

# FRAMING THE DISCUSSION

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## Sustainability in Global Value Chains: Improving Wages and Working Conditions

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Working conditions and labor issues remain among the most pressing issues affecting US and European trade policies. The renewed and potentially ineffective government efforts to block imports that might be produced with [forced labor](#) highlight the need to better address working conditions in developing countries.

The debate surrounding working conditions has taken on a particular focus on global value chains (GVCs) as offshoring and outsourcing production to developing countries have increased since the 1990s. Rising developing-country exports increased awareness of working conditions and human rights violations in global value chains. Tension arose between governments, business, unions, and non-government organizations (NGOs) because the responsibility for addressing poor conditions was unclear.

To address this concern, John Ruggie, Special Representative of the Secretary General of the United Nations, laid out the “protect, respect, and remedy” principles in 2007. The Ruggie Principles outline the responsibility for governments and corporations. Governments are expected to address corporate human rights issues domestically and internationally and corporations are expected to take a proactive role in demonstrating how their policies would influence human rights through monitoring, assessing, and integration.

Some argued that the voluntary Ruggie Principles were aspirational and in recent years a regulatory approach has become increasingly favored. For example, the United Nations Guiding Principles on Human Rights in 2011 called on governments and corporations to take specific steps to address poor conditions.<sup>1</sup>

In particular, the growing call for regulation focused on both due diligence and responsible supply chain management.<sup>2</sup> In 2014, the European Union issued a directive that evolved into binding legislation in 27 member states designed to enhance the sustainability of European supply chains by requiring that multinational corporations complete reports of human rights conditions and other dimensions of sustainability within their supply chains.<sup>3</sup>

Additional examples include the United Kingdom’s 2015 Modern Slavery Act, the California Transparency in Supply Chains Act, the 2017 French National Assembly’s “Duty of Vigilance Law”, and

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<sup>1</sup> United Nations (2011). *Implementing the United Nations “Protect, Respect and Remedy” Framework*. [https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr\\_en.pdf](https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr_en.pdf)

<sup>2</sup> OECD (2011). *OECD Guidelines for Multinational Enterprises*, OECD Publishing. [doi:10.1787/9789264115415-en](https://doi.org/10.1787/9789264115415-en)

<sup>3</sup> See Article 1 of 2014/95/EU

the ILO's 2017 Declaration of Principles Concerning Multinational Enterprises and Social Policy.<sup>4</sup> IN November 2019, the Finish government convened a conference that 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.<sup>5</sup> In February 2021, German government ministers presented elements of the proposed German due diligence law to the public,<sup>6</sup> and it is expected that the proposal will come to a vote before September 2021. Like the French law, the German law would apply to larger companies headquartered or otherwise principally operating in Germany. Recently, on March 18, 2021, the U.S. Senate Finance Committee held a hearing on dealing with forced labor and seems poised to move forward with regulatory solutions.<sup>7</sup>

These proposals and the push towards enforceable regulation-based responsibility on the firms leading global value chains is predicated on the idea that voluntary measures are often considered inadequate for addressing human rights concerns and that lead firms should be accountable for potential human rights violations throughout their supply chain. Surprisingly, little academic work has been done that carefully weighs the costs, benefits, and unintended consequences of the range of approaches that might improve working conditions in developing countries.

Broadly speaking, there are five main approaches towards improving working conditions in developing countries generally and in global value chains in particular. These measures include

1. Regulating supply chains. Examples include Due Diligence legislation that hold the lead firms legally liable for problems related to violations within their supply chains, whether directly owned or not.
2. Labor standards in trade agreements. The increasing presence of legally-binding labor provisions within regional and preferential trade agreements may provide remedies to labor violations.
3. Private initiatives. Socially-conscious lead firms have implemented their own initiatives to measure and address low wages and poor conditions within their supply chains.
4. Multi-stakeholder IGO, NGO, and union approaches. The ILO's Better Work program is a well-known example of an approach that brings together governments, labor, and firms.
5. National (domestic) enforcement. Each country would be responsible for enforcing its own labor laws for production within its borders.

Labor provisions in trade agreements have been associated with improvements in working conditions in a range of studies. These studies often find that working conditions often improve following the

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<sup>4</sup> 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](https://www.ilo.org/empent/Publications/WCMS_094386/lang--en/index.htm)

<sup>5</sup> 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>

<sup>6</sup> 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](https://www.ilo.org/empent/Publications/WCMS_094386/lang--en/index.htm)

<sup>7</sup> Johnson, E., Darden, M. & Rathke, S. (March 2021). Trend alert: increased US oversight of forced labor in supply chains. *The National Law Review*, 11(83). <https://www.natlawreview.com/article/trend-alert-increased-us-oversight-forced-labor-supply-chains>

implementation of a trade agreement that includes labor provisions (including those without enforcement). While voluntary monitoring programs have been widely criticized, several private initiatives have shown various measures of success. In addition, the innovative and lauded [Better Work program](#)<sup>8</sup> has been shown to improve working conditions throughout the countries in which it operates.<sup>9</sup> Finally, there seems to be some evidence that national regulation, at least in developed countries (including OSHA regulation), has played a significant role in improving working conditions.<sup>10</sup>

The *Sustainability in Global Value Chains: Improving Wages and Working Conditions* webinar will take a comparative focus on these approaches. The goal is to compare the strengths and weaknesses of each approach and to discuss how each may relate to proposed regulatory measures from the perspectives of industry, academia, and NGOs.

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<sup>8</sup> Better Work is an example of a multi-stakeholder approach in the apparel industry; it is a partnership between the UN's International Labour Organization and the International Finance Corporation.

<sup>9</sup> Robertson, Raymond. (2020). Lights On: How Transparency Increases Compliance in Cambodian Global Value Chains. *ILR Review*.73(4): 939-968. <https://doi.org/10.1177/0019793919893333>

<sup>10</sup> Weil, David. (1996). If OSHA is so bad, why is compliance so good?. *RAND Journal of Economics*. 27. 618-640. 10.2307/2555847. Ichniowski, C., Saw, K., & Prenzushi, B. (1997, June). The effects of human resource management practices on productivity: A study of steel finishing lines. *American Economic Review*, 87(3), 291–313 shows a positive relationship between improving Human Resource Practices, but Di Fan, Cherrie Jiuhua Zhu, Andrew R. Timming, Yiyi Su, Xinli Huang & Ying Lu (2020) Using the past to map out the future of occupational health and safety research: where do we go from here?, *The International Journal of Human Resource Management*, 31:1, 90-127, DOI: 10.1080/09585192.2019.1657167 find that the literature on the link between OSH and productivity is actually quite thin. Robertson, Raymond; Brown, Drusilla; Dehejia, Rajeev (2021) "Working conditions and factory survival: Evidence from better factories Cambodia" *Review of Development Economics* 25(228–254). <https://doi.org/10.1111/rode.12719> find that improvements in working conditions were associated with higher probability of firm survival in Cambodia.