

Global supply chains in Asia and the Pacific and the Arab States



International
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Introduction¹

The Asia-Pacific region plays a prominent role in global production and employment through global supply chains (GSCs).² In part, this is the result of: (a) innovations in information and communication technology;³ (b) reduced trade costs, including tariff reductions; (c) harmonized standards and liberalized services under multilateral trade pacts; (d) bilateral and plurilateral trade agreements;⁴ and (e) upgrading infrastructure and logistics.⁵

More than is the case with vertically integrated indigenous firms, participation in GSCs promotes the kind of specialization that leads to greater industrialization, productivity and economic development.⁶ At the same time, however, poor working conditions and fundamental labour rights violations are often reported in GSCs. Effects on wages and labour conditions are ambiguous, since only limited wage data is available, while the impact of qualitative variables is difficult to assess.⁷ In any case, decent work deficits in GSCs are largely attributed to legal gaps and inadequate enforcement capacity on the part of local authorities and an inability among multinational enterprises (MNEs) to monitor the many actors in their lower-tier supply chains.

Further efforts are needed to help close governance gaps. The International Labour Organization (ILO), in collaboration with its member States, can lead global measures to address decent work challenges in GSCs. The Vision Zero Fund, established by the Group of Seven (G7), presents an example of such action, where the ILO

plays a central role in raising occupational safety and health standards in production countries.⁸ The ILO, with its tripartite structure and normative approach to development, scheduled GSCs as a discussion topic in the 105th Session (2016) of the International Labour Conference (ILC), helping to promote dialogue among stakeholders and to close governance gaps in GSCs.

Trends

GSCs can take the form of either: (a) foreign direct investment (FDI) by multinational enterprises (MNEs) through wholly-owned subsidiaries and joint ventures, where workers are employed directly; or (b) arms-length transactions, in which lead firms outsource their products or services through contractual relationships with their first-tier suppliers, who in turn tend to resort to a network of sub-contractors to provide various inputs.

This section presents an overview of FDI, trade, employment and wage trends with regard to GSCs in the region.

Foreign direct investment and exports

Countries with high FDI inflow levels relative to the size of their economy tend to participate more in GSCs.⁹ According to some estimates, the ratio of FDI stock to trade has doubled from 50 per cent in the 1990s to more than 100 per cent in 2010. In 2010, an estimated 54 per cent of exports in the developing economies of Asia-Pacific resulted from GSCs,¹⁰ an expansion of about 5.5 per cent per annum between 2005 and 2010.¹¹

¹ For the purposes of this note, 'Asia and the Pacific' refers to the region that includes 47 countries, plus the Occupied Palestinian Territory, across all income levels from East Asia, South-East Asia, South Asia, the Pacific Island countries and the Arab States of West Asia, unless explicitly stated otherwise.

² Defined by the ILO as "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." See: ILO: *Decent work in global supply chains*, Report IV, International Labour Conference, 105th Session, Geneva, 2016.

³ 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* (Geneva, World Trade Organization, 2013).

⁴ Organisation for Economic Co-operation and Development (OECD): *Interconnected economies: Benefiting from global value chains: Synthesis report* (Paris, 2013).

⁵ N. Coe and M. Hess: *Economic and social upgrading in global logistics*, Working Paper 38 (Manchester, Capturing the Gains, 2013).

⁶ Baldwin, op. cit.

⁷ H. Sato: *Global supply chains and the world of work in Asia and the Pacific*, Background Paper for the 16th Asia-Pacific Regional Meeting (Bangkok, ILO, forthcoming).

⁸ The G7 includes Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.

⁹ H. Sato, op. cit.

¹⁰ Calculated here as the foreign value added used in countries' exports (upstream participation) plus the foreign value added used in countries' exports (downstream participation), divided by total exports.

¹¹ H. Sato, op. cit.

South Asia experienced stronger growth in GSC participation compared to East and South-East Asia (9.5 per cent compared to 5.1 per cent) between 2005 and 2010, perhaps because of diversification and export-oriented development strategies in South Asian economies, particularly in India, with particularly significant growth in IT services and business process outsourcing.

