

SUMMARY/OUTLINE OF PRESENTATION

Using the global supply chain as a lever for human development

Summary of the presentation by Olivier De Schutter

The debate on the relationship between trade liberalization and labor conditions predates the establishment of the International Labour Organisation almost 80 years ago. During many years, this debate has pit those who fear that 'social dumping' will result from the globalization of economic competition – since the lowering of rights at work would constitute a competitive asset in globalized markets – against those who see free trade, as a factor of economic growth, as the best ingredient for the improvement of labor standards – since economic growth and the resulting rise of the average levels of living have been historically correlated with better labor conditions –.

While this debate remains alive and important, it is now being superseded by another debate, on the capacity for the emerging global supply chain – a result of the increasing international division of labor, which trade liberalization has facilitated and encouraged – to become a channel through which positive changes can be brought about in the source countries, which are situated at a relatively lower level of development and where the workforce is generally both less qualified and cheaper. In part, this shift has resulted from the expectations formed by consumers in industrialized countries about the 'ethical' component of the products they are buying, leading corporations to pay greater attention to whether labor rights and environmental standards are complied with throughout the supply chain. But it also has its source in a better understanding of the relationship between the improvement of labor conditions and the productivity of workers and of the production plant at which they are employed : we have come to realize that paying higher wages and improving the working environment can in fact enhance productivity and improve competitiveness, by encouraging technological innovation, by diminishing worker turnover and absenteeism, and by pacifying social relations within the firm.

This development has two further consequences. First, the strategies of *individual firms* – especially those of transnational corporations and global retailers – become decisive, and play a role as important as that of state regulations. Second, and as a consequence of this displacement from the public to the private, the gap between the export sector and the local economy is widening : the highest wages, and the best quality jobs, are concentrated in the export sectors, whereas the local economy may remain based on low-skilled, low-paid jobs, often outside the formal economy. The challenges we are now facing are therefore the following : how can the multiple private initiatives be coordinated, further encouraged, or harmonized, in order to ensure that they effectively contribute to promoting human development in the countries which they target? And how can forms of spillover be promoted from the export sector to the local economy more generally?

There are attempts to answer the first question by the comparison of good practices between multistakeholder initiatives, or by the pooling of the experience of transnational corporations in supply chain management, leading to the definition of model codes which may serve as benchmarks for the multistakeholder initiatives, and in certain cases to progress towards mutual recognition of social auditing practices. Such a coordination should mitigate the difficulties resulting from the coexistence of a myriad of codes of conduct imposed by the various clients of local suppliers. As the International Labour Office has noted, the local suppliers for MNEs 'often expend a great deal of time and effort complying with a myriad of corporate codes of conduct that may contain radically different standards with which the supplier is expected to comply'. Therefore, convergence should facilitate compliance and make it less costly and time-consuming for the addressee of such codes. There are also interesting experiences seeking to create linkages between the export sector and the local economy, whereby the client companies of local suppliers accept certain responsibilities, for instance, in training, in providing advice to vocational schools, or in providing technical assistance to local SMEs.

However, there are inherent limits to these attempts, by the economic actors themselves, to improve compliance with labor standards in the supply chain. I will identify the difficulties raised by such 'private regulation' of labour standards in the global supply chain, and identify alternative avenues to improve compliance. I will examine, in particular, whether the adoption of legislation by their home State, imposing an obligation on transnational corporations to monitor their suppliers and sub-contractors, is a viable alternative. I will also examine the prospects for regulation at the global level, and compare the respective merits of these different avenues for an improved monitoring of labor rights in the supply chain.