Geneva, 2009). For an extensive mapping of the evolution and content of labour provisions, see Ebert and Posthuma: *Labour provisions in trade arrangements*, op. cit.; IILS: *Studies on growth with equity*, op. cit.; and R. Peels and M. Fino: “Pushed out the door, back in through the window: The role of the ILO in EU and US trade agreements in facilitating the Decent Work Agenda”, in *Global Labour Journal* (2015, Vol. 6, No. 2).

²⁵ Trans-Pacific Partnership Agreement 2015, Chapter 19: Labour. Available at: <https://ustr.gov/sites/default/files/TPP-Final-Text-Labour.pdf>.

²⁶ K. Kolben: “Trade, monitoring, and the ILO: Working to improve conditions in Cambodia’s garment factories”, in *Yale Human Rights and Development Journal* (2004, Vol. 7, No. 1), pp. 79–107; S. Salem and F. Rozental: “Labor standards and trade: A review of recent empirical evidence”, in *United States International Trade Commission Journal of International Commerce and Economics* (2012, Vol. 4, No. 2), pp. 63–98; S. Polaski: “Combining global and local forces: The case of labor rights in Cambodia”, in *World Development* (2006, Vol. 34, No. 5), pp. 868–932.

Labour provisions in public lending

127. Governance of labour in global supply chains can also take place through specific incentives. Positive incentives from international actors rewarding compliance with specific sets of labour and environmental standards can be an instrument to support a path to social upgrading.²⁷

128. Many development finance institutions have put in place labour conditionalities. For example, the IFC has established a set of criteria based on which the corporation ensures the sustainability of its investment and advisory projects. Since 2006, IFC client businesses have been required to comply with a series of eight social and environmental “performance standards” as a contractual condition of financing. These include a “Labor and Working Conditions” standard, which makes explicit reference to the ILO’s eight fundamental Conventions. Client businesses that fail to come into compliance with the performance standards within a certain time frame and after benefiting from a programme of technical assistance negotiated with the IFC will be in breach of contract and will face the possibility of losing their financing.²⁸

129. While there appears to have been no independent assessment of the overall impact of the performance standards system, a recent research project²⁹ uncovered a very small number of cases in which observable change could be linked to the standards. This effect depended on the presence of trade unions that already had the capacity to take effective action on behalf of their members. The unions were able to use the employer’s commitment to respect the performance standards as a lever, for example in winning recognition for bargaining purposes.

Public procurement policies

130. The inclusion of social provisions in public procurement processes can have a strong effect on workers’ rights and working conditions along global supply chains, due to the size of public spending and strong bargaining power of public administrations.³⁰ Social provisions in public procurement focus mainly on employment, SME development and health aspects.³¹ However, most social provisions limit the responsibilities to the first-tier contractor. Subcontracting and outsourcing provisions are included in public procurement contracts on an ad hoc basis and generally oblige both contractors and subcontractors to respect the ILO core Conventions, and specifically the prohibition of child labour.³²

131. There are many examples of the use of public procurement instruments and initiatives that promote decent work in global supply chains, at the international, national and local levels. The ILO Labour Clauses (Public Contracts) Convention, 1949 (No. 94), is an example of an international instrument that can promote social upgrading in global

²⁷ F.C. Ebert and A. Posthuma: *Labour standards and development finance institutions: A review of current policies and activities*, Discussion Paper No. 204 (Geneva, IILS, ILO, 2010).

²⁸ IFC: *Performance Standard 2: Labor and working conditions* (2012).

²⁹ C. Cradden, J.-C. Graz and L. Pamingle: “Governance by contract? The impact of the International Finance Corporation’s social conditionality on worker organization and social dialogue”, Working Paper, University of Lausanne, 2015.

³⁰ Public spending represents between 15 and 30 per cent of national gross domestic product. United Nations Environment Programme (UNEP): *Sustainable Public Procurement Implementation Guidelines: Introducing UNEP’s approach* (Paris, 2012).

³¹ UNEP: *Sustainable public procurement: A global review final report* (2013), p. 14.

³² ILO: *Labour clauses in public contracts: Integrating the social dimension into procurement policies and practices*, 2008.

supply chains through public procurement. The Convention obliges national procurement authorities to include the protection of labour rights in their public tender process. These provisions should guarantee wages, hours of work and other working conditions at least equal to those normally observed for the kind of work in question in the area where the contract is executed.³³ Whether the Convention covers the entire supply chain must be considered on a case-by-case basis, depending on the employment of workers in the performance of the public contract in question.³⁴

132. In the EU, a new public procurement Directive addresses the inclusion of social provisions in the technical specifications of the tender.³⁵ The Directive makes it compulsory for contracting authorities to reject abnormally low tenders if the low price is due to non-compliance with EU legislation or international labour standards, particularly the use of child labour.³⁶ Additionally, a contracting authority may exclude a tender if it is aware of labour law violations.³⁷ The Directive establishes minimal requirements to be transposed into national legislation. However, several countries already use social provisions in public procurement.³⁸ European initiatives such as the LANDMARK and Responsibility in Procurement (RESPIRO) projects have promoted the use of public procurement at the local level in Europe to achieve decent work in global supply chains.³⁹

133. In the United States, Executive Order No. 13126⁴⁰ establishes that federal contractors who supply products on a list published by the Department of Labor⁴¹ must certify that they have made a good faith effort to determine whether forced or indentured child labour was used to produce the items listed. If products have been mined, produced or manufactured by forced or indentured child labour, then the contract may be terminated and the contractor suspended from eligibility for federal contracts for a maximum of three years.⁴²

134. In Spain, the local government of Barcelona uses a graduated bidder declaration to guarantee that the production of the textiles procured respects ILO fundamental Conventions. The bidder can choose from several options to demonstrate compliance

³³ The Labour Clauses (Public Contracts) Recommendation, 1949 (No. 84), further clarifies the provisions concerning wages and working time.

³⁴ ILO: *Labour Clauses (Public Contracts) Convention, 1949 (No. 94), and Recommendation (No. 84): A practical guide* (2008).

³⁵ Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement.

³⁶ *ibid.*, Article 69(2)(d) and (e).

³⁷ *ibid.*, Article 57(4)(a).

³⁸ T. Schulte et al.: *Pay and other social clauses in European public procurement: An overview on regulation and practices with a focus on Denmark, Germany, Norway, Switzerland and the United Kingdom* (European Federation of Public Service Unions, 2012).

³⁹ EUROCITIES: *RESPIRO guide on socially responsible procurement of textiles and clothing* (2007); LANDMARK Consortium: *Verifying social responsibility in supply chains: A practical and legal guide for public procurers* (2012).

⁴⁰ Executive Order No. 13126 of 12 June 1999 – Prohibition of acquisition of products produced by forced or indentured child labor.

⁴¹ US Department of Labor: *List of goods produced by child labor or forced labor*, 2014, available at: <http://www.dol.gov/ilab/reports/pdf/TVPRAReport2014.pdf>.

⁴² American Federation of Teachers and International Labor Rights Forum: *United States policies to address child labor globally*, 2013, available at: <http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=1821&context=globaldocs>.

with social criteria. Bidders can prove that they have SA8000 certification from the Social Accountability Accreditation Services or a specific label of a multi-stakeholder initiative or Fair Wear Foundation, or an alternative label or certificate. Another option is to have an independent external audit. The auditors determine whether there are any breaches of workers' rights across the supply chain by visiting production sites. Moreover, an intensive market dialogue accompanies the tender process between the local government and the companies to achieve the required standards.⁴³

4.1.2. Private governance

135. Lead enterprises drive private governance approaches to compliance in domestic and global supply chains. Corporate social responsibility, or CSR, is commonly used as the broader term for enterprises' voluntarily self-regulating social, environmental or economic issues. Private compliance initiatives (PCIs) are private mechanisms voluntarily established by lead firms or groups of enterprises to monitor compliance with codes of conduct or other specific standards.⁴⁴ They may include codes of conduct and social auditing, certification initiatives or other self-reporting mechanisms, such as the United Nations Global Compact.⁴⁵ Many PCIs were established to address concerns raised by unions and civil society. They are more common in industries where international brand image is susceptible to trade union, consumer and NGO pressure. Private governance schemes to promote labour rights are far less common in business-to-business supply chains.

136. Codes of conduct and their related monitoring and implementation programmes are often found in the contractual agreement between the buyer and supplier. Better PCIs and codes incorporate fundamental ILO Conventions and compliance with labour regulation; however, many are less specific. Codes may include a threat of economic sanctions such as the termination of a contract, or other means to ensure compliance.⁴⁶ However, the scope of punitive actions available to private firms is relatively limited when compared with the regulatory authority of a government. The rise of PCIs has been accompanied by the growth of the social auditing industry to monitor compliance. Private firms may be interested in immediate compliance as part of risk management, whereas public institutions, motivated by broader public policy goals, should design regulatory policy to promote both prevention and enforcement.

137. In 2011, the International Labour Conference concluded that “[l]abour inspection must be a public prerogative and be in accordance with international labour standards” and that “[t]here is a risk that some types of private initiatives could undermine public labour inspection”.⁴⁷ In 2013, the ILO Meeting of Experts on Labour Inspection and the Role of Private Compliance Initiatives confirmed that there is no clear consensus among social partners on the effectiveness of PCIs.⁴⁸

⁴³ LANDMARK Consortium, *op. cit.*

⁴⁴ ILO: *Labour inspection and private compliance initiatives*, *op. cit.*

⁴⁵ *ibid.*

⁴⁶ D. O'Rourke: “Outsourcing regulation: Analyzing non-governmental systems of labor standards and monitoring”, in *Policy Studies Journal* (2003, Vol. 31, No. 1), pp. 1–29.

⁴⁷ ILO: *Conclusions on labour administration and labour inspection*, adopted by the International Labour Conference at its 100th Session, Geneva, June 2011.

⁴⁸ ILO: *Final report*, Meeting of Experts on Labour Inspection and the Role of Private Compliance Initiatives (Geneva, 10–12 December 2013).

