



Decent work from a Global Supply Chains' perspective

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Presentation

- Why the move to GSCs? From one business model to another
- Factors behind the new model
- Benefits and drawbacks
- Lack of decent work in GSCs
- The redistribution problem at global level
- The effects of purchasing practices on wages and working conditions : Results from Global ILO-ETI survey
- The new context provided by the Covid-19 crisis: a confirmation and even exacerbation of existing drawbacks and inequalities

From one business model to another

- Until the 1980s, the clothing and footwear industries – apart from haute couture – were characterized by mass produced standardized styles that did not change much from one season to another.
- The majority of production of materials and final goods took place relatively close to end consumers. The United States and many European countries had flourishing TCLF (Textile, Clothing, Leather, Footwear) industries.
- There were operations also in other countries but generally with own factories and own employees.
- Business was supply driven, production cycles were predictable, the supplier base was usually regional and relatively stable, and seasonal collections were divided into two collections (spring/summer and autumn/winter).

The move to outsourcing: Why?

- Since then, the model shifted towards outsourcing with GSC
- It allows saving a lot in costs: of having entire factories, own employees, production costs, transportation costs etc.
- Matches 'just in time' production, and also aims at 'zero stocks' to further save
- Shifts the responsibility on other actors

Contributing factors

- **Falling trade barriers** and the emergence of the World Trade Organization (WTO) The shift towards faster and more flexible production and lower prices was accelerated in the textiles and clothing industries by the phase-out of the Multifibre Arrangement (MFA) in 2005. The end of the quota system
- **Large scale logistics and transport:** improvements in logistics and transport services that have generated more reliable and speedy delivery of inputs and final goods; diffusion of technology
- **The new information era:** development of information technologies, more reliable telecommunications and financial services, new information management software
- **Government's industrial policies and institutions**

The different actors of GSCs

- Buyers / brands



- Providers of raw materials



- Producers



- Storage



- Transporters



- Vendors/intermediaries

- distributors

- Retailers



Customers



The benefits

- Trade: While the share of firms that are engaged in two-way trade by importing and exporting (and defined as GVC firms) account for 15 per cent of all trading firms on average, yet they capture almost 80 per cent of total trade.
- Participation in global supply chains: grew at an average of 4.5 per cent annually between 2005 and 2010, and from 35% in 1970s to over 50% in 2015, still the level in 2019
- Increased productivity: a one per cent increase in GVCs participation is estimated to boost per capita income growth by more than one per cent, about twice as much as standard trade'. (World Bank, p. 1).
- Employment: the number of global supply chain- related jobs increased by 157 million or 53 per cent between 1995 and 2013 (from 296 million to 453 million), resulting in a total of 453 million global supply chain-related jobs in 2013.

But also vulnerability

- Millions of jobs have been created in the TCLF sector in developing countries, especially for women, and some countries have benefited greatly.
- Could allow those countries to progressively move towards higher value-added process (example of China)
- At the same time great vulnerability: 8,000 textiles, clothing and footwear production units were closed after 2008, with a loss of 11 million jobs around the world.
- Also a number of immediate job losses during the Covid-19 crisis
- Disparity of GSCs by sector and country
- Moreover low-end or value production dominated by very low wages and poor working conditions

Two major problems

- A total space of non-responsibility: in terms of environment protection first but then in terms of social responsibility: security, health and safety measures, wages, working time
- A total unequal redistribution of value added along the global supply chains and unbalanced purchasing practices

The first problem: The Decent work deficits – results from ILO Global Surveys in GSCs



Suppliers:

1454 Suppliers, 87 countries, 23 sectors

Case studies:

31 suppliers, 5 countries, 10 sectors

Buyers:

