



## **Symposium on Labour and Social Aspects of Global Production Systems: Issues for Business**

Geneva, 17-19 October 2007

### **INTRODUCTORY NOTE**

Variously referred to as global value chains, global supply chains or global sourcing, the participation of people in countries worldwide in producing goods and services for world markets is perhaps the most concrete and visible manifestation of globalisation. This interconnecting of national economies, business and production systems has spread to practically all sectors, offering decent work opportunities to millions by raising standards of productivity, work and incomes.

Yet, the phenomenon is controversial in both developed and developing countries: it is often accused of being responsible for job losses and social dumping, and of leading to a downward spiral in standards and incomes. On the other hand, expanded participation in the global market is also considered to be a key means to reduce significantly poverty levels and to help achieve the goal of decent work for women and men everywhere. However, the optimal policy framework for getting the most out of it and sustaining adequate political support for it in the process, remains a challenge.

#### *The current approach*

Much of the discussion around global production systems has focused on compliance with international labour and environmental standards, regarded by many as the ‘ethical’ dimension of the subject. This discussion is driven essentially by concerns in developed country constituencies, and has led to buyer firms taking various measures to ensure that their suppliers respect labour and environmental standards selected by the buyer – with respect to labour, these are usually references to ILO standards. Several years of experience with buyer codes, monitoring and verification of suppliers has led to a better understanding of how they work or do not. There is a trend away from auditing towards greater collaboration to improve performance. It is important to find mechanisms that meet the needs of both buyers and suppliers without imposing avoidable costs.

#### *The development dimension*

At the same time, the global sourcing of goods and services has several other aspects which are perhaps socially and economically more significant for a greater number of people and have more profound consequences for everybody, including business. These might in fact be grouped as the ‘development’ dimension of global production systems, and include:

- access to global markets
- impact on productivity and expansion of domestic markets beyond the export sector

- segregation of economies between export and domestic sectors, including cost of entry to the formal economy and export sector
- distribution of income within national economies
- the pace and pattern of industrialisation, including rural-urban migration, challenges to traditional social norms and the impact on family

### *Keeping global markets open*

Despite problems faced by some countries and certain sectors within countries, there is a consensus that increased trade has been very beneficial at the global level, by providing both developed and developing economies with opportunities to grow. Keeping global markets open requires meeting both product and process criteria, including the environmental and labour standards driven by ethical concerns. The challenge for development is how to ensure that a greater number of people benefit from this, which means both placing such criteria in a larger perspective and going beyond them to address a wider number of areas than merely compliance-related issues. It is in the interest of everybody that the business community look at this larger perspective and work to enhance future prospects for the global economy, beyond the immediate concerns of individual firms.

### *The rules of the game*

The regulatory framework for global production systems covers a range of instruments, including national law, trade agreements and treaties, contractual obligations, collective agreements and codes of conduct. Added to this are various forms of 'soft law', which expose companies to reputational risk and affect their behaviour in global production systems. The failure of many states to apply effectively their own laws has led to calls for other means to get enterprises to comply. Some groups put pressure on the United Nations to adopt binding rules to govern the conduct of multinational enterprises. Others advocate labour standards conditionality in trade agreements. The rules governing global production systems need, on the one hand, to protect the people participating in them, and on the other, to keep global markets open. The debate on the most appropriate approach is far from over.

### *Conditionality*

Non-pecuniary conditionality, such as compliance with labour and environmental standards, is a major factor in global sourcing, on account of the reputational risk faced by firms in developed countries. The impact of such conditionality on developing countries as a whole needs to be examined. Does it spread such standards generally throughout the economy or reinforce the divide between the export sector and the rest of the economy? Does it strengthen the barriers facing informal economy operators or, on the other hand, does it help upstream informal operators to improve their economic performance and move towards formality? In other words, does such conditionality have an overall benefit for the development prospects of developing countries or not?

### *Knock-on effects*

The greatest potential for growth of markets for the global economy is in developing countries, where presently the average purchasing power is low. A large part of their populations do not have any link to global markets and cannot benefit from them. The

primary reason for this is low productivity, behind which lie all the causes and consequences of poverty. Access to the global economy creates opportunities to improve the situation, even if the export sector is typically small in relation to the rest of the economy in most countries and it does not itself drive the kinds of change that are needed. There has to be complementary improvement in human resources and infrastructure, for instance, and an overall improvement in the investment climate for both domestic and international business. The right set of policies will help both to keep global markets open and to reduce poverty through productivity improvement and integration of the informal economy into the formal economy.

*Role for business associations*

In the context of enhancing the value derived from global production systems, the role of institutions, in particular but not exclusively business associations, is important. In some countries their role in lowering the cost of doing business and setting a favourable business environment has been critical for economic and social outcomes derived from successfully engaging the global market. A comparative evaluation of such institutions in similar and different environments will be instructive in drawing benefit from their counterparts in other countries.

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The ILO seeks to improve workplace outcomes for everyone, and is vitally interested in the social dimension of globalisation. With a view to enhancing understanding amongst its constituents of the implications of global production systems for future prosperity, and the risks and opportunities involved, the ILO is convening an international symposium for employers' organisations from 17 to 19 October 2007 at its headquarters in Geneva, Switzerland. Also invited are representatives of major global buyers and supplier associations, who will share their experiences. Leading academic thinkers, trade union leaders and representatives of NGOs active in globalisation issues will also present their differing views and objectives. Interactive panels and small group discussions will provide insights into the phenomenon for a better understanding of the issues, and find policy solutions that take account of the interests of all parties.

The purpose of the symposium is to help business to improve the policy environment so that global production systems provide opportunities for everybody to benefit, leading to progress towards the global goal of decent work for women and men everywhere.

Attached is the draft programme outline of the meeting.

*Geneva, April 2007*