138. There are a number of fundamental limitations to the effectiveness of PCIs in ensuring long-term compliance, including the fact that they are often limited to upper-tier suppliers, a lack of coordination with local labour administration, and inadequate accountability. Enterprises choose which issues to address, who is covered and the remedy for violations, thus determining the parameters of their own initiative. Should the priorities of the lead firm change, it could scale back its auditing and capacity building. The multiplicity of codes with varying content causes confusion, and, some have argued, may even undermine productivity. PCIs may make reference to ILO Conventions and instruments, but research has shown that they are weak in ensuring enabling rights, such as freedom of association and collective bargaining and non-discrimination.⁴⁹ It has been widely acknowledged that lead firms' CSR initiatives and social auditing have had some success in addressing easily detectable violations of labour standards, such as regulations related to occupational safety and health, payslips and contracts.⁵⁰ However, even when enabling rights are clearly included in codes, they are difficult to measure and monitor, and private social audits often fail to detect violations of non-discrimination or freedom of association and the right to collective bargaining.⁵¹

139. Another concern is that private initiatives lack accountability, since they often do not contain inclusive processes which encourage worker participation or public disclosure of information. Frequently, workers are not involved in the design of the PCI, and may lack an opportunity to validate or comment on reports, or influence decision-making processes.⁵² When audits take place, non-standard and contract workers are often not consulted, or they are reluctant to raise concerns for fear of losing their jobs.⁵³ Another significant challenge in PCIs is that private auditing usually takes place at the upper-tier suppliers in global supply chains, but much less often in the lower-tier firms, where cases of non-compliance have been documented frequently.⁵⁴ Another limitation to PCIs is the lack of coordination between purchasing/sourcing departments and the compliance/CSR departments. These parts of the business may have conflicting objectives that are not synchronized by senior management. Businesses may reward

⁴⁹ S. Barrientos and S. Smith: "Do workers benefit from ethical trade? Assessing codes of labour practice in global production systems", in *Third World Quarterly* (2007, 28(4)), pp. 713–729; M. Anner: "Corporate social responsibility and freedom of association rights: The precarious quest for legitimacy and control in global supply chains", in *Politics & Society* (2012, 40(4)), pp. 609–644; A. Rossi: "The impact of the Fibre Citoyenne label on the Moroccan garment industry and its workers", in J. Bair, M.A. Dickson and D. Miller (eds): *Workers' rights and labor compliance in global supply chains: Is a social label the answer?* (London, 2013); N. Egels-Zandén and J. Merk: "Private regulation and trade union rights: Why codes of conduct have limited impact on trade union rights", in *Journal of Business Ethics* (2014, Vol. 123(3)), pp. 461–473; X. Yu: "Upholding labour standards through corporate social responsibility policies in China", in *Global Social Policy* (2015, Vol. 1(21)).

⁵⁰ Barrientos and Smith, op. cit.

⁵¹ D. O'Rourke: "Monitoring the monitors: A critique of corporate third-party labor monitoring", in R. Jenkins, R. Pearson and G. Seyfang (eds): *Corporate responsibility and labour rights: Codes of conduct in the global economy* (London, Earthscan, 2002), pp. 196–208.

⁵² Egels-Zandén and Merk, op. cit.

⁵³ S. Barrientos: "Contract labour: The 'Achilles heel' of corporate codes in commercial value chains", in *Development and Change* (2008, Vol. 39, No. 6), pp. 977–990.

⁵⁴ Case studies from the Asia and the Pacific region confirm that private regulation of the food supply chain pursued by lead retailers is usually restricted to first-tier suppliers. The studies also illustrate the limited role currently played by NGOs and trade unions in the governance of the food supply chain. See S. Frenkel, I. Mamic and L. Greene: "Global supply chains in the food industry: Insights from the Asia-Pacific region" (2015, unpublished).

managers for fulfilling production targets, without similar incentives or recognition for meeting CSR goals.⁵⁵

140. The strengths of PCIs lie in their potential to increase capacity for workplace compliance. They embody the recognition that lead firms have some responsibility for labour standards in their supply chains. PCIs provide more potential to invest both financial and human resources in compliance initiatives, as compared to constrained public budgets allocated to labour inspection and administration. Also, many lead firms have extensive in-house expertise and training capacity to ensure that their employees comply with the company code of conduct. The challenge for PCIs is to transfer or share that technical knowledge and professionalism with supplier firms. Private auditing or self-reporting programmes may monitor levels of compliance, but are only the first step towards improving suppliers' capacity to comply with codes of conduct and national legislation.

141. Better coordination and cooperation, both among lead firms and between lead firms and their contractors at the national level, could lead to better workplace compliance. A study of the footwear, apparel and retail industries confirmed that information sharing and a collaborative approach are central to the success of a PCI.⁵⁶ Collaboration could include capacity-building strategies such as providing guidelines and training materials, conducting audits jointly and reviewing supplier operations. Moreover, PCIs were more effective in cases where the code was integrated into lead firms' management structures, complemented by workplace unions and effective enforcement of national laws.⁵⁷ Moreover, intra-firm relationships emphasizing cooperation, mutual respect and diffusion of good practices promoted more sustainable workplace compliance.⁵⁸

142. Supply chain management encompasses all the processes and planning coordinated by lead firms to influence and control the operations of their suppliers and subcontractors. PCIs are becoming unavoidable sections of lead firms' supply chain management systems. A study of Nike's supply chain management analysed how the firm's code of conduct influenced workplace compliance and working conditions. The Nike code includes minimum standards regarding the age of workers, occupational safety and health and other working conditions. Each supplier must sign the code and agree to participate in social audits at its workplaces. Whether the audits lead to workplace compliance is dependent upon many external factors. The Nike study found different levels of compliance in different geographical areas, with factories located in Asia scoring lower on average than factories in Africa or the Americas. Furthermore, variations in compliance levels and employment practices were also discovered in suppliers located in the same country, following the same code and sharing other

⁵⁵ UNCTAD: *Corporate social responsibility in global value chains: Evaluation and monitoring challenges for small and medium sized suppliers in developing countries* (2012), p. 13.

⁵⁶ I. Mamic: "Managing global supply chain: The sports footwear, apparel and retail sectors", in *Journal of Business Ethics* (2005, Vol. 59, No. 1), pp. 81–100.

⁵⁷ R. Locke et al.: "Beyond corporate codes of conduct: Work organization and labour standards at Nike's suppliers", in *International Labour Review* (2007, Vol. 146, No. 1-2), pp. 21–40; R. Locke: "Complements or substitutes? Private power, public regulation, and the enforcement of labor standards in global supply chains", Chapter 7 in Locke: *The promise and limits of private power*, op. cit.

⁵⁸ G. Distelhorst, J. Hainmueller and R. Locke: "Does lean capability building improve labor standards? Evidence from the Nike supply chain", Watson Institute for International Studies at Brown University, Working Paper No. 2013-09; R. Locke, M. Amengual and A. Mangla: "Virtue out of necessity? Compliance, commitment and the improvement of labor conditions in global supply chains", in *Politics & Society* (2009, Vol. 37, No. 3), pp. 319–351; C. Oka: "Channels of buyer influence and labor standard compliance: The case of Cambodia's garment sector", in *Advances in Industrial and Labor Relations* (2010, Vol. 17), pp. 153–183.

similarities. For example, where Nike's own staff had engaged directly with the suppliers, improvements were more pronounced.⁵⁹

143. Supply chain management can address specific problems, such as sexual harassment by male workers, supervisors and managers. A major clothing, footwear and textiles retailing group in South Africa identified sexual harassment as a concern for its women workers. In collaboration with the trade unions, the company developed a campaign to eradicate sexual harassment in the workplace. The sexual harassment policy was updated and mainstreamed within staff induction programmes, involving capacity-building interventions for staff and management, and a dedicated toll-free telephone number for staff to report incidents was established. The evaluation of the programme has shown a significant reduction in the number of complaints of sexual harassment in the workplace, and an increase in confidence of the young women working in the company as a direct result of the project. The company's sexual harassment policy applies to all of its branches in South Africa and eight other countries. The programme in South Africa involves trade unions as a core implementing partner; however, in other countries, unions are less involved.⁶⁰

144. The diversity of local economic and legal contexts and types of suppliers further complicates supply chain management, for both lead firms and suppliers. For industries that primarily use flexible, short-term contracts, such unpredictability could make monitoring compliance and enforcing changes in employment practices a bad investment for lead firms. For suppliers, this unpredictability of the future of its business relationship with the lead firm is a disincentive to investing in systems for compliance with different codes of conduct for contracts with different buyers. Additionally, different PCIs may not be coordinated at the sectoral or national level.⁶¹ The different codes of conduct may overlap and include conflicting provisions, making it challenging and costly for suppliers to satisfy all the standards set by different buyers, especially if local legislation is not consistent with the core international labour standards.⁶²

145. In response to many of these challenges, PCIs have evolved. Initially, they followed a policing approach, where suppliers were punished for not adhering to a code of conduct. The focus was on social audits. However, they were proven to be ineffective in measuring adherence to the codes and often found the same problem repeatedly. Following this phase, a greater focus was placed on capacity building and training of suppliers to correct the root problems. Approaches to PCIs are now entering a new phase that recognizes the need for more general management training and productivity improvements, while supporting the capacity of national governments to establish a conducive operating environment.⁶³

⁵⁹ Locke et al.: "Beyond corporate codes of conduct", op. cit.

⁶⁰ Gender Alliance: "Promoting decent work: The case of South African multi-national clothing retailers" (ILO, 2015, unpublished), p. 12.

⁶¹ An OECD survey has shown that many more codes are issued by individual firms and by business/industry associations, compared to multi-stakeholder initiatives and intergovernmental codes. See OECD: *Codes of corporate conduct: Expanded review of their contents*, OECD Working Papers on International Investment, No. 2001/6 (2001, OECD Publishing), p. 5.

⁶² The International Trade Centre's Standards Map gives an overview of all the private compliance standards with which enterprises need to comply if they envisage becoming part of global supply chains; see: <http://www.intracen.org/itc/market-info-tools/voluntary-standards/standardsmap/>.

⁶³ International Organisation of Employers and ILO: *Global supply chains: Contributing to development and improved working conditions*, Background and Concept Note for the ILO Symposium for Employers on Global Supply Chains, Bangkok, 8–9 December 2015.