Intra-regional trade

In terms of trade, the Asia-Pacific region (excluding Arab States) as a whole dominated GSC-intermediate products (as opposed to export and import of final products), with a world share, in 2013, of 43.2 per cent in intermediate exports and 38.3 per cent in intermediate imports.¹² The main Asia-Pacific intermediate export goods were from the apparel and footwear, automotive, agro-food and electronics industries, with the latter's prominence decreasing as the others increased in significance.

In East and South-East Asia, GSC participation tended to be higher within the region than outside it. In 2013, more than 65 per cent of the GSC-related intermediate imports in Asia-Pacific came from within the region; intra-regional trade was particularly high for the apparel and electronics sector.¹³ High levels of intra-regional trade might be explained by the increasing role of China and the ten economies of the Association of Southeast Asian Nations (ASEAN) in GSCs.

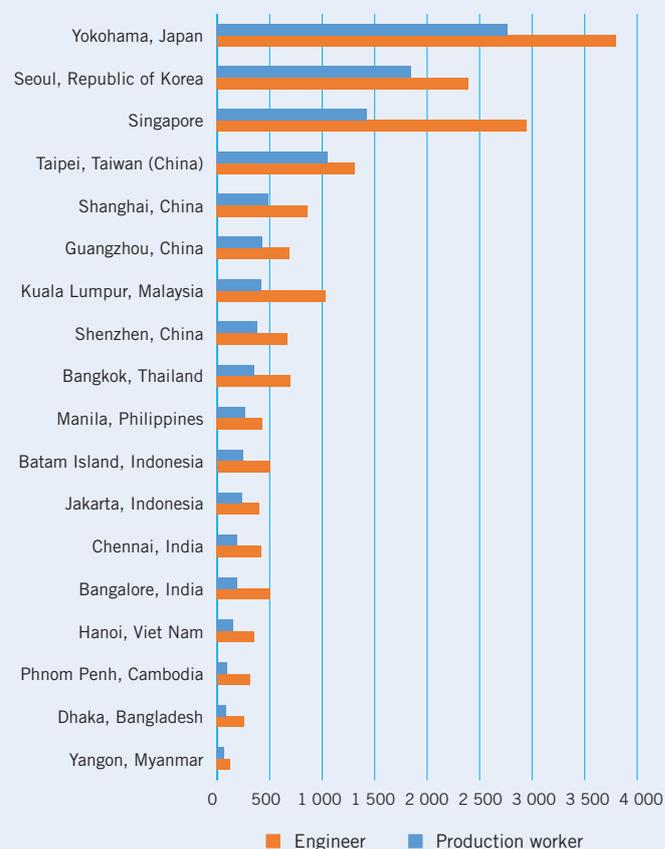
Employment, wages and competitiveness

Measurement of GSC employment is subject to considerable limitations and challenges, not least in defining GSC integration, data availability and capturing informal and non-standard worker classifications. However, a proxy measure, namely an index of the share of labour force participation in GSCs using 2011 data for select industries, suggests that, for a number of countries in Asia and the Pacific, GSC employment was higher than for other major trade economies such as Mexico and the United States.¹⁴ Smaller economies such as Taiwan (China), tend to show a higher share of labour involved in GSCs compared to larger economies such as China and India, where domestic demand is greater.

Between 2006 and 2013, Asia-Pacific (excluding Arab States) experienced an average wage growth rate of 6.3 per cent, which was substantially higher than the global average of 2 per cent over the same period.¹⁵ However, the region remains cost competitive, and, as more advanced economies transition to higher-value added

production stages, still offers opportunities for outsourcing and FDI in less developed countries (see figure 1). For instance, in the electronics industry, wage growth in China, Malaysia and Thailand is prompting firms to seek more cost competitive suppliers in the region, particularly in Viet Nam and Indonesia.¹⁶

Figure 1. Average monthly wages in select major manufacturing bases of Asia-Pacific (US\$, 2013)



Source: K. Matsuzaki: *Electronics industry: Organizing and fighting against precarious work* (IndustriALL, 2015), citing data from Japan External Trade Organization (JETRO).

