The Takeaway

Policy Briefs from the Mosbacher Institute for Trade, Economics, and Public Policy

Improving Working Conditions in Global Value Chains

Problems are evident, but solutions are emerging from empirical research

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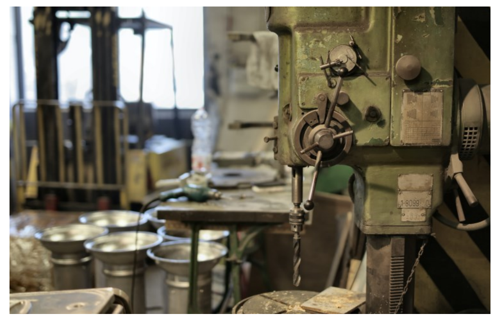

Global Value Chains (GVCs) connect consumers in developed countries with workers in developing countries. Working conditions for workers in developing countries are often poor, and finding ways to improve wages and working conditions is a policy priority for companies, governments, non-government organization (NGOs), and other stakeholders. Factory-level transparency alters incentives and leads to improved working conditions.

The collapse of Bangladesh's Rana Plaza in 2013 was one of the most horrific events among several that put developing-country working conditions in the news. In 2020, reports emerged that the workforce in some Chinese factories included forcibly relocated Uyghur Muslims in slave-like conditions. During the COVID-19 crisis, clothing shoppers stayed home, causing international buyers to stop orders from developing countries. In response to these problems, the European Union

WHAT'S THE TAKEAWAY?

Forced labor and other adverse working conditions in global value chains continue to be reported in the media.

The Ruggie Principles provide a framework for incorporating human rights issues into supply chain regulations.

Throughout the 2010s, a variety of institutions have sought to implement the protocols and other regulations.

Factory-level transparency is associated with improvements in working conditions.

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has been taking a regulatory approach, telling corporations *what* to do, but not *how* to actually improve working conditions. Previously-applied methods to improve working conditions have had limited success. One method that shows promise is transparency: making factory-level working conditions publicly available. Recent Mosbacher Institute research shows that transparency is associated with improved working conditions in garment factories.

GOVERNMENT RESPONSES TO POOR WORKING CONDITIONS IN DEVELOPING COUNTRIES

Since the early 1990s, developing countries have increasingly participated in global value chains. The rise in exports from developing countries came with increased awareness of poor working conditions and human rights violations. To address the tension that arose between governments, business, unions, and non-government organizations (NGOs), Special Representative of the Secretary General of the United Nations John Ruggie, in 2007, laid out the "protect, respect, and remedy" principles to assist governments, corporations, and civil society "reduce the adverse human rights consequences" of supply chains.[1]

The first layer of the Ruggie Principles calls on governments to leverage their unique position to address corporate human rights issues domestically and internationally. The second layer argues that corporations should proactively address how existing and proposed policy will impact human rights within their supply chain. Due diligence procedures—monitoring, assessing, and integration—for human rights, help corporations avoid being complicit in exploiting forced labor and better protect human rights within their supply chains.

Finally, grievance mechanisms must be in place to redress human rights abuses. These can include, but are not limited to, judicial mechanisms, credible non-judicial mechanisms, corporate-level mechanisms, and state sponsored non-judicial mechanisms. Adjudication through any of these means is a lengthy and costly process, which helps increase the incentives to proactively address human rights concerns before they reach adjudication.

IMPLEMENTING RUGGIE PRINCIPLES WITH REGULATIONS

The EU and international community have taken a regulatory approach towards implementing the Ruggie principles. The 2011 United Nations Guiding Principles on Human Rights called on states, as well as corporations, to protect human rights in their supply chains with more explicit steps,[2] including an approach to promote due diligence and responsible supply chain management.[3] The European Union, in 2014, issued a directive—later enacted into binding legislation in 27 member states—enhancing the sustainability of European supply chains. Under these regulations, corporations within member states must report on a myriad of sustainability issues, including human rights conditions within their supply chains.[4]

In February 2017, the French National Assembly adopted a "Duty of Vigilance Law" that forces multinational corporations operating in France to develop and implement a multi-point plan to mitigate identified risks or prevent the most serious violations or face potential losses in civil court from damages that arise from not having a plan in place.[5] France's Constitutional Court upheld most of the legislation in March 2017, except civil penalties for companies who fail to develop a diligence plan.