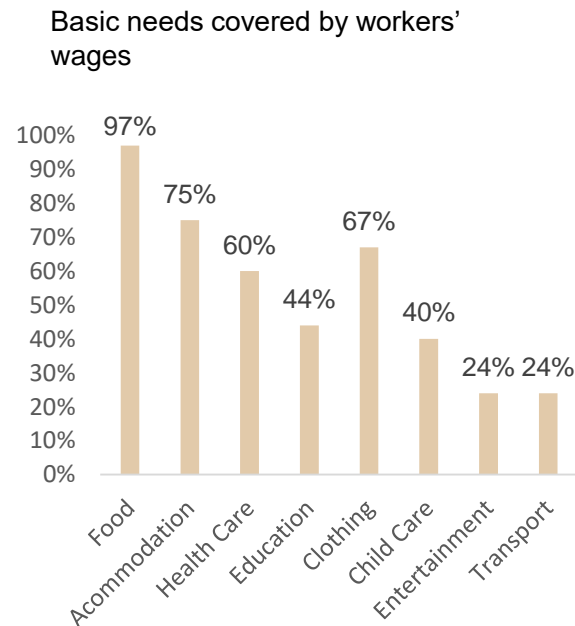
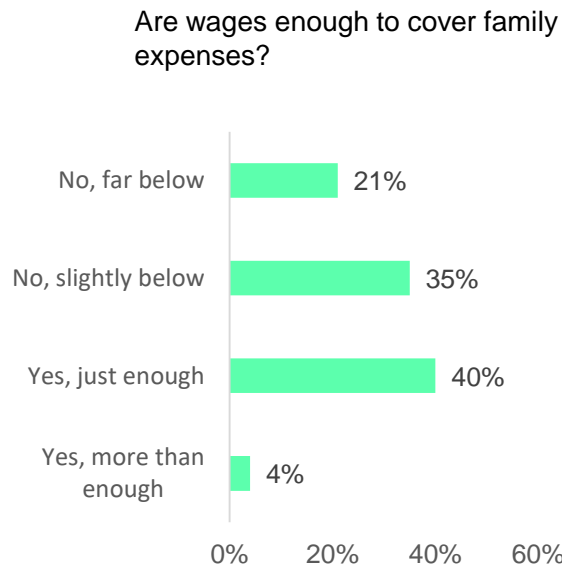
102 Buyers, 13 countries, 13 sectors

Wage gap at the end of global supply chains

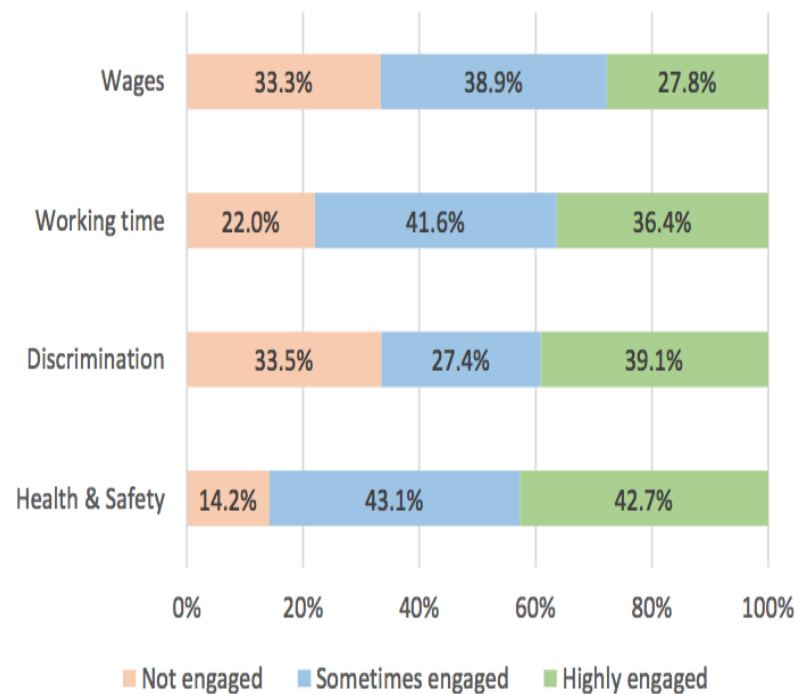
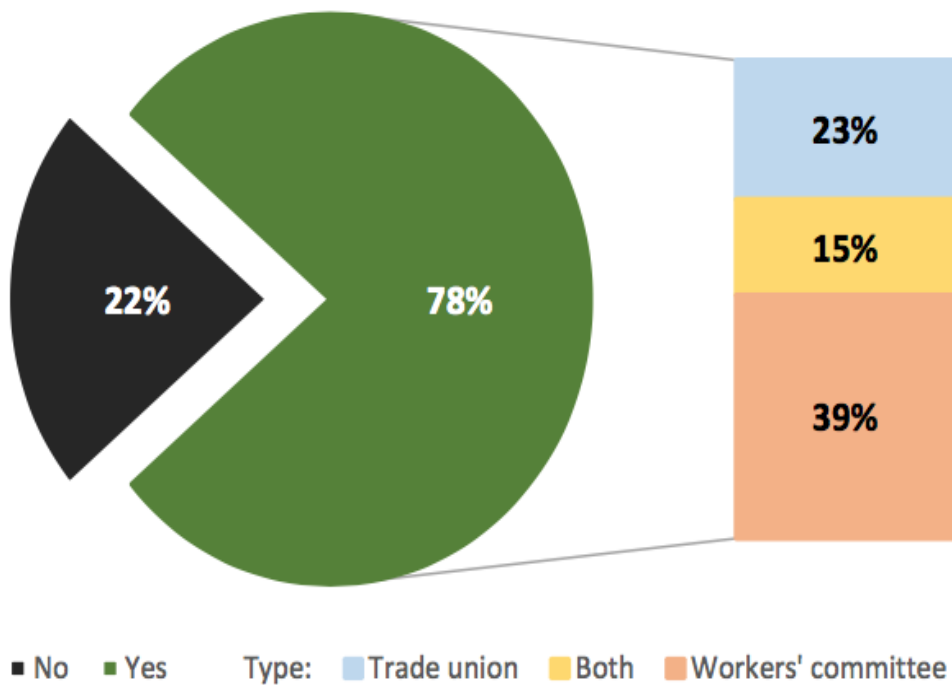
- Double even triple records
- Problems of legal compliance on number of working hours and overtime payments
- High intensity at work with a number of accidents at work (Health and safety issues)
- often also non compliance of minimum wage payment despite the low minimum wage
- Rudimentary pay systems like piece rates
- Lack of social dialogue and sometimes even no acceptance of trade unions