Sectoral initiatives

146. In response to the shortcomings of a unilateral and disjointed approach, several sectoral initiatives have emerged that bring together key lead firms in a given global supply chain to establish fairer competition. Non-compliance by a few individual companies in one sector could damage the reputation of the whole industry, and could undercut those companies that do fulfil their legal obligations. For example, in the chemicals global supply chain, Together for Sustainability is an industry-led initiative, launched in 2011. Its logic is to use supply chain dynamics and the collective actions of a critical mass of chemical producers and brands to improve working conditions among companies, such as distributors and SMEs, that are less exposed to public pressure or lack capacity, thereby raising standards across the entire chemicals global supply chain. Member companies agree to undergo an independent audit, and the results are shared with other members, who also agree to exchange information to promote best practices and manage risks. Suppliers of member companies are also required to undergo an audit, the results of which are distributed among other members in order to reduce duplication. Suppliers that do not fulfil the audit and assessment criteria are expected to demonstrate improvements over time in accordance with a corrective action plan.⁶⁴ However, the suppliers receive prior notification of audits conducted under the scheme. Moreover, while the scheme claims to encourage member companies to engage in dialogue with stakeholders, the extent to which this includes workers and their representatives is unclear.

147. Similarly, the Electronic Industry Citizenship Coalition has developed a code of conduct,⁶⁵ which references international labour standards. Labour provisions cover the prohibition of forced labour and child labour, occupational safety and health, freedom of association and collective bargaining (in conformance with local law), non-discrimination, humane treatment, wages and benefits, and working hours (a workweek should not exceed 60 hours). Although firms that adopt the code “must regard the Code as a total supply chain initiative”, requirements apply to first- and second-tier firms only. The implementation process involves risk assessment tools, self-assessment questionnaires and reporting to all Coalition members in customer-supplier relationships.⁶⁶ The updated code, which came into effect on 1 January 2016, states that “[w]orkers shall not be required to pay employers’ or agents’ recruitment fees or other related fees for their employment”. Already in 2014, an American electronics company banned the use of recruitment agencies when hiring foreign workers and banned recruitment fees for all workers in its global supply chains.⁶⁷

Certification and social labelling initiatives

148. Social labelling programmes, such as Fairtrade International, operate as verification systems for enterprise social performance by using a highly visible means of communication: a physical label about the social conditions surrounding the production of a product or rendering of a service.⁶⁸ The abovementioned concerns about the quality

⁶⁴ Together for Sustainability: *The chemical initiative for sustainable supply chains* (2012).

⁶⁵ Electronic Industry Citizenship Coalition: Code of Conduct, available at: http://www.eiccoalition.org/media/docs/EICCCodeofConduct5_1_English.pdf.

⁶⁶ G. Raj-Reichert: “The electronic industry code of conduct: Private governance in a competitive and contested global production network”, in *Competition and Change* (2011, Vol. 15, No. 3), pp. 221–238.

⁶⁷ C. Biron: “HP becomes first tech company to eliminate foreign labor recruiters”, in *MintPress News*, 20 Nov. 2014.

⁶⁸ J. Diller: “A social conscience in the global marketplace? Labour dimensions of codes of conduct, social labelling and investor initiatives”, in *International Labour Review* (1999, Vol. 138, No. 2), p. 103.

of auditing also apply, but nonetheless there has been considerable growth in the use of such programmes.

Box 4.2
Fair trade

Fairtrade International provides a label for products that have met specific social, environmental and economic production and trade standards. Auditing of compliance is carried out separately by FLOCERT, which certifies over 20 different products, including bananas, tea, sugar, cocoa, coffee, cotton, cut flowers and soccer balls.¹ One set of standards applies to smallholder farmers' groups, and traders who guarantee a minimum price plus a Fairtrade premium. Another set of standards applies to workers with employers who pay decent wages, guarantee the right to belong to a trade union, and ensure safety and health and adequate housing.² Some authorities consider that Fairtrade certification can be an effective tool for improving incomes³ and empowering producers,⁴ increasing the level of their participation in producer organizations,⁵ particularly the participation of women.⁶

The Fairtrade approach is being extended to a wide range of industries. For example, the Alliance for Responsible Mining is a miners' initiative established in 2004. Together with its partners, it has developed and tested a Fairmined standard for gold and associated precious metals in the artisanal mining sector,⁷ which is modelled on the Fairtrade system for agriculture. The certification requirements define "responsible artisanal and small-scale mining" as involving "decent work in line with the ILO fundamental principles and rights".⁸ The standard addresses some of the most serious social and environmental problems in the artisanal and small-scale gold mining sector, including child labour, forced labour, the use of mercury and cyanide, occupational safety and health and social protection. The certification system is intended to shorten the supply chain so that artisanal miners can sell directly to jewellers, thus securing a higher price for their gold.

¹ Fairtrade International: *Monitoring the scope and benefits of Fairtrade*, sixth edition, 2014. ² idem: *Fairtrade standard for hired labour* (2014). ³ E. Arnould, A. Plastina and D. Ball: "Does fair trade deliver on its core value proposition? Effects on income, educational attainment, and health in three countries", in *Journal of Public Policy & Marketing* (2009, Vol. 28, No. 2), pp. 186–201. ⁴ K. Utting: "Assessing the impact of Fair Trade coffee: Towards an integrative framework", in *Journal of Business Ethics* (2009, Vol. 86, No. S1), pp. 127–149. ⁵ L.T. Raynolds, D. Murray and P.L. Taylor: "Fair Trade coffee: Building producer capacity via global networks", in *Journal of International Development* (2004, Vol. 16(8)), pp. 1109–1121. ⁶ S.D. Elder, H. Zerriffi and P. Le Billon: "Effects of Fair Trade Certification on social capital: The case of Rwandan coffee producers", in *World Development Report 2012* (Vol. 40, No. 11), pp. 2355–2367; and T. Basset: "Slim pickings: Fairtrade cotton in West Africa", in *Geoforum* (2010, Vol. 41), pp. 44–55. ⁷ Alliance for Responsible Mining/Fairmined: *Fairmined standard for gold from artisanal and small-scale mining, including associated precious metals*, version 2.0, Apr. 2014. ⁸ ibid., p. 17.

149. Industry-led initiatives and certification and labelling initiatives differ in a number of ways from unilateral, stand-alone PCIs pursued by lead firms in global supply chains. They tend to work towards aligning requirements and standards for multiple business actors and lead firms. In some cases, they are also more inclusive, as they extend consultations and participation to other stakeholders in the global supply chains. However, it can be argued that both unilateral and collective private-sector CSR initiatives do not address the root causes of non-compliance. In some cases, these layers of private governance may undermine rather than reinforce public governance structures.

4.1.3. Social partners' initiatives

150. "Social governance" describes the interaction between the social partners at the enterprise, sectoral, national or international levels.⁶⁹ In social governance, unions,

⁶⁹ For the purposes of this report, the term "social governance" has been adapted from the definition given in Gereffi and Lee, op. cit.

enterprises, employers' organizations and other civil society organizations engage in a process to define and implement joint governance schemes. Unlike private governance mechanisms, which are unilaterally adopted by enterprises, social governance requires negotiation between workers and the employer. Workers are represented by unions in collective bargaining negotiations at the workplace, sectoral or national levels. Some employers, unions and NGOs have engaged in multi-stakeholder initiatives as a means to formalize collaborative approaches to global supply chain governance. International (or global) framework agreements have been used by MNEs and Global Union federations to improve labour relations in global supply chains.

151. The commitment to social dialogue has been reaffirmed in several ILO instruments, including the 2008 Declaration on Social Justice for a Fair Globalization,⁷⁰ which recognizes "promoting social dialogue and tripartism as the most appropriate methods for ... making labour law and institutions effective, including in respect of the recognition of the employment relationship, the promotion of good industrial relations and the building of effective labour inspection systems".⁷¹

152. The social partners are crucial to the effective implementation and enforcement of national labour laws. Trade unions support labour inspection and dispute resolution by filing claims, representing workers and collaborating with the inspectorate in investigations. Employers' organizations provide training and assistance to enterprises on their legal responsibilities and effective workplace compliance policies. Social partners can use social governance mechanisms to strengthen public governance mechanisms.

153. Worker representation guarantees a certain degree of accountability, although the level of inclusiveness and transparency may vary. Adequate worker and employer representation can be contentious in global supply chains, as seen in Chapter 3. Inclusiveness may be limited due to the lack of participation of lead firms at the national level and the lack of participation of SMEs at the local level. Such challenges undermine the extent to which social partners can engage in meaningful social dialogue and cooperate to ensure effective workplace compliance in global supply chains.

Multi-stakeholder initiatives

154. Multi-stakeholder initiatives (MSIs) involve "private and non-governmental stakeholders in negotiating labor, health and safety, and environmental standards, monitoring compliance with these standards, and establishing mechanisms of certification and labeling that provide incentives for firms to meet these standards".⁷² MSIs have developed in many supply chains for consumer goods, such as apparel and horticulture, and extractive industries, such as diamonds and gold.

155. One example of an MSI is the International Cocoa Initiative, whose aims are "to oversee and sustain efforts to eliminate the worst forms of child labor and forced labor in the growing and processing of cocoa beans and their derivative products".⁷³ The ILO serves as an adviser to the Initiative's activities to improve the lives of children by

⁷⁰ See also: Conclusions concerning the recurrent discussion on social dialogue under the ILO Declaration on Social Justice for a Fair Globalization, International Labour Conference, 102nd Session, Geneva, 2013.

⁷¹ ILO Declaration on Social Justice for a Fair Globalization, 2008, Part I(A)(iii).

⁷² D. O'Rourke: "Locally accountable good governance: Strengthening non-governmental systems of labor regulation", Global Economic Governance Working Paper 2005/16, p. 2.