Recent policy developments

Decent work deficits in GSCs are usually attributed to: (a) a lack of host country legislative and enforcement mechanisms; (b) the inability of international buyers to control all the suppliers present in their supply chains; and (c) insufficient local supplier capacity, for instance in terms of resources and technical expertise, to improve working conditions in their production activities. Increasing consumer attention has led to a growing number of multi-stakeholder initiatives in Asia that seek

¹² United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP): "Global value chains and interconnectedness of Asia-Pacific economies", in *Asia-Pacific Trade and Investment Report 2015: Supporting participation in value chains* (Bangkok, 2015).

¹³ Ibid.

¹⁴ The index is derived by multiplying labour input coefficients to a country's input and outputs per sector, using OECD Inter-Country Input-Output (ICIO) tables.

¹⁵ ILO: *Wages in Asia and the Pacific: Dynamic but uneven progress* (Bangkok, 2014).

¹⁶ G. Raj-Reichert: "Promoting decent work in global supply chains: The electronics industry", in ILO: *Sectoral studies on decent work in global supply chains: Comparative analysis of opportunities and challenges for social and economic upgrading* (Geneva, ILO, 2016).

to tackle GSC labour issues through cooperation with trade unions and non-governmental organizations (NGOs). The following governance approaches and initiatives are components of strategies to address labour issues in GSCs stretching to Asia and the Pacific.

Public governance initiatives. States should be responsible for promoting compliance with and enforcement of national labour legislation. This includes ratification and implementation of international labour standards. Effective enforcement mechanisms include: (a) labour administration and inspection; and (b) dispute resolution and prosecution of those found in violation of labour legislation. Government initiatives can also aim at promoting compliance with and enforcing labour law and international labour standards in Export Processing Zones (EPZs). Examples of such measures include the following:

- In Thailand, the Government is addressing labour issues in seafood supply chains by enacting legislation in line with the ILO Work in Fishing Convention, 2007 (No. 188) and addressing legal gaps to ratify the Convention soon. Moreover, the ILO has been providing technical support to improve labour inspection capacity both at sea and with in-country seafood processing.
- In Bangladesh, India and Nepal, the ILO Special Action Programme to Combat Forced Labour – now also dealing with child labour in association with the International Programme on the Elimination of Child Labour (IPEC) – is assessing national policies and providing training to authorities to improve enforcement and the capacity to comply with labour laws and regulations. The programme works to reduce, and eventually eliminate, the trafficking of women and girls in the South Asian garment sector, while promoting women’s empowerment through training activities.
- In Jordan, the ILO has worked to strengthen national labour inspection and labour administration capacities, thereby encouraging compliance with fundamental labour principles and rights, including those of migrant workers.¹⁷
- Public governance mechanisms can also be enacted in MNE home countries, for example with the California Transparency Act and the United Kingdom Modern Slavery Bill. In addition, labour provisions can be included in trade agreements, as with the Trans-Pacific Partnership, under which labour legislation reforms are expected in Malaysia and Viet Nam, and the US-Cambodia Textile Trade Agreement, which links increases in export quotas to the US to the respect for labour rights as monitored by the ILO.

Private governance initiatives. These measures comprise voluntary initiatives promoted by individual enterprises, employers’ organizations, or sectoral coalitions. Corporate Social Responsibility (CSR) and Private Social Compliance Initiatives (PCIs) are starting to go beyond implementing codes of conduct and self-audits by conducting third-party audits, following certification schemes and supporting their suppliers in capacity-building activities. Examples include the following:

- In the tea industry, which is especially important in China, India and Sri Lanka, international buyers and MNEs have, in collaboration with NGOs and social auditors, promoted various social and environmental certification schemes, including the Ethical Trade Partnership, Fairtrade, Rainforest Alliance and UTZ Certified.¹⁸
- The Electronics Industry Citizenship Coalition (EICC) is an example of a corporate-driven initiative led by MNEs. EICC involves the establishment of a sectoral code of conduct and third-party audit system with which both MNE subsidiaries and their suppliers should comply. EICC labour provisions include: (a) the prohibition of child labour and forced labour; (b) the elimination of recruitment fees paid by employees; (c) occupational safety and health standards; (d) freedom of association and collective bargaining (according to national labour law); (e) humane treatment; and (f) wages and benefits and a work week that must not exceed 60 hours.¹⁹
- Given the importance of the electronics industry in Asia, as well as growing public awareness of the issues, the EICC has improved compliance with labour law and international labour standards on the part of MNEs and their suppliers in the region. Such private governance mechanisms have limitations, however. For example, they can be seen to undermine the accountability of the traditionally responsible institutions, and – even though they may aim to promote effective compliance with social standards in GSCs that directly affect such workers – they are often conducted without directly involving workers and trade unions.

Social governance initiatives. Social partner initiatives at national and international enterprise, sectoral, or industry levels have included: (a) international framework agreements (IFAs), where the private sector cooperates with trade unions; and (b) multi-stakeholder initiatives (MSIs), where NGOs may also play a role in promoting workers’ and consumers’ interests in GSCs. MSIs include the Ethical Trade Initiative (ETI), whose members include MNEs, trade unions and NGOs, which provides a code of good labour practices incorporating UN and ILO Conventions. Examples include the following:

¹⁷ ILO: *Decent work in global supply chains*, op. cit.

¹⁸ H. David Thomas: “Good practices by multinational enterprises in the promotion of decent work in the global tea supply chain”, in ILO: *Sectoral studies on decent work in global supply chains: Comparative analysis of opportunities and challenges for social and economic upgrading*, op. cit.

¹⁹ Electronic Industry Citizenship Coalition: *Code of conduct, Version 5.1* (2015), http://www.eiccoalition.org/media/docs/EICCCodeofConduct5_1_English.pdf [accessed 6 Oct. 2016].

Box 1. Social and economic upgrading

- By attracting FDI and engaging in foreign acquisitions, the Thai seafood industry has succeeded in upgrading to higher-value added products (tuna and shrimp) and production stages (packaging, cold storage and branding). However, the country's increasing reliance on migrant labour in informal economy-dominated activities, such as fishing and shrimp peeling has led to severe labour rights violations, including forced and child labour, throughout the Thai seafood supply chain.¹
- The establishment of luxury hotel businesses in India has led to economic upgrading throughout the country, yet child labour remains an issue in the associated supply chains, especially with respect to informal activities such as cleaning, repair and food preparation.²
- In China and Malaysia, process upgrading in the electronics industry has enabled suppliers to quickly assemble and deliver high volumes of electronics products. However, increased production in the industry has not been matched by an adequate supply of labour, leading to excessive overtime; the use of underpaid, non-standard forms of employment contracts in China; and exploitative labour practices (e.g. wage deductions, confiscation of passports, payment of recruitment fees by employees, debt bondage) among migrant workers in Malaysia.³
- In India and the Philippines, the establishment of voice and back-office operations for international client firms, as part of the business process outsourcing industry, has allowed employees to earn wages substantially higher than the national average in good working conditions, overall, and, in some cases, with MNEs voluntarily complying with labour standards beyond the call of national legislation.⁴
- In Singapore, transitions to research and development and high-tech value added production activities in the electronics industry has enabled improved wages and working conditions. In part, this is because a strong trade union presence has helped to facilitate social dialogue and collective bargaining in the industry.⁵

¹ L. Errighi, I. Mamic and B. Krogh-Poulsen: *Global supply chains: Insights in the Thai seafood sector*, ILO Asia-Pacific Working Paper Series (Bangkok, ILO, 2016).

² N. Rao: *Child labour in the services in India: The case of tourism*, Paper presented at the Seminar Enslaved Innocence, Child Labour in India, Centre for Jawaharlal Nehru Studies, Jamia Milia Islamia, 14 Mar. 2008.

³ G. Raj-Reichert, op. cit.

⁴ J. Messenger and N. Ghosheh (eds): *Offshoring and working conditions in remote work* (Geneva, ILO, 2010).