A business model that does not ensure coverage of basic needs and fair wages

- Over half (56%) of workers reported their wages are insufficient to meet basic needs of themselves and their families
- While some basic needs are mostly covered by wages (e.g. food), others are remain inadequate



The social dialogue gap



The tragedy of the Rana Plaza



The 2nd problem: Unequal redistribution along the supply chains – Ex. of redistribution of value added for a T-Shirt

Polo Shirt Sports Brand		Description	\$
Garment Manufacturing	Material	Fabric Cost	6.76
		Accessory	0.67
		Print/Embroidery	3
		Packaging/Hang Tag	0.25
		Material Input	10.68
	Labour	Direct Labour Cost	33% 0.71
		Indirect Labour Cost	21% 0.44
		Factory Overhead Labour Cost	17% 0.36
		Factory Running Cost	29% 0.63
		27SAM	100% 2.14
Brand	Manufacturing Cost	12.82	
	Factory Markup	15% 1.92	
	FOB Price	14.74	
Retail	Import Tax/Transport/Insurance	13% 1.92	
	Landed Cost	16.66	
	Warehouse, Brand Markup, Etc.	80% 13.33	
	Wholesale Price (excl. VAT)	29.99	
	Distribution, Retail Markup (incl. VAT)	130% 38.98	
	Retail Price (incl. VAT)	68.97	

1.02% of Retail Price

1.82% of Retailer Margin

The significant Impact of purchasing practices on wages

% Change in
monthly wage

- Price offered below cost: -10.1%
- Inaccurate technical specs: -12%
- Inaccurate order forecasts: -11%
- Orders with insufficient lead times: +6.3%

Note: all coefficients are statistically different from zero at the 1% significance level

The effects of the pandemic

- Partial or complete shutdown of thousands of factories in producing countries, with millions of factory workers who lost their job without legally-mandated pay or severance
- Order cancellations with immediate effects on businesses and on workers: ex. in Bangladesh where 46% of suppliers reported that all or most of their already or almost entirely completed orders had been canceled by their buyers: 58% of factories surveyed reported to have shutdown most of their operations.
- Illustrates the extreme fragility of a system based on buyers being able to stop or shift operations from one day to the other

A sustainability issue

- These general global trends are not sustainable at global and at country level
- Enterprise wage developments especially along supply chain are not sustainable either
- Need to look at the GSC debate within the sustainability logic
- Sustainability requires institutions, changing mentalities and practices, and responsibilities of different actors

The margins exist within supply chains

- Profits so far before the pandemic were amazing due to this outsourcing model
- Example of a change after the crisis: brands are moving away from the zero stocks and ready to invest in storages/stocks again
- Sustainable social practices (such as living wage) could be funded through a more equal redistribution of growth

Need to change the business model

- Buyers should learn from this crisis to revise purchasing practices and ensure proper social and environmental sustainability.
- These changes include order stability that allows for proper planning, timely payments of orders, and full respect for workers' rights.
- It also includes a costing model that covers all the costs of social compliance: living wages, benefits, severance pay, building safety, etc.
- Governments must mobilize all the resources at their disposal to subsidize suppliers and provide wage support to all workers during the crisis
- International community should be mobilized (UN, ILO etc.)