⁷³ International Cocoa Initiative: Charter, available at: <http://www.cocoainitiative.org/en/documents-manager/english/27-ici-charter/file>.

supporting child-centred community development and responsible supply chain management throughout the cocoa sector.⁷⁴ Established in 2002, the programme has been implemented in Côte d'Ivoire and Ghana. In 2010, despite reaching only a small percentage of the population in both countries, the Initiative had achieved encouraging results, by increasing awareness and reducing dangerous practices.⁷⁵ However, it has also been accused of “greenwashing”: of including NGOs and trade unions of relatively lower status to give a superficial environmentally friendly appearance to MNEs that are actually making no real change towards sustainability.⁷⁶

156. Ethical Trading Initiatives are separate multi-stakeholder initiatives based in Denmark, Norway and the United Kingdom, whose members include companies, trade unions and NGOs. Each has a Code of Labour Practice based on UN and ILO Conventions, and other documents that cover forced labour, freedom of association and collective bargaining, child labour, discrimination, harsh treatment, safety and health, wages, working hours and regular employment. Each states that its code or the relevant national legislation applies, whichever is more stringent.⁷⁷ The UK Ethical Trading Initiative was the first established, and has over 70 member companies with a collective annual revenue of £179 billion. It estimates that it reaches over 10 million workers by its activities each year.⁷⁸

157. The multi-stakeholder Fair Recruitment Initiative, launched by the ILO in 2014, aims to help prevent human trafficking and forced labour; to protect the rights of workers, including migrant workers, from abusive and fraudulent practices during the recruitment and placement process; and to reduce the cost of labour migration and enhance development outcomes for migrant workers and their families, as well as for countries of origin and destination.⁷⁹

158. A study on a number of MSIs in the apparel sector⁸⁰ concluded that, while each has distinctive merits, weaknesses exist in achieving effectiveness and sustainability in the long term. One limitation was due to the same capacity challenges identified for public governance mechanisms: coverage, training and capacity of inspectors, and corruption. Other challenges included the risk of marginalizing the participation of workers' organizations and unions. There were also criticisms that MSIs are a form of whitewashing on behalf of MNEs, and that they constitute a top-down, elite form of regulation.⁸¹

⁷⁴ ILO: “Combating child labour in cocoa growing”, International Programme on the Elimination of Child Labour (IPEC) (2005).

⁷⁵ ILO: “The International Cocoa Initiative”, IPEC (2010).

⁷⁶ D. Dentonia and H.C. Peterson: “Multi-stakeholder sustainability alliances in agri-food chains: A framework for multi-disciplinary research”, in *International Food and Agribusiness Management Review* (2011, Vol. 14, Issue 5).

⁷⁷ See the UK Ethical Trading Initiative base code, available at: <http://www.ethicaltrade.org/resources/eti-base-code>; the Danish Ethical Trading Initiative guidelines, available at: <http://www.dieh.dk/om-dieh/etisk-handel/hvordan-etisk-handel/dieh-retningslinjer-for-etisk-handel/dieh-guidelines/>; and the Norwegian Ethical Trading Initiative guidelines for procurement, available at: www.etiskhandel.no/noop/file.php?id=8630.

⁷⁸ See the Ethical Trading Initiative website: <http://www.ethicaltrade.org/about-eti/why-we-exist/etis-origins>.

⁷⁹ ILO: “Fair recruitment”, <http://www.ilo.org/global/topics/fair-recruitment/lang--en/index.htm>.

⁸⁰ O'Rourke: “Locally accountable good governance”, op. cit.

⁸¹ C. Rodriguez-Garavito: “Global governance and labor rights: Codes of conduct and anti-sweatshop struggles in global apparel factories in Mexico and Guatemala”, in *Politics & Society* (2005, Vol. 33, No. 2), pp. 203–233.

International framework agreements

159. International framework agreements (IFAs) – also known as global framework agreements – are “agreements between ... MNEs and global union federations ... representing workers at the global level by sector of activity”.⁸² They are a direct response to the challenges of enforcing workplace compliance measures in global operations of MNEs, where national unions have limited capacity and opportunity to negotiate directly with lead firms. IFAs enable transnational social dialogue to occur between MNEs and Global Union federations to set minimum standards to improve working conditions at the global level.⁸³ Recent IFAs have begun referring to global supply chains, and include compliance with the agreement as a basis for continued business relations with suppliers and subcontractors.⁸⁴

160. The number of IFAs and the diversity of sectors covered have increased over the last 15 years. Figure 4.1 demonstrates the growing number and diversity of Global Union federations involved in negotiating IFAs.⁸⁵ In addition to increasing in quantity, IFAs have improved qualitatively by utilizing ILO Conventions, the ILO MNE Declaration and other international instruments such as the OECD Guidelines.⁸⁶ Virtually all of them make reference to the eight core labour Conventions of the ILO.

161. Some argue that although not legally binding, IFAs have been effective in their capacity to regulate workplace compliance and can provide mechanisms to support capacity development in SMEs, using a top-down approach through networks of MNEs and Global Union federations. For example, IFAs may complement local collective bargaining practices, such as that between AccorHotels and the IUF. One study noted the importance of the IFA and the involvement of the IUF in supporting local trade union organizing in Australia, Indonesia and North America.⁸⁷ In the South African construction sector, the IFA between Lafarge and BWI has demonstrated promising opportunities for labour standards to be promoted throughout the supply chain, including suppliers and contractors.⁸⁸

⁸² K. Papadakis (ed.): *Shaping global industrial relations: The impact of international framework agreements* (Palgrave Macmillan, 2011), p. 2.

⁸³ M. Helfen and M. Fichter: “Building transnational union networks across global production networks: Conceptualising a new arena of labour–management relations”, in *British Journal of Industrial Relations* (2013, Vol. 51, No. 3).

⁸⁴ F. Hadwiger: “Global framework agreements: Achieving decent work in global supply chains”, Background paper (Geneva, ILO, 2015).

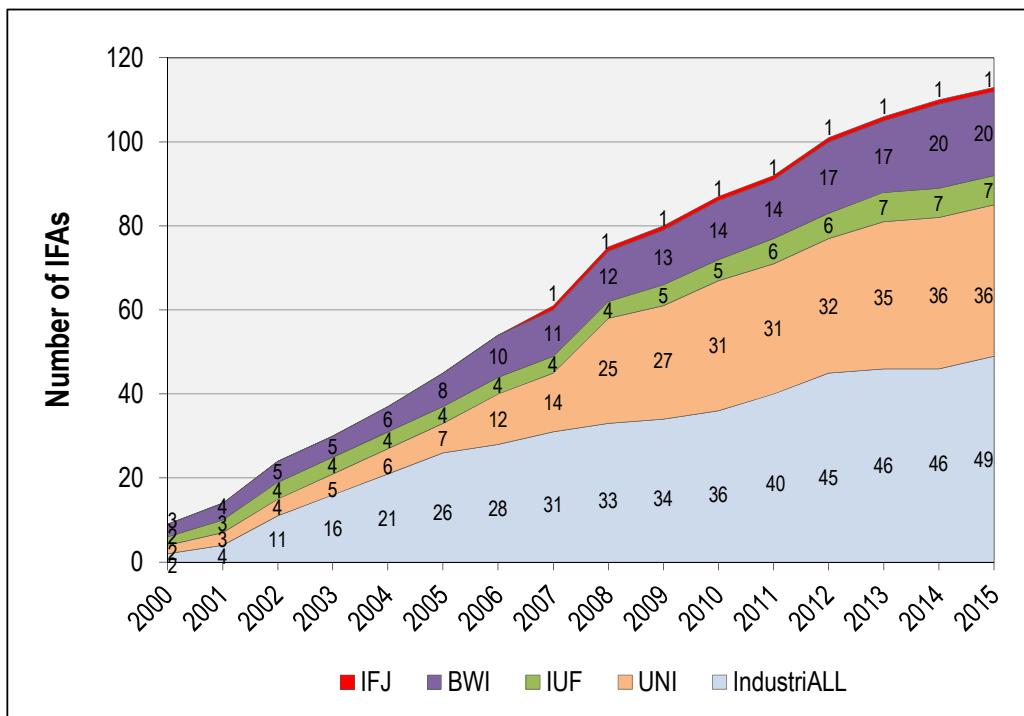
⁸⁵ *ibid.*

⁸⁶ *ibid.*

⁸⁷ J. Wills: “Bargaining for the space to organize in the global economy: A review of the Accor–IUF trade union rights agreement”, in *Review of International Political Economy* (2002, Vol. 9, No. 4), pp. 675–700.

⁸⁸ G. Williams, S. Davies and C. Chinguno: “Subcontracting and labour standards: Reassessing the potential of international framework agreements”, in *British Journal of Industrial Relations* (2015, Vol. 53, No. 2), pp. 181–203.

Figure 4.1. The increase in and diversification of IFAs from 2000 to 2015



Notes: IFJ: International Federation of Journalists; BWI: Building and Wood Workers International; IUF: International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations; UNI: UNI Global Union; IndustriALL: IndustriALL Global Union. Public Services International (PSI) is a signatory of three IFAs, two together with IndustriALL and one with BWI and IndustriALL.

Source: Hadwiger: "Global Framework Agreements", op. cit. (number in sample = 112).

162. There are a number of challenges with respect to the effectiveness of IFAs in promoting decent work along global supply chains. One is the lack of union affiliates in workplaces, as demonstrated in the banana supply chain (see box 4.3). Another is the process of coordination, dissemination and delegation to existing union affiliates. Some local unions may struggle to address common issues, such as how to maintain solidarity among different groups of workers within the union, informal workers outside the union, and competing unions. The existence of an IFA may help to address some of these issues if local unions have the capacity to use it as a unifying tool for negotiations.

163. IndustriALL Global Union and a number of buyers and manufacturers have committed to a joint initiative, Action Collaboration Transformation, in an attempt to establish industry-level collective bargaining in a number of supplier countries. The initiative is significant as it represents an agreement of a set of principles to promote sectoral or multi-employer bargaining (in particular on wages) in garment manufacturing industries, and to involve global as well as national trade union and business actors in achieving this outcome.⁸⁹

⁸⁹ J. Holdcroft: "Transforming supply chain industrial relations", in *International Journal of Labour Research* (2015, Vol. 7(1-2)), pp. 95–104.

Box 4.3
**An international framework agreement in a
banana supply chain in Latin America**

In the banana global supply chain, a 2001 regional agreement between Chiquita, the IUF and the Coordinating Body of Latin American Banana and Agro-industrial Unions (COLSIBA) negotiated the protection and development of trade unions and labour rights in producer countries. The agreement proved critical in supporting union organizing efforts in Colombia and Honduras.¹ In Costa Rica, the IFA facilitated the negotiation of permanent contracts for workers with temporary contracts. The agreement's sexual harassment clause has been used to address the problem of sexual harassment in the banana sector.

However, when the agreement was signed in 2001, Chiquita sourced 70 per cent of the bananas it exports from its own plantations. The more recent trend has led Chiquita to source approximately 70 per cent of bananas from suppliers and independent farms, where the level of unionization is unknown.² Although Chiquita requires that all its suppliers follow its social policies, effective implementation of the framework agreement may be more challenging further down the supply chain.

¹ L. Riisgaard: *The IUF/COLSIBA–CHIQUITA framework agreement: A case study* (ILO, 2004), p. 4.

² A. Cooper and V. Quesada: "Labour relations: Successful cases within the banana industry", World Banana Forum–Working Group on Labour Rights (2015).