⁵ G. Raj-Reichert, op. cit.

- In India and Bangladesh's export-oriented garment sectors, wooden furniture production in Viet Nam, and the seafood industry in Thailand, ETI have included programmes to promote social upgrading.²⁰ However, MSIs have reported weaknesses related to coverage, training, and inspection system capacity, as well as challenges related to the marginalization of workers' organizations and unions.
 - IFAs such as the Solvay agreement with the international trade union IndustriALL, have been important in raising labour standards in the chemical industry, where China has become the largest contributor in terms of sales.²¹ Such international framework agreements tend to perform relatively well in terms of workers' voice, accountability and sustainability.
 - In Bangladesh, the Accord for Fire and Building Safety was enacted following the Rana Plaza collapse. Through the Accord two Global Union federations have since negotiated legally binding labour and safety provisions with more than 200 global brands and retailers.²²
- Multilateral instruments and initiatives. These measures have included 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), EU directives, and other policy-making mechanisms. MNEs usually pursue multilateral initiatives as starting points to demonstrate their aim of tackling labour issues and other concerns in their supply chains.

²⁰ Ethical Trading Initiative, <http://www.ethicaltrade.org/programmes> [accessed 6 Oct. 2016].

²¹ C. F. Wright: "Good practices by multinational enterprises in the promotion of decent work in the chemical global supply chain", in ILO: *Sectoral studies on decent work in global supply chains: Comparative analysis of opportunities and challenges for social and economic upgrading*, op. cit.

²² 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* (Edward Elgar, 2016).

- Following allegations of human rights violations in the Cambodian sugar industry, which is dominated by large sugar plantations producing for export, NGOs and activists called upon international buyers, concession companies, and subcontractors to conform to the UN Guiding Principles and the OECD Guidelines, and to conduct human rights due diligence assessments in their operations.²³

Box 2. Synergistic governance

Different governance approaches to decent work in GSCs can be combined to synergistic effect, linking good labour practices with increased productivity. In Jordan, for example, where the garment sector is export oriented and heavily reliant on foreign capital and migrant labour (mostly from South and East Asia), serious labour rights violations have been reported, including forced labour and the withholding of passports. Since the introduction of the Better Work programme in 2008, such practices have been drastically reduced, and labour-related standards have improved.¹ Additionally, migrant workers in the Jordanian garment industry were allowed to join unions and bargain collectively, opening the way to the first industry-wide collective bargaining agreement.²

¹ Better Work Jordan: *Impact Brief* (2013).

² ILO: *Collective bargaining agreement signed for Jordanian apparel sector*, Press release, Amman, 27 May 2013, http://www.ilo.org/beirut/media-centre/news/WCMS_214426/lang-en/index.htm [accessed 7 Oct. 2016].

Recommendations

Despite increased public attention and the proliferation of initiatives related to decent work in GSCs, challenges remain, especially in countries with low public enforcement capacity and among small and informal producers at the bottom of supply chains that lack direct interaction with major buyers in the industry.

For example, despite the attention global buyers accord to strict sanitary and quality standards for food products, little is known about labour conditions among producers at the bottom of their supply chains in Asia.²⁴ By strengthening capacity, promoting employment and ensuring job quality in small and medium-sized suppliers, the ILO Programme Sustaining Competitive and

Responsible Enterprises (SCORE) has the potential to address labour issues for producers at the bottom of GSCs.

Another focus should be on expanding the potential of enterprises in EPZs to improve working conditions.

Additional efforts are needed, combining various governance approaches across different economic sectors to achieve decent work in Asia-Pacific GSCs. The inclusion of labour provisions in trade agreements – as with the Trans-Pacific Partnership – can encourage reform in developing countries in the region that aims to more surely comply with international labour standards while achieving better social outcomes through participation in GSCs.