The International Labor Organization, in May 2017, published the ILO Declaration of Principles Concerning Multinational Enterprises and Social Policy. The declaration outlines principles in employment, training, work and living conditions, and industrial relations to assist corporations in making positive contributions to economic and social policy.[6]

Finally, more specific legislation addresses certain human rights concerns. For example, the United Kingdom's 2015 Modern Slavery Act and California Transparency in Supply Chains Act work to reduce slavery and human trafficking in global supply chains by criminalizing slavery and forcing companies to disclose their efforts in reducing slavery in their supply chains, respectively.[7]

In November 2019, the Finish government convened a conference which highlighted the need for enhanced corporate social responsibility, especially in protecting human rights. At the conference, activists, NGOs, and businesses presented various outlines for decreasing the human impact of global supply chains.[8]

TRANSPARENCY AS A TOOL TO IMPROVE COMPLIANCE

The regulatory push to improve working conditions in supply chains tells corporations *what* to do, but not *how* to do it. Finding specific policies that change the incentives factories face surrounding compliance is a policy priority. Factories and buyers have tried several approaches, including voluntary monitoring (when firms or factories are responsible for monitoring compliance within their supply chains) and independent audits that have not effectively improved working conditions. Instead, policymakers, companies, and academics are considering whether adding other measures to audits might have a higher chance of success and, if so, which approaches might be most effective.

> *Results suggest that factories respond to the incentives generated by transparency in ways that improve compliance*

One approach that has found to be effective at a relatively low cost is transparency. Transparency involves making factory-level compliance information public. The private sector already embraces financial disclosure and transparency. Transparency has been promoted as a way to improve government and private sector performance. In the case of labor standards, transparency theoretically increases the benefits of compliance for factories because stakeholders may accurately reward compliant firms and increase the costs of non-compliance.

My recent research published in the ILR Review[9] evaluates the change in compliance associated with the implementation of a transparency policy in Cambodia. A 1999 U.S.-Cambodia Bilateral Textile Trade Agreement formally linked market access to labor standards and lead to the creation of, the ILO's Better Factories Cambodia program. This program assesses working conditions relative to ILO Core Labor Standards and Cambodian labor law and implemented a policy to make these assessments publicly available. Relative to areas not covered by the transparency program, the empirical analysis reveals that compliance increased in 21 critical issues. The results suggest that factories respond to the incentives generated by transparency in ways that improve compliance. International buyers, governments, and other stakeholders can therefore consider transparency as a powerful tool for supporting human rights in global value chains.

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Notes:

[1] Ruggie, John (2008). Protect, *Respect and Remedy: a Framework for Business and Human Rights*. United Nations Human Rights Council. https://undocs.org/A/HRC/8/5

[2] United Nations (2011). *Implementing the United Nations "Protect, Respect and Remedy" Framework.* https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr_en.pdf

[3] OECD (2011). *OECD Guidelines for Multinational Enterprises*, OECD Publishing. doi: 10.1787/9789264115415-en

[4] See Article 1 of 2014/95/EU

[5] European Coalition for Corporate Justice (2017).*The French Duty of Vigilance Law - Frequently Asked Questions*. https://corporatejustice.org/documents/publications/french-corporate-duty-of-vigilance-law-faq.pdf

[6] International Labour Organization (2017). *Tripartite declaration of principles concerning multinational enterprises and social policy (MNE Declaration) - 5th Edition* https://www.ilo.org/empent/Publications/WCMS_094386/lang--en/index.htm

[7] UK Legislation. Modern Slavery Act 2015. https://www.legislation.gov.uk/ukpga/2015/30/contents/enacted; https://oag.ca.gov/SB657

[8] To see the diversity in proposals, see the EU2019.FI pre-conference report, *Perspectives Paper: Business and Human Rights - Towards a Common Agenda for Action*. https://eu2019.fi/documents/11707387/15400298/EU2019FI+BHR+Conference+Perspectives+Paper/4e5ca42d-31ef-fff1-41c8-aa0f21be17ae/EU2019FI+BHR+Conference+Perspectives+Paper.pdf

[9] Robertson, R. (2020). Lights On: How Transparency Increases Compliance in Cambodian Global Value Chains. *ILR Review*, 73(4): 939-968. doi: 10.1177/0019793919893333

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