Accord for Fire and Building Safety in Bangladesh

164. Two disasters in the ready-made garment industry in Bangladesh – the Tazreen factory fire in 2012 and the Rana Plaza building collapse in 2013 – drew worldwide public attention to the dangers of working in poorly regulated manufacturing firms. As a result of these tragedies, two Global Union federations (IndustriALL and UNI Global Union) negotiated the legally binding Accord on Fire and Building Safety in Bangladesh⁹⁰ with multiple global brands and retailers, now numbering over 200. The ILO responded to the request of the parties supporting this initiative and serves as the independent and neutral chair of the Accord Steering Committee. This case highlights how stakeholders across the garment supply chain were engaged to negotiate a historically unprecedented, legally binding programme in order to reduce fatalities in the ready-made garment industry in Bangladesh. Prior to the Rana Plaza collapse, PCIs and NGOs had taken some steps to monitor compliance. However, the fact that some factories located in the Rana Plaza building had passed certification audits demonstrates the limitations of private voluntary initiatives in effectively identifying risks, improving occupational safety and health and protecting workers' rights. In the light of these large-scale disasters, greater pressures and accountability were placed on buyers in the negotiations of the Accord.⁹¹ Global Union federations and civil society campaign groups used existing relationships with buyer companies in order to negotiate the terms and increase the participation of global brands.

165. The Accord's key components include: an independent inspection programme for the first-, second- and third-tier factories, followed by corrective actions if deemed necessary; training programmes for workers' empowerment; public disclosure of all suppliers of the signatories, including subcontractors; election of health and safety

⁹⁰ Accord on Fire and Building Safety in Bangladesh, 13 May 2013, http://bangladeshaccord.org/wp-content/uploads/2013/10/the_accord.pdf.

⁹¹ J. Reinecke and J. Donaghey: "The 'Accord for Fire and Building Safety in Bangladesh' in response to the Rana Plaza disaster", in A. Marx et al. (eds): *Global governance of labor rights: Assessing the effectiveness of transnational public and private policy initiatives* (2015).

committees with representatives of trade unions, companies and the ILO; and a commitment by the signatories to provide sufficient funding for the implementation of the plan under the Accord. Although too recent to provide lessons in the long term, this agreement is further evidence of the trend towards transnational multi-stakeholder approaches to the governance of global supply chains.

166. Social governance generally, and MSIs and IFAs in particular, are collaborative approaches to promoting decent work in global supply chains. As with private governance, the social partners may have limited tools to enforce compliance when compared with government institutions. However, social initiatives could be used to complement public governance to enhance public accountability and democratic legitimacy by giving workers and their representatives greater visibility and decision-making power, particularly when both lead firms and supplier firms are engaged. For example, at the Global Dialogue Forum on Wages and Working Hours in the Textiles, Clothing, Leather and Footwear Industries, tripartite constituents agreed that social dialogue should be promoted and that employers' and workers' organizations should "identify and develop mechanisms to involve buyers in improving working conditions, productivity and competitiveness".⁹²

4.1.4. Multilateral initiatives

167. In recognition of the governance gap, several international institutions have led initiatives to promote internationally harmonized standards for good governance in global supply chains. This section reviews some of the initiatives that are most relevant to the current discussion on decent work in global supply chains. Multilateral initiatives are defined by international organizations and then implemented by different actors, such as governments, enterprises and unions. Although they may require reporting, monitoring activities or complaints processes, they have limited capacity to enforce their standards directly.

Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy

168. The ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration), first adopted in 1977 and updated in 2006, seeks to maximize the positive contribution of MNEs to economic and social development and to minimize the difficulties which may arise.⁹³ It is the only international instrument concerning MNE operations that was negotiated on a tripartite basis, and the most comprehensive one on labour and employment issues, with recommendations addressed to governments, enterprises, and employers' and workers' organizations. Although directed primarily at MNE operations, it also applies to national enterprises, including those commercially linked to MNEs.

169. The MNE Declaration clearly distinguishes between the roles of governments and enterprises: governments are responsible for legislating and enforcing, as well as creating an enabling environment for responsible business; companies are encouraged to respect workers' rights in their own operations. Uniquely, the MNE Declaration also emphasizes the contribution MNEs can make to creating employment and transferring skills and technology to enterprises in host countries.

⁹² ILO: Points of consensus of the Global Dialogue Forum on Wages and Working Hours in the Textiles, Clothing, Leather and Footwear Industries (Geneva, 23–25 September 2014) (GDFTCLI/2014/6), p. 4.

⁹³ ILO: Tripartite Declaration on Principles concerning Multinational Enterprises and Social Policy (Geneva, 2006).

170. The MNE Declaration provides a framework for policy coherence across government ministries, including trade, investment, industry and labour, which is essential for economic and social upgrading. The MNE Declaration encourages dialogue between the tripartite constituents and MNEs to address the economic and social development of workers and the broader community, and dialogue between home and host countries for a better coordination of policies.

171. At its 325th Session (November 2015), the Governing Body requested the Office to “propose modalities to review the MNE Declaration” for decision at its March 2016 session.⁹⁴

172. The ILO offers further assistance through its Helpdesk for Business on International Labour Standards, which provides advice and guidance directly to company managers and trade unions, and organizes webinars and training programmes on particular issues.⁹⁵

OECD Guidelines for Multinational Enterprises

173. First adopted in 1976, the OECD Guidelines for Multinational Enterprises provide non-binding principles and standards for responsible business conduct consistent with applicable laws and internationally recognized standards. Countries adhering to the OECD Declaration on International Investment and Multinational Enterprises commit to promoting the application of the Guidelines by all companies with headquarters in their countries wherever they operate, as well as by companies operating within their territory. Although primarily addressed towards MNEs, the Guidelines also include provisions related to their supply chains, thus expanding the scope to suppliers, as well as other business relationships. The OECD Guidelines were revised most recently in 2011 to include a human rights chapter consistent with the UN Guiding Principles on Business and Human Rights.⁹⁶ The employment and industrial relations chapter was also aligned more closely with the ILO MNE Declaration. Both chapters reference the fundamental principles and rights at work.

174. Adhering countries must establish a National Contact Point to promote and disseminate the Guidelines, and to respond to information requests. When an alleged non-observance of the Guidelines occurs, a trade union, a NGO or another interested party can file a grievance with the appropriate National Contact Point, which should contribute to the resolution of the case. Most cases have been brought under the employment and industrial relations chapter and increasingly under the human rights chapter.⁹⁷

175. The OECD has also engaged with stakeholders to promote responsible business conduct in sector-specific supply chains. The most notable example is the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, which was issued in 2010 to improve supply chain traceability and due diligence along mineral supply chains. The guidance is designed to assist companies to respect human rights and avoid contributing to conflict through their mineral or metal

⁹⁴ ILO: Decision on the ninth item on the agenda, Governing Body, 325th Session, Geneva, Nov. 2015, GB.325/POL/9.

⁹⁵ <http://www.ilo.org/empent/areas/business-helpdesk/lang--en/index.htm>.

⁹⁶ OECD: *OECD Guidelines for Multinational Enterprises*, 2011 edition.

⁹⁷ J.G. Ruggie and T. Nelson: “Human rights and the OECD Guidelines for Multinational Enterprises: Normative innovations and implementation challenges”, Corporate Social Responsibility Initiative Working Paper No. 66 (Harvard University, 2015).

purchasing decisions and practices. Additional sectoral guidance documents on due diligence are in preparation. The ILO frequently collaborates with the OECD, including through technical assistance on labour issues and by co-organizing events.

UN Global Compact

176. In 2000, the UN Secretary-General launched the UN Global Compact, which calls upon companies to conduct their business respecting Ten Principles on human rights, labour, environment and anti-corruption.⁹⁸ The labour principles follow the ILO's fundamental principles and rights at work. Participating companies should report on their progress made on these Ten Principles. An advisory group on supply chain sustainability was established in 2010 as a platform for integrating the Ten Principles into supply chain management systems. In 2012, several hundred companies were de-listed for failure to fulfil minimum reporting requirements. Since that time, the number of companies joining the Global Compact has continued to increase, although by one estimate "only 40% of the 500 largest global companies are members and just 10% of multinationals".⁹⁹ The ILO serves jointly with the Office of the United Nations High Commissioner for Human Rights (OHCHR) as the secretariat for the Global Compact's Human Rights and Labour Working Group and provides extensive technical assistance. Furthermore, the ILO and the Global Compact have jointly published a guide for business on the labour principles of the Global Compact.

UN Guiding Principles on Business and Human Rights

177. The UN Human Rights Council endorsed the UN Guiding Principles on Business and Human Rights in 2011. The principles provide guidance for public actors to protect and for private actors to respect human rights, as well as ensuring victims' access to a remedy for existing human rights violations. They articulate distinct but complementary duties and responsibilities of States and business enterprises, and apply to all States and business enterprises, both transnational and others, regardless of size, sector, location, ownership or structure. Although the UN Guiding Principles are not legally binding, they build on the implications of existing legal obligations that States have undertaken under international human rights law.¹⁰⁰

178. The Guiding Principles define a framework for preventing and addressing human rights violations that is applicable to all States and businesses. The framework consists of: a public commitment to respecting human rights across the company's operations; an ongoing due diligence process to assess, track and mitigate risks to human rights, while communicating their effectiveness; and a process to remedy any harm that the company may contribute.¹⁰¹

179. According to the Guiding Principles, the responsibility of a business enterprise to respect human rights extends beyond its first-tier relationships to cover all activities and relationships. Under Guiding Principle 13, business enterprises are expected to "[a]void causing or contributing to adverse human rights impacts through their own activities, and

⁹⁸ <https://www.unglobalcompact.org/what-is-gc/mission/principles>.

⁹⁹ J. Confino: "Cleaning up the Global Compact: Dealing with corporate free riders", in *The Guardian*, 26 Mar. 2012.

¹⁰⁰ UN General Assembly: *Report of the Special Representative of the Secretary-General on the issue of human rights and transnational corporations and other business enterprises*, John Ruggie: *Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework*, 21 Mar. 2011, A/HRC/17/31, para. 14.

¹⁰¹ OHCHR: *Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework* (New York and Geneva, 2011).

address such impacts when they occur”; concerning supply chains, companies should also “[s]eek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts”. “Business relationships” are broadly defined and are understood to include a business’s own direct actions, relationships with business partners, entities in its supply chain, and any other non-State or State entity directly linked to its business operations, products or services.¹⁰² The principles explicitly reference the fundamental principles and rights at work and implicitly include many other labour rights, such as the right to a safe and healthy workplace. However, operationalizing the due diligence concept to prevent human rights abuses has been a complex challenge.