Ratification of fundamental ILO Conventions by Asia-Pacific countries represents an important step towards achieving decent work in GSCs. Ratification of ILO core Conventions in Asian and Arab countries lags behind the rest of the world, especially with 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). Convention No. 87 was ratified by roughly half of the Asia-Pacific member States and fewer than one third in the Arab States; Convention No. 98 has been ratified by more than half of Asia-Pacific and Arab State member States.²⁵

To ensure that gains are extended to all GSC actors, governance gaps need to be addressed through involvement and cooperation between governments, international buyers and MNEs, employers' and workers' organizations and civil society groups at the national, international and sectoral levels. To this end, the 105th Session of the International Labour Conference (ILC) made the following recommendations:

- **Governments** should continue adopting labour laws and regulations in line with international labour standards, ensuring that ILO Conventions are ratified and implemented for all groups of workers including migrant workers, women, workers under non-standard forms of employment and workers in EPZs. Governments should also strengthen labour administration and inspection systems, provide access to remedies, and prosecute those found in violation of national labour legislation.

Additionally, governments should: (a) promote social dialogue among workers and employers; (b) fight against human rights violations and corruption in national administration systems; (c) cooperate

²³ Community Legal Education Center (CLEC) and Earth Rights International (ERI): *Business and human rights in ASEAN: The implications of the Koh Kong sugar plantation and factory case in Cambodia for due diligence and remedies* (2012), http://www.clec.org.kh/proact.php?actID=80#.V_YPYzJh0p8, and http://www.clec.org.kh/web/images/Resources/Res_Koh%20Kong%20ASEAN%20Case%20Study%202013%20-%20ENG1374035991.pdf [accessed 6 Oct. 2016].

²⁴ S. Frenkel, I. Mamic and L. Greene: *Global supply chains in the food industry: Insights from the Asia-Pacific region*, ILO Asia-Pacific Working Paper Series (Bangkok, ILO, 2016).

²⁵ ILO: NORMLEX Database.

through regional bodies to ensure harmonization of labour standards and policy coherence; (d) support small and medium-sized enterprises (SMEs), aiming to both improve productivity and implement higher labour standards; and (e) broaden tax bases to level the playing field among businesses by promoting formalization of economic activities and encouraging enterprises to implement due diligence procedures in their management systems.

In building on the experience of existing programmes, the ILO can provide technical support and promote: (a) capacity among its member States related to the rule of law; (b) national and cross-border inclusive social dialogue; (c) formalization of economic activities; and (d) enterprise compliance with national labour law.

- **Enterprises** – in line with the UN Guiding Principles and through the guidance and capacity-building support of employers' organizations – should conduct due diligence to identify, prevent, and mitigate abuse of labour rights and should remain accountable, publically reporting their responses to potentially adverse impacts on labour rights related to their operations.

In line with the UN Guiding Principles, enterprises should ensure that effective grievance mechanisms are in place for workers negatively affected by their activities. SMEs should be treated with special attention, such that they are encouraged to address the challenges small businesses commonly encounter and at the same time meet their social responsibilities. The ILO MNE Declaration, supported by all tripartite constituencies, can bring social partners together to maximize the positive impacts of MNEs and resolve potential adverse effects.

- **Workers'** organizations should put themselves in a position to inform and assist workers, especially with regard to their rights and improved working conditions. Workers' organizations should negotiate legally binding agreements with MNEs, involving workers' representatives at the national level to monitor the implementation of such agreements.

The social partners should jointly promote sectoral initiatives, collective agreements, cross-border social dialogue and international framework agreements. They should devote particular attention to freedom of association and collective bargaining, which tend to be weak, particularly among the most vulnerable groups of workers involved in GSCs. The social partners and governments should stimulate multi-stakeholder initiatives, while taking care not to undermine the adoption of more effective public governance mechanisms.

The ILO, in addition to providing technical support to governments and social partners in closing legal gaps and in ensuring and promoting decent work in GSCs, can help to disseminate awareness and knowledge of the relevant issues in the Asia-Pacific region. This includes conducting further research and analysis on decent work challenges and good labour practices among the various GSC actors, taking into account the various national and sectoral contexts. Moreover, the ILO, in cooperation with the relevant statistics and research organizations, should generate reliable data regarding decent work in GSCs and make it accessible, while building similar capacities at the national level.

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