180. In June 2014, the Working Group on the issue of human rights and transnational corporations and other business enterprises¹⁰³ called on UN member States to implement the UN Guiding Principles through National Action Plans on Business and Human Rights.¹⁰⁴ An analysis of the initial National Action Plans found that although most had utilized a consultative process in the drafting, the content focused mostly on existing activities, with limited specific future actions.¹⁰⁵

181. In June 2014, the UN Human Rights Council established an open-ended intergovernmental working group to elaborate a legally binding treaty on business and human rights. The first session of the working group was held in July 2015;¹⁰⁶ a second is planned for 2016.

182. Given the specific relevance of the ILO for the business and human rights agenda, it has developed a structured collaboration with the Working Group on the issue of human rights and transnational corporations and other business enterprises. This includes collaboration on the Working Group’s country visits, thematic reports and the Annual Forum on Business and Human Rights.

183. In September 2015, the G20 reiterated their strong dedication to occupational safety and health, in particular in fostering safer workplaces within global supply chains.¹⁰⁷ In October 2015, the G7 reaffirmed their commitment from the June 2015 G7 Summit to foster sustainable global supply chains.¹⁰⁸ This included the creation of a multi-donor Vision Zero Fund, under the administration of the ILO, which will support social dialogue and the application of ILO standards on occupational safety and health and fundamental principles and rights at work in global supply chains. The G7 Ministers also recognized the shared responsibility of all relevant stakeholders in promoting responsible and sustainable global supply chains.

¹⁰² *ibid.*, Commentary under Guiding Principle 13.

¹⁰³ Established by the UN Human Rights Council.

¹⁰⁴ International Corporate Accountability Roundtable (ICAR) and European Coalition for Corporate Justice (ECCJ): *Assessments of existing National Action Plans (NAPs) on business and human rights*, Nov. 2014.

¹⁰⁵ *ibid.*, p. 4.

¹⁰⁶ UN Human Rights Council: First session of the open-ended intergovernmental working group on transnational corporations and other business enterprises with respect to human rights, <http://www.ohchr.org/EN/HRBodies/HRC/WGTransCorp/Pages/Session1.aspx>.

¹⁰⁷ G20: *G20 Labour and Employment Ministerial Declaration*, Ankara, 3–4 September 2015.

¹⁰⁸ G7: *Action for Fair Production*, Ministerial Declaration of the Meeting of the G7 Employment and Development Ministers, Berlin, 13 October 2015.

4.2. Closing the governance gap

184. The previous section reviewed many of the approaches taken by governments and other stakeholders to address the governance gap in global supply chains. While the responsibility of enforcing labour laws remains with the State, other stakeholders can support the effectiveness and the efficiency of public governance. To close the governance gap, there is a need to reinforce the layers of governance and strengthen public capacity and social dialogue. The following examples illustrate how improved governance can be applied to promoting decent work.

Brazil: Combating forced labour

185. Efforts in Brazil to address forced labour in global supply chains demonstrate how strengthened public capacity, integration between different public regulatory bodies and an innovative approach have been instrumental in addressing contemporary forms of forced labour. The Government of Brazil, together with employers' and workers' representatives and NGOs, created a synergistic governance approach to combat child and forced labour and promote workers' rights in several supply chains.

186. In 1995, the Brazilian Government acknowledged the existence of “work in conditions analogous to slavery”¹⁰⁹ in rural areas and established the Executive Group for the Repression of Forced Labour and its Special Mobile Inspection Group. According to Government statistics, between 1995 and 2013, a total of 46,478 workers were rescued by the Ministry of Labour and Employment from what is termed slave labour.

187. In 2005, the multi-stakeholder National Pact for the Eradication of Slave Labour was launched by the Ethos Institute, the Social Observatory Institute, the Repórter Brasil NGO and the ILO. It requires signatory companies to sever commercial ties with businesses in their value chain that use forced labour. By promoting shared responsibilities and commercially restricting suppliers caught exploiting forced labour, companies voluntarily acknowledge accountability for unacceptable labour practices in their supply chains. By 2014, more than 400 national and multinational companies were signatories of the National Pact.

188. A defining characteristic of Brazil's experience in combating forced labour in agricultural and manufacturing supply chains is the multi-stakeholder focus. The National Commission for the Eradication of Slave Labour, established in 2003, brings together government officials, workers' and employers' representatives, and civil society organizations to coordinate actions and design sector-specific strategies. It is also responsible for monitoring the National Plan for the Eradication of Slave Labour, which was formulated through an extensive social dialogue process.

189. At the same time, the labour inspectorate, the labour prosecution office and the judiciary have been strengthening enforcement of labour legislation at all levels. Expertise has been developed by the labour inspectorate, with ILO support, in challenging areas such as the eradication of child labour and forced labour in rural sectors, including cattle farming, soy production and sugar cane harvesting, as well as in manufacturing in urban areas, such as the garment industry. Inspectors have enhanced their techniques for auditing local supply chains and combined the strengths of

¹⁰⁹ Under article 149 of the Brazilian Penal Code, a worker is considered to be in conditions analogous to slavery if he or she is subjected to: forced labour or exhausting workdays; degrading working conditions; or debt bondage.

conventional enforcement with technical support, awareness raising and education to enable willing enterprises to come into compliance.

190. In order to prevent rescued workers from falling back into forced labour, unemployment insurance and other social benefits have been provided and awareness has been raised. Brazil's fight against forced labour has been internationally recognized and highlights how the Government, in collaboration with the social partners and other stakeholders, instilled a culture of compliance by utilizing transparent supply chain dynamics.

ILO-IFC Better Work programme

191. The Better Work programme is a successful example of synergistic governance between the tripartite constituents (at the national, sectoral and global levels), lead firms and multilateral actors. Better Work is a partnership between the ILO and the IFC, established in 2007 with the objective of improving working conditions and promoting competitiveness in apparel global supply chains. The programme builds on the successful experience of the ILO's Better Factories Cambodia programme, which was established in 2001. It is an example of an intervention that spans various levels. At the factory level, Better Work assesses factory compliance with international standards and national legislation. It is one of the ILO's most rigorous and effective monitoring mechanisms. Dialogue is facilitated between workers' and management representatives at the factory level to help remedy decent work deficiencies, and targeted training is provided to build their capacity. The programme's Enterprise Advisers are locally recruited and trained and they conduct their duties based on a strict ethical code of integrity, transparency, diplomacy and respect, thereby combating some of the common criticisms of private-led monitoring regimes.¹¹⁰ At the sectoral and global levels, Better Work engages in partnerships with lead firms to address systemic compliance violations across the brands' supplier base, towards sustainable supply chain management.

192. The Better Work programme has achieved significant results in advancing compliance with fundamental principles and rights at work, as well as national legislation. In addition, as sexual harassment is widespread in the garment sector, Better Work has launched a specialized training programme to combat sexual harassment and has distributed a model policy on harassment to pilot factories.¹¹¹ Since Better Work was established, compliance has increased across all eight country programmes where it operates,¹¹² and improvements in working conditions have translated into enhanced worker well-being and satisfaction beyond the workplace,¹¹³ higher labour productivity and profitability,¹¹⁴ and better outcomes for workers' households and communities.¹¹⁵

¹¹⁰ A. Rossi: "Better Work: Harnessing incentives and influencing policy to strengthen labour standards compliance in global production networks", in *Cambridge Journal of Regions, Economy, and Society* (2015, Vol. 8, No. 3), pp. 505–520.

¹¹¹ Better Work: *Case study: Addressing sexual harassment in Jordan's garment industry*.

¹¹² Bangladesh, Cambodia, Haiti, Indonesia, Jordan, Lesotho, Nicaragua and Viet Nam.

¹¹³ G. Domat et al.: "Do factory managers know what workers want? Manager-worker information asymmetries and Pareto optimal working conditions", Better Work Discussion Paper No. 10 (2013).

¹¹⁴ D. Brown et al.: "Are sweatshops profit-maximizing? Answer: No, Evidence from Better Work Vietnam", Better Work Discussion Paper No. 10 (2013).

¹¹⁵ World Bank: *World Development Report: Jobs* (Washington, DC, 2013); World Bank: *InterWoven: How the Better Work program improves jobs and life quality in the apparel sector* (2015).

Maritime Labour Convention, 2006

193. The Maritime Labour Convention, 2006 (MLC, 2006), is another example of synergies in governance. Seafarers, shipowners and governments recognized that there were no regulations that were effective in protecting their interests on the high seas. The only way of establishing a level playing field was to combine all of the piecemeal regulations that had evolved over time (more than 40 maritime Conventions negotiated at the ILO) into one overarching regulatory system, which became the Maritime Labour Convention, 2006. It has built a system of checks and balances for monitoring, reporting and certifying that shipowners and flag States are fulfilling their responsibilities to provide seafarers with decent working conditions. Governments, shipowners and seafarers each have some authority and space to collaborate within the system to make the whole governance scheme stronger than the sum of its parts.

Chapter 5

The way forward

5.1. Introduction

194. The nature of cross-border production, investment, trade and employment relations has changed significantly with the expansion of global supply chains. This has created a wealth of opportunities for enterprises to access new markets, technology and knowledge, and increase their scale of production. In addition, engagement in global supply chains can lead to a path of inclusive growth when economic and social upgrading are aligned and mutually reinforcing, with considerable opportunities for economic development and decent work. However, the expansion of global supply chains can also be associated with significant governance gaps, and global competitive processes that have sometimes placed downward pressures on working conditions and respect for rights at work, including freedom of association and collective bargaining and other fundamental rights.

195. It is possible to enhance the contribution of global supply chains to fair and inclusive growth if there is stronger coherence between economic objectives and decent work. This means that governance gaps at the sectoral, national, regional and global levels would need to be closed effectively. While there have been multiple efforts to address these challenges, lessons learned from these experiences have shown that there is scope for much wider interaction and synergies between the tripartite constituents and other actors engaged in global supply chains. Targeted policies that draw lessons from past problems and address existing problems are required in order to ensure that decent work opportunities are created and extended to all workers.

5.2. The way forward

196. Taking into account the information presented in Chapters 1–4, a number of observations and lessons emerge on the needs and challenges faced by constituents and on potential ways for the ILO to strengthen its efforts to promote decent work in global supply chains. In that light, the International Labour Conference may wish to consider an innovative, holistic approach to the promotion of decent work in global supply chains, comprising some or all of the following interrelated elements.

197. **The role of the ILO.** Economic growth and job creation in global supply chains have been discussed in many forums in recent years; however, no other international organization has the appropriate mandate, expertise and experience in the world of work, or the tripartite structure, to consider the implications for decent work in global supply chains. Through its normative approach to development and its mandate and expertise in the world of work, the ILO has the convening power to bring together the main actors and stakeholders responsible to bridge governance gaps at the sectoral, national, regional or global levels of global supply chains. Consideration could therefore be given to

increasing the abilities of the Office to provide well-targeted capacity building, evidence-based policy advice and advocacy.

198. Promoting international labour standards. An assessment could be carried out as to whether existing ILO instruments provide a sufficient framework for ILO Members to promote decent work in global supply chains. It would also be essential to explore barriers to ratification of these instruments and what additional guidance and/or standards are needed to effectively promote decent work in global supply chains. Enabling rights, such as the right to organize and to bargain collectively, require particular attention.

199. Closing governance gaps. The governance gaps identified in this report need to be addressed by the coordination and combination of different and complementary compliance mechanisms. Governance systems need to promote effective governance of global supply chains based on the primary role of the State to ensure enforcement of legislation and fundamental rights at work. Consideration could therefore be given to the role of the ILO with regard to support, administration, facilitation and/or hosting of public, private and social governance systems. The ability to respond rapidly to urgent requests, as in the context of the Rana Plaza building disaster, is also essential to maximize opportunities for collaboration between the tripartite constituents.

200. Promoting inclusive and effective social dialogue. An integrated approach to promoting decent work in global supply chains would include the advancement of and engagement in effective social dialogue. It could be strengthened by sharing good practices on innovative representation mechanisms such as multi-employer bargaining, national tripartite dialogue and the inclusion therein of enterprises and private employment agencies and contractors as well as MNEs and other relevant actors. The work of the Office to build the capacity of social partners at different levels to allow them to represent their potential constituencies needs to be maintained, particularly to protect the rights and address the conditions of workers at the bottom of the supply chain.

201. Enhancing cross-border social dialogue. International framework agreements (IFAs) have proved an important tool in promoting workers' rights in the supply chains of MNEs. If requested, the Office could support and facilitate the development of IFAs and provide guidance on minimum requirements for both content and follow-up mechanisms for such agreements. Possibilities could be examined for the ILO to play a role in monitoring, mediating and arbitrating, building capacity and providing technical advice on the implementation and follow-up of IFA provisions. Tools could be developed and support provided to global, regional, sectoral and local actors involved in such initiatives, with ILO labour standards and the MNE Declaration as points of reference.

202. Strengthening development cooperation to improve rights and conditions in global supply chains. Country-level interventions, including in the context of Decent Work Country Programmes, could be scaled up and adapted to the different circumstances of constituents worldwide based on the vast experience and lessons learned through development cooperation programmes such as Better Work, SCORE, the International Programme on the Elimination of Child Labour (IPEC) and existing ILO work involving international buyers and other stakeholders. This would require more funding, which could be sought through innovative strategies, combining regular budget with extra-budgetary development cooperation support, public-private partnerships and South-South cooperation.

203. **Deepening the value of existing processes.** Consideration could be given to enhancing the relationship between the many processes promoting responsible business conduct, both in supply countries and lead firms' home countries. These need to be consistent with other relevant processes, including the implementation processes of the UN Guiding Principles and the OECD Guidelines. The ILO could support the design and organization of a framework for these national processes, building on the home country dialogue mechanism in the ILO MNE Declaration. To ensure policy coherence and accurate interpretation and implementation of these principles and standards, the ILO would need to raise awareness about its supervisory role and build capacity in the use of international labour standards.

204. **Strengthening labour administration systems.** ILO technical advice, capacity building and development cooperation need to include robust programmes to assist national labour administration systems as they adapt and modernize to cope with the challenges of the rapidly changing world of work. These include changing patterns of production, outsourcing, work organization, employment structures and relationships, labour migration and the informal economy. Labour administration systems need to explore efficient and effective methods of governance and management, and to build partnerships with the tripartite constituents and other stakeholders.

205. **Closing the knowledge gap.** Further research and analysis, mapping of good practices and knowledge sharing on employment and conditions of work in global supply chains are needed to identify governance approaches that have been effective in promoting integrated economic and social upgrading, improving the effectiveness of labour inspection and workplace compliance systems and establishing innovative social dialogue mechanisms. Good practices need to be identified between the buyers and the suppliers in order for suppliers to provide better wages and working conditions. The Office can learn from governments that have undertaken strategies to address new and emerging issues related to global supply chains. Lead firms and suppliers can identify and share good practices through sectoral, national and global social dialogue. The Office can build networks and promote collaboration with other international organizations and with academic institutions.

206. **Improving statistics.** There are gaps in the scope and comparability of statistics related to employment in global supply chains and a need to reinforce capacities to obtain and analyse relevant data at the sectoral, national and global levels, including on a sex-disaggregated basis. One of the ways in which the ILO can make a unique contribution is to improve systems to collect and disseminate regular data on the decent work dimensions of global supply chains, in line with the determinations of the International Conference of Labour Statisticians. Systematic ILO publication of data on decent work in global supply chains could address knowledge gaps and complement other ILO information.

207. **Promoting partnerships.** The ILO could expand and deepen partnerships to enhance the effectiveness of ILO programmes and activities. These include non-state entities and economic actors, such as MNEs and trade unions operating at the global sectoral level, as well as international and regional organizations with mandates in closely related fields. The ILO could be encouraged to provide additional support to constituents as they engage at the global level, with a view to supporting the expansion of tripartism and cross-border social dialogue.

208. **Improving coherence.** Coherence in promoting decent work in global supply chains by international organizations can be improved. There is increasing interest and engagement from other international organizations in promoting decent work in global supply chains. However, policies advocated by other international organizations are not always informed by ILO standards and values. The growing integration of these issues into the agendas of bilateral, regional and multilateral organizations constitutes an opportunity for the ILO to assert its unique and specialized role.

5.3. Suggested points for discussion

209. The aim of this discussion is for the ILO and its constituents to generate a better understanding of the opportunities and challenges of global supply chains for decent work. The results of the discussion should lead the Organization to confirm or adjust its priorities accordingly.

1. What opportunities and challenges for the realization of decent work and inclusive development have emerged from global supply chains and how have the challenges been dealt with?
2. What policies, strategies, actions and programmes have been put in place by the Office, ILO constituents and other stakeholders to ensure that economic development and decent work, including respect for international labour standards, go hand in hand?
3. What kinds of governance systems, including standards, in global supply chains can best support the achievement of growth, decent work and inclusive development and how can synergies be created?
4. What should Governments and the social partners do in order for global supply chains to achieve stronger coherence between economic outcomes and decent work, including respect for international labour standards? What can other actors do? What should the ILO do to support them in these efforts?

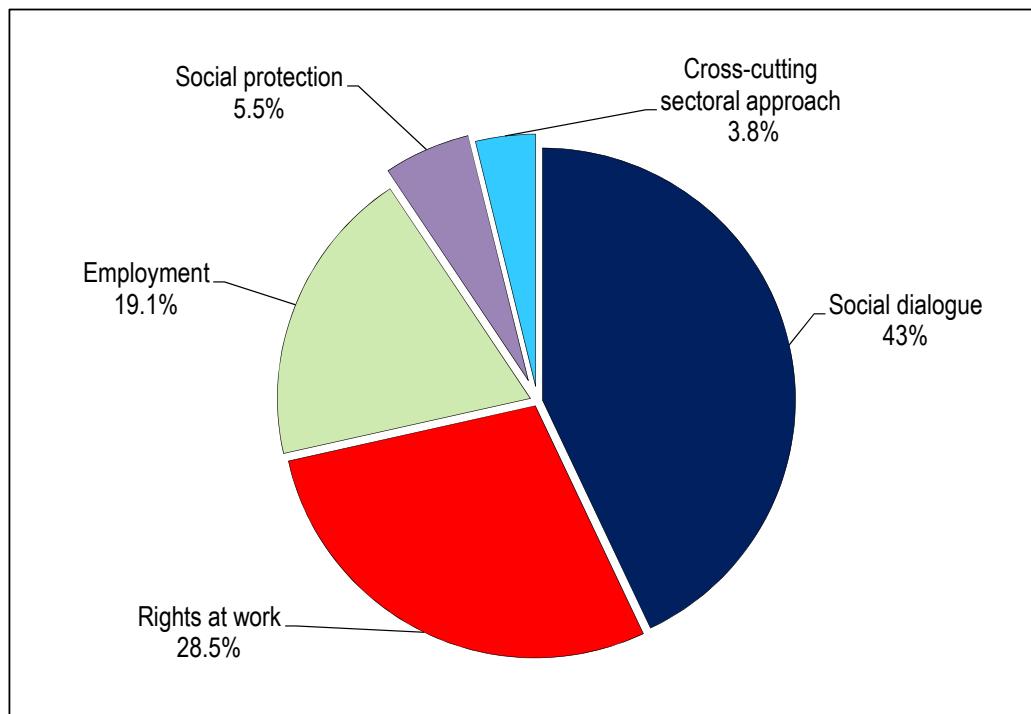
Appendix

Selected examples of ILO development cooperation projects that contribute to the promotion of decent work in global supply chains

1. Since its inception in 1919, the ILO has been building up a wealth of expertise and experience related to the promotion of decent work through standard setting, research, capacity building and development cooperation. This experience is highly relevant in creating opportunities and addressing challenges related to global supply chains.
2. For the purposes of the 2016 Conference general discussion on decent work in global supply chains, a detailed evaluation of 250 relevant ILO development cooperation programmes implemented between 2000 and 2015 was undertaken. Projects span all regions, with specific interventions in over 40 countries. A variety of partnerships have been established with governments, social partners, other UN agencies, the World Bank, the European Commission and the private sector. As demonstrated in the figure below, most of the projects have focused on social dialogue and rights at work, and have targeted a variety of sectors, particularly agriculture and textiles. Additionally, evaluation reports of selected projects have been reviewed to capture the most important lessons learned, in particular in relation to social dialogue, rights at work, employment and social protection.¹
3. The evaluation concluded that the involvement and participation of social partners has been and continues to be crucial for the success of all the projects related to global supply chains. The mapping and review of development cooperation projects have also highlighted that there is currently no single integrated approach or intervention model to promote decent work in global supply chains. Findings from the mapping and evaluation exercises were divided among the four ILO strategic objectives.

¹ ILO: Evaluation Office case study: “Independent synthesis review of selected interventions to promote decent work in global supply chains”, Jan. 2016 (unpublished).

Figure. ILO projects relating to global supply chains, by ILO strategic objective (2000–15)



Social dialogue

4. As discussed in Chapter 4, the ILO–IFC Better Work programme is the most relevant development cooperation programme related to global supply chains, covering almost 1,300 factories in eight countries. A recent independent evaluation has shown that the programme has been successful in promoting change and improvement in the supply chains of the participating companies, as well as in influencing the global agenda.
5. ILO projects related to labour administration and labour inspection systems in global supply chains have been successful in improving compliance with labour laws in Bangladesh, Georgia, Haiti, Jordan, Lao People's Democratic Republic, Pakistan, Philippines and Viet Nam. In Bangladesh, a multi-donor initiative was initiated to improve working conditions in the ready-made garment sector, through labour administration. Work was also carried out in Jordan to help ensure that labour rights are respected through enhancing the capacity of the labour inspectorate to promote and ensure compliance with fundamental principles and rights, including those of migrant workers. This project also helped strengthen institutions and processes to promote sound industrial relations and the effective functioning of labour mediation and conciliation services. Together with the ILO, the Government of Pakistan developed a compliance and reporting programme to improve workplace practices in the textile industry. It supports 210 factories in complying with international labour standards for better productivity. As a result of improvements in labour law compliance, the EU granted Pakistan's textile industry a new preferential trade status (GSP+), which foresees growth of almost 15 per cent in the textile and garment sector in Pakistan.²

² ILO: “Increasing productivity and competitiveness through labour law compliance in Pakistan’s textile sector”, Partnerships and Field Support Department (PARDEV), undated.

6. ILO projects have also focused on industrial relations, which are perceived as increasingly important in addressing labour-related issues in global supply chains. In particular, in the garment sector in Cambodia, Indonesia and Pakistan, interventions have focused on strengthening minimum wage and collective bargaining mechanisms. In Bangladesh, Cambodia, Ethiopia and Myanmar, cooperation between the ILO and a large garment buyer has been expanded to address industrial relations, wages and skills training.
7. The ILO has also implemented projects focused on the needs of the social partners. Two widely deployed capacity-building programmes for workers and employers with emphasis on occupational safety and health (OSH) are currently being carried out in 18 countries in Latin America. In addition, in the United Republic of Tanzania, the ILO has launched a specific project aimed at strengthening social dialogue for productivity. In Viet Nam's apparel sector, through a public-private partnership with a garment producer, the ILO is also providing workers, employers and the public with a better understanding of the representative role that trade unions play at the enterprise level. At the global level, the ILO is helping to improve the productivity and competitiveness of employers by building the capacity of employers' organizations. In addition, a project to strengthen the technical capacity of union leaders to develop trade union policies and practices and to engage in collective bargaining has been established in the Asia and the Pacific region.
8. The ILO has also launched projects to promote social dialogue in EPZs. One project developed a diagnostic process in countries and sectors where freedom of association challenges were known to exist. The evaluation concluded that the programme has produced some progress. Through its education activities, the programme helped workers to unionize and increased the capacity of trade unions to achieve respect for workers' rights in EPZs.³ The project concluded that securing the involvement of unions in addressing decent work deficits, in particular in areas where national legislation and/or enforcement may be weak, can be an important approach when seeking to promote decent work in global supply chains.

Employment

9. Many of the ILO's projects have contributed to creating employment and improving job quality in global supply chains, in particular in SMEs. The Sustaining Competitive and Responsible Enterprises programme (SCORE) is aimed at medium-sized, lower-tier suppliers in national and global supply chains with a strong focus on manufacturing. SCORE uses an integrated approach that combines modern management practices with improved working conditions. The programme also partners with international lead buyers in offering training on SCORE to their SME suppliers. This approach aims at increasing outreach and improving the financial sustainability of the intervention. The evaluation found that the inclusion of tripartite constituents in the training was key to the success of the programme. As a result, the productivity of SMEs was increased, at the same time as respect for workers' rights was promoted.
10. Other relevant projects in various countries and sectors are related to value chain development. In the East Nusa Tenggara province of Indonesia, a joint programme between the ILO and the Food and Agriculture Organization of the United Nations (FAO) promotes decent work in selected agri-food supply chains and aims to improve productivity and working conditions, thereby contributing to increased incomes and food security for local communities. Evaluations have shown that the strengthening of national and local supply chains enables them to be more competitive in engaging with global supply chains. The ILO recently launched a knowledge generation project to measure the quantitative and qualitative labour market effects of value chain interventions.⁴ Moreover,

³ ILO: Evaluation Office case study, op. cit.

⁴ See: www.ilo.org/thelab.

the ILO is a key member of the UN Value Chain Development group⁵ that advances interagency cooperation in the area of value chain development.

11. The Start and Improve Your Business programme (SIYB) provided entrepreneurship training to 6 million participants between 2003 and 2014 and helped to enhance the capacity of SMEs to participate in global supply chains. In addition, a number of ILO programmes (in Egypt, South Africa and Sri Lanka) have supported cooperatives of rural producers through legal and policy reforms, institution building and market links in order to improve the returns to their members. In Colombia, the ILO is helping to improve social and economic conditions in the mining sector. In addition to promoting freedom of association and collective bargaining rights, the project promotes OSH practices among SMEs in the mining supply chain.
12. ILO projects have also focused on codes of conduct, CSR guidance and compliance assistance. In Ethiopia, 52 flower farms now comply with a code of conduct developed by an ILO programme and have received certification, which has created export opportunities. In Viet Nam, a local economic development project produced a handbook for homeworkers (rattan weavers) and their group leaders, with guidance on labour rights, OSH, business operations and negotiation, with a view to improving working conditions and empowering women. In Zambia, the ILO has been promoting the application of the MNE Declaration in the mining sector.

Fundamental principles and rights at work

13. IPEC has initiated some of ILO's most prominent initiatives to promote labour rights in global supply chains. The programme is now placed within the Fundamental Principles and Rights at Work Branch, which seeks to pursue an integrated approach. IPEC operates in some 90 countries, and promotes a mix of policies and actions that involve governments at many levels, as well as workers' and employers' representatives, local communities and companies. At the country level, knowledge development and dissemination has contributed significantly to an understanding of the economic and social causes of child labour in a large number of countries and economic sectors. In addition, the development of innovative survey and data collection methodologies has established estimates of the scale of child labour at the sectoral, national and global levels. Targeted country-level projects provide policy support and direct services to demonstrate workable models for combating child labour. In Uzbekistan, for example, the ILO is supporting efforts to eradicate child labour and forced labour in the cotton supply chain. IPEC has also engaged in several public-private partnerships in specific sectors, such as cocoa, hazelnuts, tobacco, pulp and paper. Through the Child Labour Platform, the ILO provides a forum for companies to exchange knowledge on what works in tackling child labour in supply chains, which has led to the production of guidance tools, good practice notes and research into critical issues such as age verification.
14. The ILO Special Action Programme to Combat Forced Labour, now merged with IPEC to become the ILO's flagship programme on child labour and forced labour, has been conducting assessments of policies and organized training to improve enforcement and ensure compliance with laws and regulations. In Brazil, the ILO intervention focused on eradicating forced labour from global supply chains through social dialogue. In Bangladesh, India and Nepal, the programme is working on preventing trafficking of women and girls in the garment sector. The project helps to empower women, providing them with an understanding of their rights, collective organization and vocational training. In boosting awareness and equipping women with a practical set of skills, this initiative directly empowers girls and women, thereby increasing their prospects of decent work in destination countries. It also works closely alongside governments in the countries of origin and destination to improve the application of laws and policies in key areas such as

⁵ An informal grouping of ten UN agencies working on value chain development.

migration, trafficking and recruitment. As such, this preventative, targeted approach prepares women for safe labour migration.

15. The ILO is also carrying out programmes to promote decent work on plantations, focusing on the production of tea, bananas and palm oil. While plantations have long been organized to produce commodity crops, over recent decades they have increasingly been integrated into complex agri-food global supply chains.
16. Non-discrimination in global supply chains has been particularly addressed by training programmes at the workplace level. The evaluation describes a supply chain project in China for tourism and minority crafts, which tackled the issue of discrimination by providing training to local labour officials. The results showed a major change in behaviour and opinion among the officials, with increased interest in migration issues and an increase in local employment opportunities.

Social protection

17. The ILO also promotes social protection in global supply chains, as a part of the Social Protection Floor Initiative. In Malawi, Mozambique and Zambia, the ILO has provided technical assistance to the ongoing processes of national dialogue for national social protection floors. Other work on social protection floors was carried out in Cambodia, Dominican Republic, El Salvador, Ghana, Lao People's Democratic Republic, Niger and Zambia, as well as in the Plurinational State of Bolivia, Ecuador and Peru with a particular focus on informal workers and women. One major result is that social protection systems, including social protection floors, now also figure prominently in the Sustainable Development Goals. Consequently, in June 2015, the ILO and the World Bank Group committed to a joint programme of action to promote the delivery of universal social protection by all countries, as a primary development tool and priority.
18. Given that a growing number of enterprises are putting in place global systems of social protection guarantees for their employees and many companies are concerned by the absence or inadequacy of public social protection schemes, a global business network for social protection floors was launched in October 2015. The network includes MNEs, employers' organizations and private-sector foundations that wish to share good practices and contribute to the promotion and establishment of social protection floors worldwide. It will also facilitate exchange of information on practices and emerging trends in order to identify common challenges and opportunities and to broaden private-sector actors' support to public social protection systems.
19. In addition, ILO projects have focused on OSH in global supply chains. A project carried out in Mexico and South Africa between 2004 and 2008 under a public-private partnership with a large car manufacturer helped enhance safety and health in that manufacturer's supply chains, while also improving national OSH standards. As a result, workers at the enterprise level benefited from improved working conditions, a more preventative OSH culture, and enhanced productivity. Other projects with OSH as an important element have helped to ensure building and fire safety, improve labour legislation and regulation, and improve working conditions in over 3,500 factories in Bangladesh's garment sector.